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No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of securities only in those jurisdictions where such securities may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereunder have not and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or any state securities laws. Accordingly, these securities may not be offered or sold within the United States or its territories or possessions except in transactions exempt from registration under the U.S. Securities Act and applicable state securities laws. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States, its territories or possessions. See “Plan of Distribution”.

This document and the Offering (as defined below) is only being, and may only be, distributed and directed at (i) persons outside the United Kingdom to whom this document may be lawfully distributed; or (ii) persons in the United Kingdom who are (a) a “Qualified investor” within the meaning of Section 86(7) of the United Kingdom Financial Services and Markets Act 2000 (the “FSMA”) and (b) within the categories of persons referred to in Article 19 (Investment professionals) or Article 49 (High net worth companies, unincorporated associations, etc.) of the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as “relevant persons”). The securities being offered hereunder are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. This document contains no offer to the public within the meaning of sections 85(1) and 102B of the FSMA or otherwise. This document is not a Prospectus for the purposes of Section 85(1) of the FSMA. Accordingly, this document has not been approved as a Prospectus by the United Kingdom Financial Services Authority (the “FSA”) under Section 87A of the FSMA and has not been filed with the Financial Services Authority or published pursuant to the United Kingdom Prospectus Rules issued by the FSA nor has it been approved by a person authorized under the FSMA or by the London Stock Exchange plc. See “Plan of Distribution”.

PRELIMINARY PROSPECTUS

Initial Public Offering

February 1, 2011



PORTO ENERGY CORP.

Minimum: 60,000,000 Common Shares (\$60,000,000)

Maximum: 70,000,000 Common Shares (\$70,000,000)

This prospectus (the “**Prospectus**”) qualifies the distribution (the “**Offering**”) of a minimum of 60,000,000 common shares (“**Common Shares**”) of Porto Energy Corp. (the “**Company**” or “**Porto**”) at a price of \$1.00 per Common Share (the “**Offering Price**”) for minimum total gross proceeds of \$60,000,000 (the “**Minimum Offering**”) and up to a maximum of 70,000,000 Common Shares of the Company at the Offering Price for maximum total gross proceeds of \$70,000,000 (the “**Maximum Offering**”). The Common Shares sold pursuant to the Offering, including any Common Shares sold pursuant to the exercise of the Over-Allotment Option (as defined herein), are collectively referred to as the “**Offered Shares**”. The Offering Price of the Offered Shares was determined by negotiation between the Company on the one hand and Raymond James Ltd., TD Securities Inc., FirstEnergy Capital Corp. and Haywood Securities Inc. (collectively, the “**Agents**”) on the other hand.

Price: \$1.00 per Common Share

	Price to the Public	Agents’ Fee⁽¹⁾	Net Proceeds to the Company⁽²⁾
Per Common Share	\$1.00	\$0.06	\$0.94
Minimum Offering	\$60,000,000	\$3,600,000	\$56,400,000
Maximum Offering ⁽³⁾	\$70,000,000	\$4,200,000	\$65,800,000

Notes:

- (1) The Agents will be paid a fee (the “**Agents’ Fee**”) equal to six percent (6.0%) of the aggregate gross proceeds of the Offering, including any proceeds raised through the sale of Offered Shares pursuant to the exercise of the Over-Allotment Option.

- (2) Before deducting the expenses of the Offering that are estimated to be approximately \$500,000, which will be paid by the Company. The expenses and the Agents' Fee in respect of the Offering will be paid by the Company from the proceeds of the Offering. See "Plan of Distribution".
- (3) The Company has granted an option (the "**Over-Allotment Option**") to the Agents pursuant to which the Agents will have the option to offer up to an additional 10,500,000 Common Shares (i.e., 15% of the number of Offered Shares under the Maximum Offering) at a price equal to the Offering Price. The Over-Allotment Option is exercisable in whole or in part, at any time on or before the date that is 30 days following the Closing Date (as defined herein) of the Maximum Offering. If the Maximum Offering is completed and the Agents exercise the Over-Allotment Option in full, the total gross proceeds to the Company, Agents' Fee and Net Proceeds to the Company in the above table will be \$80,500,000, \$4,830,000, and \$75,670,000, respectively, before deducting expenses. This Prospectus qualifies the distribution of the Over-Allotment Option and any Common Shares issued pursuant to the exercise of the Over-Allotment Option regardless of whether the over allotment position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

The following table sets forth the number of additional shares under the Offering issuable under the Over-Allotment Option.

Agents' Position	Maximum Size or Number of Securities Available	Exercise Period/Acquisition Date	Exercise Price
Over-Allotment Option	10,500,000	At any time but not later than 30 days after the Closing Date.	\$1.00 per Common Share

The Offering is not underwritten or guaranteed by any person or Agent. The Agents have agreed to offer the Offered Shares distributed under this Prospectus on a "commercially reasonable best efforts" basis. The Agents conditionally offer the Offered Shares, if, as and when issued, sold and delivered by the Company in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution", subject to approval of certain legal matters relating to the Offering and the issuance of any Offered Shares pursuant to the exercise of the Over-Allotment Option, on behalf of the Company by McCarthy Tétrault LLP, and on behalf of the Agents by Heenan Blaikie LLP. In connection with the Offering, the Agents are permitted to engage in transactions that stabilize or maintain the market price of the Common Shares at levels other than those that might prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

The Company intends to apply to list the Common Shares on the TSX Venture Exchange (the "**TSX-V**"). Listing will be subject to the Company fulfilling all of the listing requirements of the TSX-V.

As at the date of this Prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside Canada and the United States of America including the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Market Groups plc.

Subscriptions for Offered Shares will be received subject to rejection or allotment in whole or in part. Provided the Minimum Offering is achieved, it is expected that a book-entry only certificate representing the Offered Shares will be issued in registered form to CDS Clearing and Depository Services Inc. ("**CDS**"), or its nominee, and will be deposited with CDS at each closing of the Offering (each a "**Closing**"), the last of which is expected to occur on or about ●, 2011, but in any case no later than ●, 2011. A purchaser of Offered Shares comprising the Offering will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through which the Offered Shares are purchased. See "Plan of Distribution".

Should Closing occur in respect of the Minimum Offering, one or more additional Closings, if necessary, may occur until the earlier of the Offering being fully subscribed and ●, 2011. Notwithstanding the foregoing, the Offering will be discontinued in the event that a Closing in respect of the Minimum Offering has not occurred on or prior to ●, 2011, unless each of the persons or companies who have subscribed within such period consents to the continuation of the Offering.

Until such time as a Closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agents will be held by the Agents pending closing of the Minimum Offering. If the Minimum Offering has not been subscribed for prior to ●, 2011, the Agents shall promptly return the proceeds of subscriptions to the subscriber without interest or deduction unless the subscribers have otherwise instructed the Agents.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), an offer to the public of the Offered Shares (as defined below) may not be made in that Relevant Member State prior to the publication of a prospectus in relation to the Offered Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in

another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of such Offered Shares to the public in that Relevant Member State may be made at any time: (a) to entities which are “qualified investors” as defined in the Prospectus Directive; or (b) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Offered Shares shall require the Company or the Agents to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospective Directive.

For the purpose of this provision, the expression an “offer of the Offered Shares to the public” in relation to any Offered Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offered Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offered Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression “Prospective Directive” means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/2010.

An investment in the Offered Shares is speculative and involves a high degree of risk that should be considered by potential investors. The Company’s business is subject to the risks associated with the international oil and gas industry, the Company’s early stage of development as well as several other risks. An investment in the Offered Shares is suitable only for those investors who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investment. See “*Risk Factors*”.

TABLE OF CONTENTS

GENERAL MATTERS	1	Portugal Facts	48
ELIGIBILITY FOR INVESTMENT	1	Portugal's Oil and Gas Industry	48
SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS	2	Government Royalty Regime	49
MARKET AND INDUSTRY DATA	4	Summary of Oil and Gas royalties	49
ABBREVIATIONS, AND CONVERSION AND SHARE INFORMATION	4	Taxes	49
Abbreviations	4	Environmental Regulation	49
Conversion	5	Industry Trends	50
Share Information	5	Oil and Gas Companies Operating in Portugal	50
GLOSSARY OF TERMS	6	Farmin, Farmout and Participation Agreements	50
PROSPECTUS SUMMARY	9	Insurance	50
The Company	9	SELECTED FINANCIAL INFORMATION AND OPERATING RESULTS	50
Investment Highlights	9	Summary of Financial Results	51
Land Base	10	MANAGEMENT'S DISCUSSION AND ANALYSIS	51
Oil and Gas Resource Base	12	Overall Performance	51
Contingent Resources	12	Selected Annual Information	52
Prospective Resources	12	Selected Quarterly Information	52
The Offering	13	Results of Operations	53
Proposed Work Program	15	Liquidity and Capital Resources	58
The Portuguese Market	16	Off Balance Sheet Transactions	58
Selected Consolidated Financial Information and Operating Results	16	Related Party Transactions	58
Summary of Risk Factors	17	Changes in Accounting Policies	60
THE COMPANY	18	Financial Instruments	61
Overview	18	Commitments	62
Company Structure	18	Subsequent Events	63
GENERAL DEVELOPMENT OF THE BUSINESS	19	Outstanding Share Data	63
History of MOGC	19	Additional Disclosure for Venture Issuers Without Significant Revenue	64
History of the Company	20	CONSOLIDATED CAPITALIZATION	65
The Reorganization Transactions	21	DESCRIPTION OF SHARE CAPITAL	66
Recent Developments	21	USE OF PROCEEDS	66
NARRATIVE DESCRIPTION OF THE BUSINESS	22	PERSONNEL	68
Lusitanian Basin	22	EXECUTIVE OFFICERS, KEY EMPLOYEES AND DIRECTORS	68
Exploration History of the Lusitanian Basin	23	Executive Officers and Key Employees	68
Exploration and Development Strategy	24	Biographies	69
Land Holdings	27	Directors	69
THE CONCESSIONS AND PROSPECTS	28	Biographies	71
Concession Map	28	Committees of the Board of Directors	72
Concessions	29	Share Ownership by Directors and Officers	76
Aljubarrota-3 Concession	29	Corporate Cease Trade Orders or Bankruptcies	76
Torres Vedras-3 Concession	31	Penalties or Sanctions	76
São Pedro de Muel-2 Concession	35	Personal Bankruptcies	77
Cabo Mondego-2 Concession	35	Conflicts of Interest	77
Rio Maior-2 Concession	36	EXECUTIVE COMPENSATION	77
Minimum Work Requirements	36	Summary of Executive Compensation	77
Working Interest Partners	36	Compensation Discussion and Analysis	78
Royalties to the Company	36	Base Salary	78
NON-PARTICIPATING INTERESTS	36	Annual Incentives	78
PROPOSED WORK PROGRAM	37	Stock Option Plan	79
Proposed Work Program	37	Outstanding Option-Based and Share-Based Awards	79
Variations to the Proposed Work Program	37	Incentive Plan Awards - Value Vested or Earned During the Year	80
SUMMARY OF RECOVERABLE CONTINGENT AND PROSPECTIVE OIL AND GAS RESOURCES	37	Pension Plan Benefits	80
General	37	Management Agreements, Consulting Contracts, Termination and Change of Control Payments	80
The NSAI Report	37	Summary of Directors' Compensation	80
Prospect Risk Assessment	38	Incentive Plan Awards - Value Vested or Earned During the Year	81
Oil and Gas Resources	39	Directors' and Officers' Liability Insurance	81
Contingent Resources	39	INDEBTEDNESS OF DIRECTORS AND OFFICERS	81
Prospective Resources	40	PRINCIPAL SECURITYHOLDERS	81
Prospective Resources	41	PLAN OF DISTRIBUTION	82
Estimate of Recoverable Oil and Gas Resources Targeted under Maximum Offering	41	MARKET FOR SECURITIES	84
Undeveloped Land Holdings	47	PRIOR SALES	84
Production and Marketing	47	Common Shares	84
Forward Contracts and Future Commitments	47	ESCROWED SECURITIES	84
Abandonment and Reclamation Costs	47	OPTIONS TO PURCHASE SECURITIES	86
Tax Horizons	47	CANADIAN FEDERAL INCOME TAX CONSIDERATIONS	86
Environment	47	Holders Resident in Canada	87
INDUSTRY CONDITIONS	47	Holders Not Resident in Canada	88
Portugal Overview	47	RISK FACTORS	88
		Risks Related to the Company and its Business	89
		Risks Related to the Offering	93

TABLE OF CONTENTS

(Continued)

DIVIDEND POLICY	94
LEGAL PROCEEDINGS	94
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	94
PROMOTERS	95
MATERIAL CONTRACTS	95
EXPERTS	95
AUDITORS, TRANSFER AGENT AND REGISTRAR	96
PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION	96
AUDITORS' CONSENT	97
GEOLOGISTS' CONSENT	98
APPENDIX A - FINANCIAL STATEMENTS OF THE COMPANY	A-1
APPENDIX B - FORM 51-101F3 REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION	B-1
APPENDIX C - AUDIT COMMITTEE CHARTER	C-1
 CERTIFICATES OF THE COMPANY	CC-1
CERTIFICATE OF THE AGENTS	CA-1

GENERAL MATTERS

Investors should rely only on the information contained in this Prospectus and are not entitled to rely on parts of the information contained in this Prospectus to the exclusion of others. The Company and the Agents have not authorized anyone to provide investors with additional or different information. The Company is not, and the Agents are not, offering to sell the Offered Shares in any jurisdictions where the offer or sale is not permitted. The information contained in this Prospectus is accurate only as of the date of this Prospectus, regardless of the time of delivery of this Prospectus or any sale of the Common Shares. The Company's business, financial condition, results of operations and prospects may have changed since the date of this Prospectus.

For investors outside Canada, neither the Company nor any of the Agents have done anything that would permit the Offering, or possession or distribution of this Prospectus, in any jurisdiction where action for that purpose is required, other than in Canada. Investors are required to inform themselves about, and to observe any restrictions relating to, the Offering and the distribution of this Prospectus.

As used in this Prospectus, unless the context otherwise requires or indicates, the terms "Company", "we", "us" and "our" mean Porto Energy Corp. and, unless the context otherwise requires, includes the Company's wholly owned subsidiary, Mohave Oil and Gas Corporation ("MOGC"). Certain technical terms used throughout this Prospectus are defined in the Glossary of Terms. References to "management" in this Prospectus means the executive officers of the Company, including the executive officers of MOGC. Any statements in this Prospectus made by or on behalf of management are made in such persons' capacities as officers of the Company and not in their personal capacities.

Unless otherwise indicated, all information in this Prospectus assumes the completion of the Maximum Offering and that the Over-Allotment Option will not be exercised by the Agents.

This Prospectus contains references to United States dollars, Canadian dollars and to Euros. United States dollars are referred to as "US\$", Canadian dollars are referred to as "\$" and references to "€" are to Euros. For reporting purposes, the Company prepares its financial statements in United States dollars and in conformity with Canadian GAAP.

The following table sets out the high and low rates of exchange for one U.S. dollar expressed in Canadian dollars in effect at the end of each of the following periods, the average rate of exchange for those periods and the rate of exchange in effect at the end of each of those periods, each based on the noon spot rate published by the Bank of Canada. On January 31, 2011, the Bank of Canada noon spot rate was US\$1.00 = Canadian dollars \$1.0022.

	Three Months Ended November 30	Year Ended August 31		
	2010	2010	2009	2008
High	\$1.0213	\$1.1065	\$1.3000	\$1.0678
Low	\$1.0013	\$0.9961	\$1.0338	\$0.9170
Average for the Period ⁽¹⁾	\$1.0250	\$1.0040	\$1.1778	\$1.0498
End of Period	\$1.0264	\$1.0639	\$1.0967	\$1.0626

Notes:

- (1) Determined by averaging the rates on the last business day of each month during the respective periods.

ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault LLP, counsel to the Company, and Heenan Blaikie LLP, counsel to the Agents, the Offered Shares will, if, as, and when listed on a "designated stock exchange" within the meaning of the Tax Act (as defined herein) (which includes the TSX-V), be qualified investments under the Tax Act, as in effect on the date hereof, for a trust governed by a registered retirement savings plan, a registered education savings plan, a registered retirement income fund, a deferred profit sharing plan, a registered disability savings plan and a tax-free savings account (a "TFSA"). Notwithstanding that the Offered Shares may be a qualified investment for a trust governed by a TFSA, the holder of a TFSA will be subject to a penalty tax on the Offered Shares held in the TFSA if such Offered Shares are a "prohibited investment" for the purpose of section 207.01 of the Tax Act. The Offered Shares will generally be a "prohibited investment" if the holder of the TFSA does not deal at arm's length with the Company for the purposes of the Tax Act or the holder of the TFSA has a "significant interest" (as defined in the Tax Act) in the Company or a corporation, partnership or trust with which the Company does not deal at arm's length for the purposes of the Tax Act. Such holders are urged to consult their own tax advisors.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in this Prospectus constitute forward-looking information and the Company hereby cautions investors in the Offered Shares or other securities of the Company about important factors that could cause the Company's actual results to differ materially from those projected in any forward-looking information included in this Prospectus. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "will continue", "is anticipated", "believes", "estimated", "intends", "plans", "projection" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Prospectus should not be unduly relied upon. These statements speak only as of the date of this Prospectus. In addition, this Prospectus may contain forward-looking statements and forward-looking information attributed to third party industry sources. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the information and factors discussed throughout this Prospectus.

In particular and without limitation, this Prospectus contains forward-looking statements pertaining to the following:

- the performance and characteristics of the Company's oil and natural gas properties;
- oil and natural gas production levels;
- the estimated size of the Company's oil, natural gas and natural gas liquids resources;
- projections of market prices for oil and natural gas and exploration, development and production costs;
- supply and demand fundamentals for oil, natural gas and natural gas liquids;
- expectations regarding the ability to raise capital and to continually acquire reserves through acquisitions, exploration and development;
- sale, farming in, farming out or development of certain exploration properties using third party resources;
- realization of anticipated benefits of acquisitions or dispositions;
- plans for, and results of, exploration and development activities;
- growth strategy and opportunities;
- the compensation that is expected to be paid to the executive officers and directors of the Company in 2011 and thereafter;
- the future development potential of the Company's exploration blocks;
- treatment under governmental regulatory regimes and tax laws; and
- capital expenditure programs.

With respect to forward-looking statements and forward-looking information contained in this Prospectus, assumptions have been made regarding, among other things:

- future commodity prices;
- the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner;
- the regulatory framework governing royalties, taxes and environmental matters in Portugal and any other jurisdictions in which the Company may conduct its business in the future;
- the Company's ability to market future crude oil, natural gas and natural gas liquids production;
- the applicability of technologies for recovery and production of the Company's oil, natural gas and natural gas liquids resources;
- the recoverability of the Company's crude oil, natural gas and natural gas liquids resources;
- future development plans for the Company's assets unfolding as currently envisioned;

- future capital expenditures to be made by the Company;
- future sources of funding for the Company's capital program;
- geological and engineering estimates in respect of the Company's resources;
- the geography of the areas in which the Company is exploring;
- the intentions of the Company's board with respect to the executive compensation plans and corporate governance programs described herein;
- the impact of increasing competition on the Company; and
- the Company's ability to obtain financing on acceptable terms.

The Company's actual results could differ materially from those anticipated in this forward-looking information as a result of the risk factors set forth below and elsewhere in this Prospectus:

- general economic, market and business conditions in jurisdictions relevant to the Company's business;
- volatility in market prices for oil, natural gas and natural gas liquids, marketability and hedging activities related thereto;
- liabilities inherent in oil and natural gas operations;
- risks inherent in the exploration, development and production of crude oil, natural gas and natural gas liquids which may create liabilities to the Company in excess of the Company's insurance coverage;
- current global financial conditions, including fluctuations in interest rates, foreign exchange rates, inflation, commodity prices, and stock market volatility;
- risks related to the exploration, development and production of crude oil, natural gas and natural gas liquids reserves and resources;
- uncertainties associated with estimating oil, natural gas and natural gas liquids resources;
- competition for, among other things, capital, acquisitions of resources and reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and the likelihood of success of exploration and development programs;
- geological, technical, drilling and processing problems, including the availability of equipment and access to properties;
- risks inherent in the Company's international operations, including security and legal risks in Portugal;
- environmental risks and hazards;
- changes in tax laws and incentive programs relating to the oil and natural gas industry;
- changes in government regulations;
- failure to obtain regulatory, industry partner and third party consents and approvals where required;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- failure to engage or retain key personnel;
- claims made in respect of the Company's properties or assets;
- potential losses which would stem from any disruptions in production, including work stoppages or other labour difficulties, or disruptions in the transportation network on which the Company is reliant;
- discretion in the use of proceeds of the Offering;
- the failure of the Company to meet specific requirements of its licenses or leases;

- the inability to find a farmout partner for some of the Company's exploration assets;
- failure to accurately estimate abandonment and reclamation costs;
- the availability of capital on acceptable terms;
- failure of third parties' reviews, reports and projections to be accurate;
- risks of operating offshore in shallow water;
- failure to realize the anticipated benefits of acquisitions; and
- the other factors discussed under "Risk Factors".

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements of the Company made by or on behalf of the Company, investors should not place undue reliance on any such forward-looking statements. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. Further, any forward-looking statement is made only as of a certain date, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws. New factors emerge from time to time, and it is not possible for management to predict all of these factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

The forward-looking information contained in this Prospectus is expressly qualified by the foregoing cautionary statements and are made as of the date of this Prospectus. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws. Subscribers should read this entire Prospectus and consult their own professional advisors to assess the income tax, legal, risk factors and other aspects of their investment in the Common Shares.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, the market and industry data contained in this Prospectus is based upon information from the Portuguese government, independent industry and other publications and websites (including www.ren.pt, www.galpennergia.com, www.min-economia.pt/mei, www.dgge.pt, www.portugalglobal.pt, www.cia.gov, and www.eia.gov) or were based on estimates derived from same and the knowledge of and experience of the Company's management in the markets in which the Company operates. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. None of these sources have provided any form of consultation, advice or counsel regarding any aspect of, or is in any way whatsoever associated with, the Offering. Further, certain of these organizations are participants in or advisors to participants in the oil and gas industry, and they may present information in a manner that is more favourable to the industry than would be presented by an independent source. Actual outcomes may vary materially from those forecast in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While the Company believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Neither the Company nor the Agents have independently verified any of the data from third party sources referred to in this Prospectus or ascertained the underlying assumptions relied upon by such sources. In addition, the Agents have not independently verified any of the industry data prepared by management of the Company.

ABBREVIATIONS, AND CONVERSION AND SHARE INFORMATION

Abbreviations

In this Prospectus, the abbreviations set forth below have the following meanings:

2D	two dimensional	km ²	square kilometres
3D	three dimensional	mbbls	thousand barrels of oil
ac	Acres	mcf	thousand cubic feet of gas
bbl/d	barrels of oil per day	mboe	thousand barrels of oil equivalent

bbls	barrels of oil	mmboe	million barrels of oil equivalent
bcf	billion cubic feet of gas	mmcf	millions of cubic feet of gas
boe	barrels of oil equivalent	mmcf/d	millions of cubic feet of gas per day
boe/d	barrels of oil equivalent per day	psi	pounds per square inch
km	kilometres		

Note: Disclosure provided herein in respect of “boe” may be misleading, particularly if used in isolation. A boe conversion ratio of 6,000 cubic feet of natural gas per barrel of oil (6 mcf:1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Conversion

The following table sets forth certain standard conversions from Standard Imperial units to the International System of Units (or metric units):

To Convert From	To	Multiply By
Mcf	thousand cubic metres (“10 ³ m ³ ”)	0.0282
thousand cubic metres	mcf	35.494
Bbls	cubic metres (“m ³ ”)	0.159
cubic metres	bbls	6.290
Feet	metres	0.305
Metres	feet	3.281
Miles	kilometres	1.609
Kilometres	miles	0.621
Acres	hectares	0.405
Hectares	acres	2.471

Share Information

All Common Share numbers and related per share amounts (including option and warrant exercise prices) have been restated in this Prospectus to reflect the effects of the Consolidation (as defined herein) and the Amalgamation (as defined herein).

GLOSSARY OF TERMS

Wherever used in this Prospectus, the capitalized terms set forth below have the following meanings:

“**Agency Agreement**” means the Agency Agreement dated ●, 2011 with respect to the Offering among the Company and the Agents, as more particularly described under the heading “*Plan of Distribution*”;

“**Agents**” means, collectively, Raymond James Ltd., TD Securities Inc., FirstEnergy Capital Corp. and Haywood Securities Inc.;

“**Agents’ Fee**” means the fee of 6% of aggregate gross proceeds of the Offering payable to the Agents pursuant to the Agency Agreement;

“**Amalgamation**” means the amalgamation of PEC with MEPI to form Porto Energy Corp. under the BCBCA pursuant to the Amalgamation Agreement, on the terms and conditions set forth in the Combination Agreement, and which occurred on January 30, 2010;

“**Amalgamation Agreement**” means the amalgamation agreement dated January 14, 2010 between PEC and MEPI in relation to the Amalgamation;

“**API**” means American Petroleum Institute, but is generally referred to as a degree of gravity that provides a relative measure of crude oil density;

“**Argus**” means Argus Resources (UK) Limited, an oil and gas corporation headquartered in London, England who have a 2.5% working interest in the Torres Vedras-3 Concession for reservoirs below a depth of 400 metres and 12.5% working interest for reservoirs above 400 metres;

“**Argus Royalty Agreement**” means the royalty agreement effective August 3, 2007 between the Company and Argus pursuant to which Argus has granted in favour of the Company a 4% gross overriding royalty in respect of Argus’ interest in the Torres Vedras-3 Concession;

“**BCBCA**” means the *Business Corporations Act* (British Columbia), as amended, restated, replaced or re-enacted from time to time;

“**Board of Directors**” means the board of directors of the Company, as constituted from time to time;

“**Brent Crude**” means the benchmark used for crude oil pricing purposes based upon the trading price of crude oil produced in the North Sea;

“**Business Day**” means any day on which commercial banks are open for business in Vancouver, British Columbia other than a Saturday, a Sunday or a day observed as a holiday in Vancouver, British Columbia under the laws of the Province of British Columbia or the federal laws of Canada;

“**Canadian GAAP**” means Canadian generally accepted accounting principles;

“**CDS**” Means CDS Clearing and Depository Services Inc.;

“**CICA**” means the Canadian Institute of Chartered Accountants;

“**Closing**” means the completion of the issue and sale of Offered Shares pursuant to the Offering;

“**Closing Date**” means the date on which the Closing occurs, which is currently expected to be on or about ●, 2011, or such a later date as the Company and the Agents may agree but in any event not later than ●, 2011;

“**COGE Handbook**” means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum;

“**Combination Agreement**” means the business combination agreement dated as of January 14, 2010, between MEPI and PEC pursuant to which MEPI and PEC agreed to the terms and conditions under which the Amalgamation would be undertaken;

“**Common Shares**” means the common shares in the share capital of the Company, provided however, that all references to numbers of Common Shares contained in this Prospectus are expressed on a post-Amalgamation and post-Consolidation basis;

“**Company**” means, prior to the Amalgamation, MEPI and, after the Amalgamation, means Porto Energy Corp., the entity resulting from the amalgamation of MEPI and PEC and where the context so requires includes all of the Company’s subsidiaries;

“**Company’s gross**” means:

- (a) in relation to the Company’s interest in production and resources, its “Company gross resources”, which represent the Company’s working interest share of gross resources before deduction of royalties obligations;
- (b) in relation to wells, the number of wells obtained by aggregating the Company’s current working interest in each of its gross wells; and
- (c) in relation to the Company’s interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company;

“**Concessions**” means the five concessions granted to the Company by the Portuguese government on August 3, 2007 located in the Lusitanian Basin in Portugal, namely the Aljubarrota-3, Torres Vedras-3, São Pedro de Muel-2, Cabo Mondego-2 and Rio Maior-2 concessions, and each of the concessions individually referred to herein as a “**Concession**”;

“**Consolidation**” means the one new for three old consolidation of Common Shares that took place on November 7, 2007;

“**DGEG**” means the Portuguese Ministério da Economia e da Inovação Direcção Geral de Energia e Geologia;

“**EU**” means European Union;

“**FSA**” means the United Kingdom Financial Services Authority;

“**FSMA**” means the *United Kingdom Financial Services and Markets Act 2000*;

“**Galp Energia**” means Petróleos e Gás de Portugal SGPS, S.A., an integrated Portuguese oil and gas operator currently listed on the NYSE Euronext Lisbon;

“**Income Tax Act**” or “**Tax Act**” means the *Income Tax Act* (Canada), including the regulations promulgated thereunder, all as amended, restated, replaced or re-enacted from time to time;

“**LNG**” means liquefied natural gas;

“**Maximum Offering**” means an Offering for total gross proceeds of \$70,000,000;

“**MEPI**” means Mohave Exploration & Production Inc. which amalgamated with PEC pursuant to the Amalgamation;

“**Minimum Offering**” means an Offering for total gross proceeds of \$60,000,000;

“**MOGC**” means Mohave Oil and Gas Corporation, a wholly owned subsidiary of the Company, incorporated under the laws of Texas and the legal entity which holds and operates the Concessions;

“**NSAI**” means Netherland, Sewell & Associates, Inc., a firm of independent oil and gas petroleum geologists, geophysicists and engineers headquartered in Dallas, Texas, U.S.;

“**NSAI Report**” means the contingent and prospective petroleum resources report prepared for the Company by NSAI dated January 28, 2011 with an effective date of August 31, 2010;

“**NI 51-101**” means National Instrument 51-101 of the Canadian Securities Administrators entitled - “Standards of Disclosure for Oil and Gas Activities”, as amended from time to time;

“**NPI Holders**” means the current holders of the NPIs;

“**NPIs**” means the non-participating royalty interests in the Concessions held by certain persons with respect to the Aljubarrota-3, the Torres Vedras-3, the Rio Maior-2, the Cabo Mondego-2 and the São Pedro de Muel-2 Concessions;

“**Offered Share**” means a Common Share offered pursuant to this Prospectus;

“**Offering**” means the offering of the Offered Shares pursuant to this Prospectus;

“**Offering Price**” means the price at which the Offered Shares are sold under this Prospectus which shall be \$1.00 per Offered Share;

“**Option Plan**” means the stock option plan of the Company;

“**Options**” means the options to purchase Common Shares outstanding and unexercised as of the date hereof, whether vested or not vested, and which were granted under the Option Plan;

“**Over-Allotment Option**” means the option granted by the Company to the Agents exercisable in whole or in part on or before the date that is 30 days following the Closing, to offer and sell up to an additional 10,500,000 Common Shares from the Company at the Offering Price;

“**PEC**” means, prior to the Amalgamation, Porto Energy Corp. which pre-Amalgamation entity amalgamated with Mohave Exploration & Production Inc. on January 30, 2010;

“**Petrogal**” means Petróleos de Portugal - Petrogal, S.A., the operator of Portugal’s two oil refineries and formerly a Portuguese government-owned oil and gas company and now a subsidiary of Galp Energia;

“**Promoters**” means the promoters of the Company, namely, Christopher D. Wright, Joseph Ash and Patric Monteleone;

“**REN**” means Redes Energeticas Nacionais-Gasodutos, the national concession holder of the natural gas pipeline, the LNG facility, the underground natural gas storage facility and national electricity transmission grid. Currently publicly listed on the NYSE Euronext Lisbon;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval, the public filing system for public securities documents and information filed by public companies, which is maintained by the Canadian Securities Administrators (www.sedar.com);

“**Shareholders**” means the registered and beneficial holders of the issued and outstanding Common Shares, from time to time;

“**TSX-V**” means the TSX Venture Exchange;

“**United Kingdom**” or “**U.K.**” means the United Kingdom of Great Britain and Northern Ireland;

“**United States**” or “**U.S.**” means the United States of America;

“**U.S. Securities Act**” means the *United States Securities Act of 1933*, as amended; and

“**WTI**” means the benchmark for crude oil pricing purposes based upon the trading price of crude oil produced in West Texas, U.S.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and is qualified by and should be read in conjunction with the more detailed information, resource data, financial data, information and statements appearing elsewhere in this Prospectus. See “Glossary of Terms” for the meanings given to certain capitalized terms used in this Prospectus summary.

The Company

The Company is an international natural resources company engaged in the exploration, development and production of crude oil and natural gas. Through its wholly owned subsidiary, the Company holds working interests in five Concessions located in the Lusitanian Basin of Portugal: namely the Aljubarrota-3, Torres Vedras-3, São Pedro de Muel-2, Cabo Mondego-2 and Rio Maior-2 covering a total of 1,444,152 net acres or 5,844 km². The Company's working interest in the Concessions is 100% with the exception of the Torres Vedras-3 Concession where it has a 97.5% interest for reservoirs below a depth of 400 metres (target) and 87.5% working interest for reservoirs above 400 metres. The Company's President and Chief Executive Officer is Joseph Ash, who has over 25 years experience in over 35 countries, most recently as Vice-President for Devon Energy Corporation's offshore exploration effort and Senior Vice-President for Devon Energy Corporation's international division before its sale to BP plc and other companies for approximately US\$10 billion. The Company's senior management and employees now include other members of Mr. Ash's team from Devon Energy Corporation, each of whom have extensive international exploration and operational experience and have made substantial oil and gas discoveries during their careers. Through its exploration efforts to date, the Company has identified seven major exploration trends over its Concessions and generated over 45 prospects and leads. The Company views Portugal as a country with significant potential for value creation through the application of modern oil and gas technology and exploration strategies to Portugal's under developed resources. See “Narrative Description of the Business” and “The Concessions and Prospects”.

Investment Highlights

Management believes that the following key attributes contribute to the strength of the Company's business and future prospects.

1. ***Significant Resource/Reserve Potential in an Underexplored Basin.*** As at August 31, 2010, the NSAI Report estimated the Company's gross best estimate contingent resources to be 60.5 mmboe (65.0 mmboe gross mean estimate) and the Company's unrisks gross best estimate prospective resources to be 1,815 mmboe (2,636 mmboe unrisks gross mean estimate) within the Lusitanian Basin. The Lusitanian Basin is analogous to the prolific Ghadames and Illizi basins in Algeria and Libya and analogous to the younger Jurassic geology of Eastern Canada. The Company believes the Lusitanian Basin in Portugal provides a unique opportunity as it is relatively underexplored and has strong geologic indications of oil and gas in place, all underpinned by underlying market infrastructure. The Company has planned drilling and 3D seismic activities through 2012 to develop and further define these resources. Several large oil and gas companies (Petrobras, Repsol, RWE, Galp and Partex, have recently begun to explore offshore Portugal. See “Summary of Recoverable Contingent and Prospective Oil and Gas Resources” and “Risk Factors”.
2. ***Opportunity to Apply Modern Exploration, Drilling, and Completion Technology.*** The Company views Portugal as a country with significant potential for value creation through the application of modern oil and gas technology and exploration strategies to Portugal's under explored resources. The Company will apply modern oil and gas technology to all operations to maximize positive results from exploration, appraisal and development programs. This Company's 3D seismic acquisition program currently consists of 80 km² acquired early in 2011 and 40 km² acquired in 2008, with this 120 km² currently being interpreted. The Company expects to record an additional 1,225 km² to 1,360 km² of 3D onshore and offshore seismic over the next eighteen months. 3D seismic has not previously been employed in Portugal to guide the selection of drilling locations. To reduce cost and increase efficiency and safety, wells may be drilled using underbalanced drilling techniques and horizontal drilling will be used in some areas. Underbalanced drilling technology and its resulting mitigation of drilling fluid losses and potential reservoir damage has begun to be utilized by the Company to evaluate the gas discovery in the Aljubarrota-3 Concession but was not employed by previous operators. Horizontal drilling was not been utilized previously to evaluate potential reservoirs. All data collected from these operations will be evaluated with modern technical applications currently available to the industry.
3. ***Control of Significant and Diversified Exploration Portfolio with Multiple Identified Targets.*** The Company owns a 100% working interest in four of its Concessions and a 97.5% working interest in the Torres Vedras-3 Concession for reservoirs below a depth of 400 metres and an 87.5% working interest for reservoirs above 400 metres, covering an aggregate area of more than 1.4 million acres, net to the Company, within the Lusitanian Basin of Portugal. Within these Concessions, the

Company has identified seven major exploration trends with over 45 prospects and leads having been generated through the Company's exploration efforts to date. See "*The Concessions and Prospects*".

4. ***Well Developed Infrastructure with Excellent Access to Markets.*** Access is available to local European markets through two existing oil refineries with over 340,000 bbl/d processing capacity and a large gas pipeline with over 450 mmcf/d capacity that runs through the Company's Concession holdings and within one kilometre of the Company's Aljubarrota gas discovery on the Aljubarrota-3 Concession. Three modern ports are located in the cities of Sines, Lisbon and Porto and a very well developed modern highway system provides efficient access to Concession areas. See "*Industry Conditions*".
5. ***Experienced Management and Board of Directors.*** The Company's management, technical team and key personnel have a significant amount of operational and exploration experience in North and South America, Western Europe, Southeast Asia, North and West Africa and the Middle East. The Company's President and Chief Executive Officer is Joseph Ash, who has over 25 years experience in over 35 countries, most recently as Vice-President for Devon Energy Corporation's offshore exploration effort and Senior Vice-President for Devon Energy Corporation's international division before its sale to BP plc and other companies for approximately US\$10 billion. The Company's operational team includes many members of Mr. Ash's team from Devon Energy Corporation or predecessors to Devon Energy Corporation, including Sante Fe Snyder and Mitchell Energy, all of whom have extensive international exploration experience. The Company's team has demonstrated the ability to implement cost effective exploration and development programs. Management and personnel also have substantial experience in Portugal and have developed a network of local and regional contacts, having established a fully functioning office in Portugal, which enhances their ability to execute and operate the Company's oil and natural gas exploration and development program. The Board of Directors consists primarily of experienced directors of oil and gas companies, with several having extensive experience with Canadian and US publicly listed oil and gas companies. See "*Executive Officers, Key Employees and Directors*".
6. ***Early Mover Advantage in a Stable Political Environment with Attractive Fiscal Terms.*** Since obtaining its initial Concessions in 1993, the Company's management has developed what it believes is a strong working relationship with Portugal's petroleum licensing authorities, as well as gaining a strong understanding of the geology and operating conditions within Portugal. A stable European Union ("EU") government, Portugal offers an attractive sliding scale royalty regime with maximum royalty rates on oil and gas of 10% and 7%, respectively, with no royalty on onshore oil production until a field produces more than 6,125 bbl/d and no royalty on offshore oil production until a field produces more than 10,200 bbl/d. See "*Risk Factors*" and "*The Concessions and Prospects*".

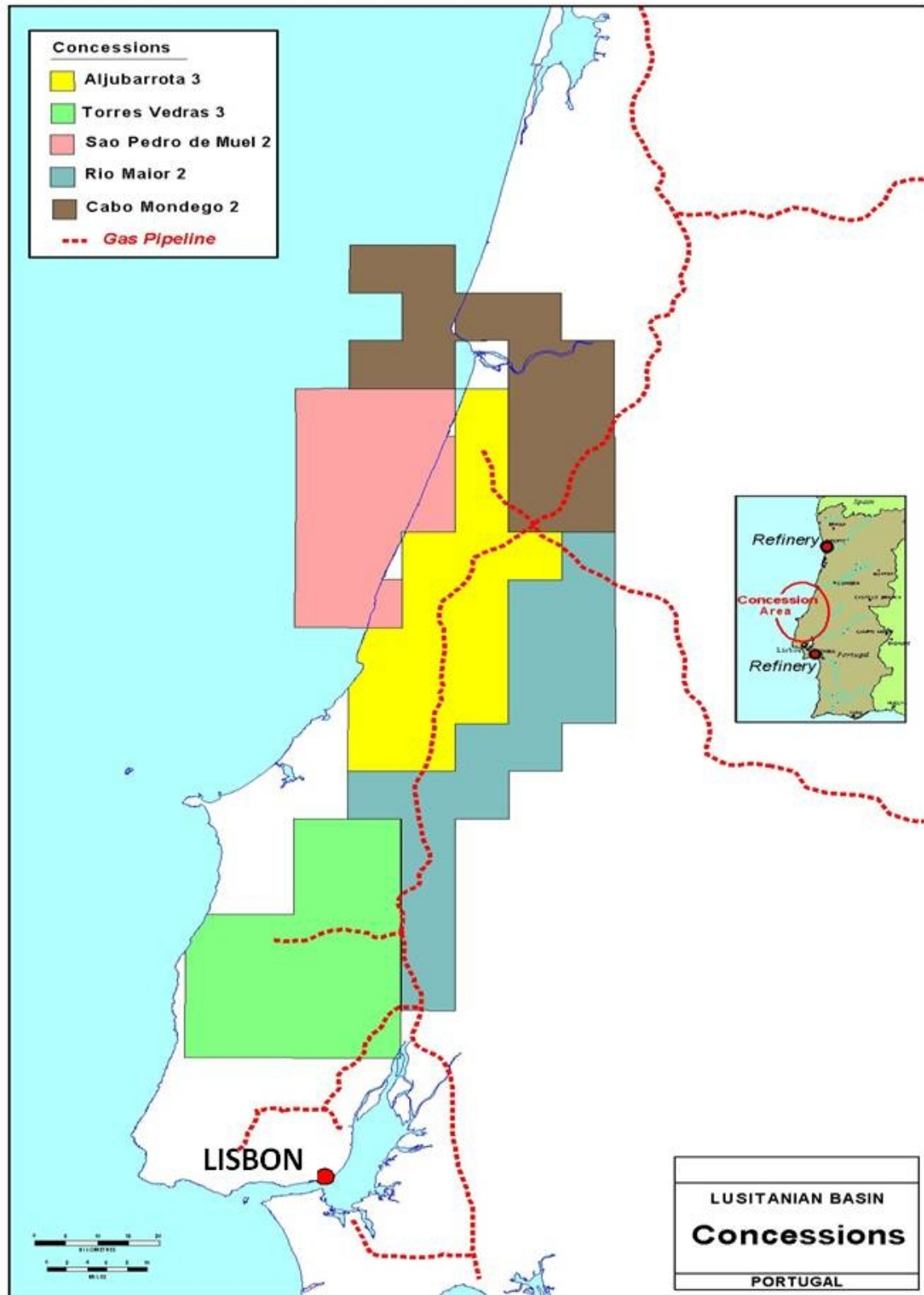
Land Base

The following table sets forth summary information relating to the Company's land base in Portugal through its interests in the Concessions:

Lusitanian Basin Exploration Area				
Concession	Basin	Company Working Interest ⁽²⁾	Net Acreage	Expiry Date ⁽¹⁾
Aljubarrota-3	Lusitanian Onshore	100%	1,214 km ² = 299,986 ac	August 3, 2015
Torres Vedras-3	Lusitanian Onshore	97.5%	1,237 km ² = 305,738 ac	August 3, 2015
São Pedro de Muel-2	Lusitanian Offshore	100%	1,016 km ² = 251,059 ac	August 3, 2015
Cabo Mondego-2	Lusitanian Onshore & Offshore	100%	1,103 km ² = 272,557 ac	August 3, 2015
Rio Maior-2	Lusitanian Onshore	100%	1,274 km ² = 314,812 ac	August 3, 2015
Total			5,844 km² = 1,444,152 ac	

Notes:

- (1) The Concessions are subject to two extensions of one year, a 25 year production lease and five extensions of three years for the production lease.
- (2) The Company's working interests in the Torres Vedras-3 Concession is 97.5% for reservoirs below a depth of 400 metres and 87.5% for reservoirs above 400 metres.



Oil and Gas Resource Base

The following table sets forth summary information relating to the Company's gross working interest in contingent and prospective resources based on the NSAI Report. See "Summary of Recoverable Contingent and Prospective Oil and Gas Resources".

Contingent Resources

Concession/Category	Recoverable Contingent Resources (Company Gross Interest) ⁽¹⁾		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)
Aljubarrota-3			
Low Estimate	0	87,692	14,615
Best Estimate	0	362,594	60,432
High Estimate	0	725,187	120,865
Mean	0	388,901	64,817
Torres Vedras-3			
Low Estimate	4	1	4
Best Estimate	43	13	45
High Estimate	423	128	444
Mean	176	55	185
Total Contingent ⁽²⁾			
Low Estimate	4	87,693	14,619
Best Estimate	43	362,606	60,477
High Estimate	423	725,315	121,309
Mean	176	388,956	65,002

Totals may not add because of rounding.

Notes:

- (1) The Company owns 100 and 97.5 % gross interest in the Aljubarrota-3 and Torres Vedras-3 Concessions, respectively. The Company's working interests in the Torres Vedras-3 Concession is 97.5% for reservoirs below a depth of 400 metres and 87.5% for reservoirs above 400 metres.
- (2) Totals are the arithmetic sum of multiple probability distributions.

For more information regarding the Company's oil and gas resources, including the definitions to the resources categories, see "Summary of Recoverable Contingent and Prospective Oil and Gas Resources".

Prospective Resources

Concession/Category	Recoverable Prospective Resources (Company Gross Interest) ⁽¹⁾					
	Unrisked			Risked		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)	Oil (mbbls)	Gas (mmcf)	boe (mboe)
Aljubarrota-3						
Low Estimate	98,444	926,149	253,302	19,442	200,274	52,821
Best Estimate	309,095	2,368,313	703,814	64,481	531,423	153,051
High Estimate	1,080,317	7,203,892	2,280,966	239,267	1,685,749	520,225
Mean	497,380	3,528,249	1,085,421	108,009	813,982	243,672

**Recoverable Prospective Resources
(Company Gross Interest) ⁽¹⁾**

Concession/Category	Unrisked			Risked		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)	Oil (mbbls)	Gas (mmcf)	boe (mboe)
Cabo Mondego-2						
Low Estimate	16,793	140,783	40,257	2,831	22,861	6,641
Best Estimate	54,775	304,056	105,451	9,358	50,539	17,781
High Estimate	160,729	593,498	259,645	27,555	101,297	44,438
Mean	76,164	343,106	133,349	13,032	57,736	22,655
Sao Pedro de Muel-2						
Low Estimate	67,024	622,925	170,845	12,307	109,988	30,639
Best Estimate	212,973	1,599,193	479,505	38,827	283,585	86,091
High Estimate	821,155	4,154,127	1,513,509	148,308	749,192	273,174
Mean	374,900	2,100,509	724,985	67,647	377,561	130,573
Torres Vedras-3						
Low Estimate	267,856	214,155	303,549	59,745	52,444	68,486
Best Estimate	454,181	431,034	526,020	92,638	101,312	109,524
High Estimate	1,041,990	958,796	1,201,789	169,167	204,791	203,299
Mean	602,274	537,946	691,931	108,351	119,397	128,251
Total Prospective						
Low Estimate	450,617	1,904,012	767,952	94,326	385,567	158,587
Best Estimate	1,031,024	4,702,595	1,814,790	205,304	966,859	366,447
High Estimate	3,104,191	12,910,313	5,255,910	584,298	2,741,030	1,041,136
Mean	1,550,718	6,509,811	2,635,686	297,039	1,368,675	525,151

Totals may not add because of rounding.

Notes:

- (1) The Company owns a 100 % gross interest in the Aljubarrata-3, Cabo Mondego-2, and Sao Pedro de Muel-2 Concessions; it owns a 97.5 % gross interest in the Torres Vedras-3 Concession for reservoirs below a depth of 400 metres and 87.5% for reservoirs above 400 metres.
- (2) The resources for each Concession and the total resources are the arithmetic sum of multiple probability distributions.

The Offering

Issuer: Porto Energy Corp.

Offering Price: \$1.00 per Common Share

Minimum Offering: 60,000,000 Common Shares for gross proceeds of \$60,000,000.

Maximum Offering: 70,000,000 Common Shares for gross proceeds of \$70,000,000.

Over-Allotment Option: The Company has granted the Over-Allotment Option to the Agents pursuant to which the Agents will have the option to offer up to an additional 10,500,000 Common Shares at the Offering Price. The Over-Allotment Option is exercisable in whole or in part, at any time on or before the date that is 30 days following the Closing Date of the Maximum Offering. If the Maximum Offering is completed and if the Agents exercise the Over-Allotment Option in full, the total gross proceeds to the Company, Agents' Fee and net proceeds to the Company will be \$80,500,000, \$4,830,000, and \$75,670,000, respectively, before deducting expenses. This Prospectus qualifies the distribution of the Over-Allotment Option and any additional Common Shares issued pursuant to the exercise of the Over-Allotment Option. See "Plan of Distribution".

Form of Offering: Marketed offering in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario, by way of long form prospectus on a “commercially reasonable best efforts” basis. Private placement in the United States pursuant to exemptions from the Prospectus and registration requirements of the U.S. Securities Act, as amended, and offering to other jurisdictions as permitted by applicable securities laws and as mutually agreed upon by the Agents and the Company. Private placement in the United Kingdom pursuant to exemptions from the Prospectus, registration and financial promotion requirements of applicable United Kingdom securities laws and regulations. See “*Plan of Distribution*”.

Common Shares Outstanding:

	As at January 31, 2011		
	Prior to Completion of the Offering	After Completion of the Minimum Offering	After Completion of Maximum Offering ⁽¹⁾
Common Shares (Basic) ⁽²⁾	128,479,653	188,479,653	198,479,653
Common Shares (Fully Diluted) ⁽³⁾	188,455,936	248,455,936	258,455,936

Notes:

- (1) Does not include any Offered Shares issuable upon exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, there will be an aggregate of 268,955,936 Common Shares outstanding upon completion of the Offering.
- (2) All Common Share numbers and related per share amounts (including option and warrant exercise prices) have been restated in this Prospectus to reflect the effects of the Consolidation and the Amalgamation.
- (3) Includes:
 - (a) There are 11,550,000 Options outstanding at an exercise price of US\$0.60.
 - (b) There are 48,426,283 warrants outstanding at exercise prices between US\$0.50 and US\$1.00. This total does not include certain liquidity warrants and anti-dilution warrants that were issued by the Company concurrently with its December 3, 2010 financing. On December 3, 2010, the Company issued: (i) 29,326,683 liquidity warrants; and (ii) 29,326,683 anti-dilution warrants. These liquidity warrants and anti-dilution warrants will automatically expire on the closing of the Minimum Offering. See “*Recent Developments*” and “*Prior Sales*”.

See “*Consolidated Capitalization*”.

Director and Officer Shareholdings After Closing: The Company expects that its officers and directors will hold 21,648,617 Common Shares, representing approximately 11.5% of the issued and outstanding Common Shares of the Company, following completion of the Minimum Offering, 10.9% following completion of the Maximum Offering and approximately 10.4% in the event the Over-Allotment Option is exercised in full.

Closing: Provided the Minimum Offering has been subscribed for, the initial Closing is expected to take place on or about ●, 2011, subject to change, as the Agents and the Company may agree, but not later than ●, 2011. One or more additional Closings may occur until the earlier of the Offering being fully subscribed or ●, 2011. See “*Plan of Distribution*”.

Use of Proceeds: The Company expects to receive approximately \$56,400,000 of net proceeds in the event the Minimum Offering is completed and approximately \$65,800,000 of net proceeds in the event the Maximum Offering is completed (\$75,670,000 if the Over-Allotment Option is exercised in full) before deducting expenses. The Company’s intention is to use these proceeds through to 2012 for:

- (a) appraisal and development drilling at the Aljubarrota gas discovery in the Aljubarrota-3 Concession;
- (b) exploration drilling of reefs identified from 3D seismic in the Torres Vedras-3 Concession;
- (c) exploration drilling of Presalt targets in the Aljubarrota-3 Concession identified from 3D seismic;
- (d) acquisition of 3D seismic data in the Torres Vedras-3, São Pedro de Muel-2 and Cabo Mondego-2 Concessions; and

(e) for general and administrative expenses and other corporate costs.

as more particularly described in the following table:

Concession Areas	Use of Proceeds	Minimum Offering Amount ⁽¹⁾ (\$)	Maximum Offering Amount ⁽¹⁾ (\$)
Appraisal and Development Wells			
Aljubarrota-3	Drill Alj-4 Re-entry and Alj-4H appraisal wells	8,600,000	8,600,000
Aljubarrota-3	Drill Alj-3 Re-entry and Alj-3H appraisal wells	7,500,000	7,500,000
Aljubarrota-3	Drill Alj-5H development well	6,000,000	6,000,000
Aljubarrota-3	Drill Alj-6H development well	-	6,000,000
Exploration Wells and 3D Seismic			
Torres Vedras-3 and Aljubarrota-3	Drill Reef 1, 2, 3, 4 and Presalt 1 exploration wells	15,700,000	15,700,000
Torres Vedras-3, São Pedro de Muel-2, and Cabo Mondego-2	Acquire 1,225 to 1,360 km ² of 3D onshore and offshore seismic data	16,400,000	19,800,000
	General and administrative and other corporate costs	7,200,000 ⁽²⁾	7,200,000 ⁽²⁾
TOTAL		61,400,000	70,800,000

Notes:

- (1) The Minimum Offering and Maximum Offering amounts include approximately \$5,000,000 in working capital that the Company expects to have on closing of the Offering.
- (2) Management's estimate of the general and administrative and other corporate costs of the Company for the 24 month period following completion of the Offering.

Proposed Work Program

The Company's exploration plan for the Lusitanian Basin focuses on certain prospects and trends identified by the Company in the Aljubarrota-3, Torres Vedras-3, São Pedro de Muel-2, and Cabo Mondego-2 Concessions. These include the Aljubarrota Gas Discovery trend, the Upper Jurassic Reef trend, Presalt Triassic Clastics and Dolomite trend, Montejunto Anticline trend, the Monte Real Platform trend, the Obidos Nazare Structural trend and the Arruda Upper Jurassic Fan Delta Clastic trend. The Company has identified multiple prospects within each of these trends and is currently planning to drill ten onshore wells based on seismic data and past discoveries and the acquisition of 1,225 km² of offshore and onshore 3D seismic data in the event the Minimum Offering is completed and eleven onshore wells and the acquisition of 1,360 km² of offshore and onshore 3D seismic data if the Maximum Offering is completed. These prospects have multiple reservoir targets and will be defined with 3D seismic data. The Company believes the horizontal wells, designated with an "H", will be credited as multiple wells with the Portuguese authority (up to four wells each) due to the much higher cost and nature of the drilling. The Company believes the crediting of the horizontal wells as multiple wells and the acquisition of 3D seismic will satisfy the work commitments of all Concessions through August 2013 assuming the Minimum Offering is completed. See "*Minimum Work Requirements*".

As is common in the oil and gas industry, work programs are regularly reviewed with respect to the success of activities and other opportunities that may become available. The Company's actual work program may vary depending upon a number of factors including drilling success, availability of drilling equipment, farmout opportunities and assessment of newly acquired seismic data over the Company's exploration blocks. Accordingly, while the proposed work program described above reflects the Company's current expectation, the actual work program carried out by the Company may in fact differ from that set forth above. See "*Proposed Work Program*" and "*Risk Factors*".

The Portuguese Market

Management of the Company considers the overall investment climate for petroleum exploration, development and production in Portugal to be positive. Presently, all consumed oil and gas is imported. Therefore, any new hydrocarbon production in Portugal could displace an equivalent volume of imports. Under the terms of the Concessions, the Company has the right to dispose of any produced hydrocarbons on the world market which would allow any hydrocarbon production over domestic demand to be exported.

Portugal has well developed downstream infrastructure in the form of two existing oil refineries operated by Galp Energia with 340,000 bbl/d of processing capacity (source: Galp Energia). This infrastructure provides the Company with low transportation costs and quick access to global oil and gas markets. Although the Company has the option through the Concessions to dispose of its production on the world market, it intends to sell any produced oil in Portugal and will need to negotiate an oil sales agreement with Galp Energia to market any produced oil to Galp Energia refineries. Prices for the Company's produced oil will be referenced to Brent Crude pricing and adjusted for quality.

A large natural gas pipeline operated by REN with current throughput of over 300 mmcf/d is located in the central Lusitanian Basin and crosses the Company's Concession holdings. The capacity of this line is approximately 450 mmcf/d but could be expanded to as much as 550 mmcf/d through the addition of compressors, according to the pipeline operator. The system is connected on the north and east central portions of the country to Spain's pipeline system. The transported gas is currently being imported from Algeria through Morocco and Spain and as LNG mainly from Nigeria. The Company intends to sell any initial gas production to Galp Energia, the natural gas operator and the main reseller of natural gas in Portugal. The Company has had numerous discussions with Galp Energia and REN in anticipation of natural gas production. Regulated natural gas prices on the Iberian Peninsula are adjusted on a quarterly basis and are indexed to pipeline and LNG supply prices, which in turn are predominantly linked to crude oil prices

With respect to offshore operations, operators are required to acquire a permit from the Portuguese government to lay a pipeline on the seafloor to move any produced oil or gas onshore. Operators would also be required to acquire a permit from the Portuguese government to lay a pipeline onshore to a point where the line would intersect the already existing pipeline.

Portugal also provides attractive fiscal terms on concessions granted by the Portuguese government, a favourable tax regime for oil and gas revenues, a stable democratic government that is a member of the European Union, a favourable regulatory environment, reasonable access to European exploration and production service centers and the presence of fabrication facilities near Lisbon for the construction of offshore production platforms.

See "*Industry Conditions – Portuguese Market*".

Selected Consolidated Financial Information and Operating Results

The following table sets out certain selected financial information and operating results of the Company as at and for the periods indicated. This information has been derived from the audited and unaudited financial statements of the Company contained elsewhere in this Prospectus. The financial information should be read in conjunction with the Company's audited and unaudited financial statements and the notes thereto included in this Prospectus and the disclosure under the heading "*Management's Discussion and Analysis*". The operating results for the periods set forth in the table below should not be relied upon as any indication of results for any future period.

	Three Months Ended November 30,	Year Ended August 31,		
	2010 (US\$)	2010 (US\$)	2009 (US\$)	2008 (US\$)
Revenues	1,221	4,243	2,566	94,118
Cash Flow from Operations	(694,225)	(4,010,275)	612,475	(2,534,711)
Net Loss ⁽¹⁾	(913,709)	(3,148,775)	(4,273,846)	(2,642,676)
Comprehensive Income (Loss)	(1,279,202)	2,017,285	(4,759,900)	(4,414,256)
Capital Expenditures, Net of Related Accounts Payable	2,094,112	3,742,673	814,212	9,814,310
Oil And Gas Production ⁽²⁾	Nil	Nil	Nil	Nil
Basic and Diluted Income (Loss) Per Share	(0.01)	0.03	(0.16)	(0.16)
Balance Sheet Data				
Total Assets	38,765,642	39,743,689	32,874,530	27,635,943
Long Term Liabilities ⁽³⁾	98,599	98,065	92,184	86,302
Cash and Cash Equivalents	471,236	3,315,591	45,510	110,663
Working Capital (Deficiency)	(1,106,145)	1,866,842	(14,177,022)	(8,394,853)

Notes:

- (1) Before income taxes and gain on settlement of debt.
- (2) The Concessions are currently undergoing exploration and appraisal.
- (3) Consists of asset retirement obligation for future well abandonment costs.

See “Selected Financial Information and Operating Results” and “Management’s Discussion and Analysis”.

Summary of Risk Factors

An investment in the Common Shares should be considered highly speculative due to the nature of the Company’s involvement in the exploration for, and the acquisition, development and production of, oil and natural gas in Portugal. The Company’s business is subject to the risks normally encountered in the oil and natural gas industry such as: competition with companies having greater resources; fluctuations in the market price and demand for oil and natural gas; uncertainty regarding acquisitions, exploration and production; the early stage nature of the Company; the lack of any production history; risks relating to hedging activities; the need for, and ability to obtain, funding; political, economic and other uncertainties; foreign currency and exchange rate risks; the effect of government regulation and policies; foreign legal and regulatory regimes; variability between production and reported resource evaluations; possible confusion regarding resource versus reserve information; availability of equipment; various operating hazards such as fire, explosion and others; environmental regulation, risks and obligations; reliance on third party operators and key personnel; and costs associated with new products and the use of new technologies. There are additional risks to purchasers of Offered Shares associated with the nature and structure of the Offering such as: share price volatility; discretion of the Company over the use of proceeds from the Offering; dividends may never be declared; investment dilution and the potential inability to enforce judgments outside of Canada. The resource information contained in this Prospectus are estimates only and the actual production and ultimate reserves recovered from the Company’s properties may be significantly greater or less than the estimates contained in this Prospectus. **An investment in Common Shares is suitable for only those investors who are willing to risk a loss of their entire investment and who can afford to lose their entire investment. Subscribers should consult their own professional advisors to assess the income tax, legal and other aspects of an investment in Common Shares. See “Risk Factors”.**

THE COMPANY

Overview

Mohave Oil and Gas Corporation (“**MOGC**”) was incorporated under the laws of Texas in 1993. MOGC focused its activities on the Lusitanian Basin of Portugal and acquired its first Concessions in Portugal in 1993.

The Company was incorporated pursuant to the laws of British Columbia on November 14, 2006, as Mohave Exploration and Production Inc. (“**MEPI**”) for the purpose of attracting additional capital and eventually going public on the TSX-V. MOGC became a wholly-owned subsidiary of the Company in conjunction with the incorporation.

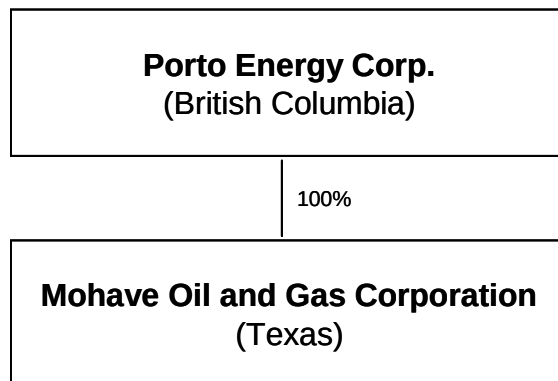
On January 30, 2010, the Company amalgamated with Porto Energy Corp. (“**PEC**”) pursuant to the *Business Corporations Act* (British Columbia), and such amalgamated entity changed its name to “Porto Energy Corp.”. PEC was incorporated pursuant to the laws of British Columbia on October 8, 2009 with the sole purpose of leading the financial reorganization and recapitalization of the Company.

The “**Company**” means, prior to the Amalgamation, MEPI and, after the Amalgamation, means Porto Energy Corp., the entity resulting from the amalgamation of MEPI and PEC and where the context so requires includes all of the Company’s subsidiaries.

The Company’s head office, management and technical teams are located at Suite 350, 24 Waterway, The Woodlands, Texas, USA, 77380.

Company Structure

The Company, through its wholly owned subsidiary, MOGC, is engaged in international exploration, development and production of oil and natural gas in the Lusitanian Basin of Portugal. The Company holds working interests in five Concessions located in the Lusitanian Basin; namely the Aljubarrota-3, Torres Vedras-3, São Pedro de Muel-2, Cabo Mondego-2 and Rio Maior-2 Concessions totalling 1,444,152 net acres or 5,844 km². The Company’s working interest in the Concessions is 100% with the exception of the Torres Vedras-3 Concession where it has a 97.5% working interest for reservoirs below a depth of 400 metres and 87.5% for reservoirs above 400 metres. The Company’s senior management have extensive international exploration and operational experience and have made substantial oil and gas discoveries during their careers. Through its exploration efforts to date, the Company has identified seven major exploration trends over its Concessions and generated over 45 prospects and leads. The Company views Portugal as a country with significant potential for value creation through the application of modern oil and gas technology and exploration strategies to Portugal’s under developed resources.



The Company conducts virtually all of its operations in Portugal through its wholly-owned Texas subsidiary, MOGC, located at Suite 350, 24 Waterway, The Woodland, Texas, USA, 77380.

GENERAL DEVELOPMENT OF THE BUSINESS

For ease of reference, all Common Share numbers and related per share amounts (including option and warrant exercise prices) have been restated in this Prospectus to reflect the effects of the Consolidation and the Amalgamation.

History of MOGC

The Company's operating subsidiary, MOGC, is a Texas corporation that was founded in August of 1993 by Patric Monteleone, currently a director and Executive Vice President of the Company and President of MOGC. The initial focus of MOGC was in the Llanos Basin of Colombia and the Lusitanian Basin of Portugal, as it had purchased the rights to several exploration contracts and licenses from a small Texas independent oil company for whom Mr. Monteleone had previously been employed as Vice President.

MOGC's strategy was to build a resource base through its own exploration efforts by positioning itself in two significant basin areas in the world with different risk levels and for which it had significant technical and geological knowledge. The strategic plan included generating its own exploration plays and prospects and acting as operator for all exploration and production activities. One of the basins selected, the Llanos Basin of Colombia, offered low geological risk and high drilling success rates, significant reserve potential, acceptable fiscal terms with the government and relatively quick access to oil markets.

The second basin in which MOGC focused its activities was the Lusitanian Basin of Portugal, a non-producing frontier basin with significant exploration trends identified by MOGC, all of which offered large oil and gas reserve potential, an in-place and rapidly developing oil and gas downstream infrastructure with access to European markets, attractive fiscal terms, a stable government, an educated and low cost local labour supply, low security risk and an easily accessible and well maintained geological and exploration database, but with an expected longer term to achieve production revenues. MOGC acquired its first Concessions in Portugal in 1993. The number of Concessions held by MOGC, and the geographic area they covered, has changed over time while the technical evaluation of the basin has progressed. MOGC believes the Concessions currently held are the most prospective area of the basin.

MOGC built a small and experienced technical team to pursue these opportunities and began operating exploration programs in three Colombian exploration contracts and three exploration licenses in Portugal. Project partners were assembled for both project areas but, until 2003, most of MOGC's emphasis was placed on exploration efforts in Colombia in order to establish production and generate revenues more quickly. Exploration obligations under the Portuguese licenses during this period were met by completing seismic programs (250 km of onshore 2D data and 750 km of offshore 2D data), reservoir and source rock studies and by meeting minimal drilling requirements.

Due to the reduced geological risk and an expanded high potential exploration play inventory that had resulted from MOGC's exploration efforts in Portugal, as well as the rising security concerns for operational personnel that began to develop and grow in Colombia between 1998 and 2002, MOGC decided in late November 2002 to focus all of its exploration efforts on the Lusitanian Basin and sold all of its petroleum rights and interests in Colombia on November 30, 2002. MOGC does not currently have any properties or operations in Colombia.

From mid 2000 to 2008, the Company drilled five exploration and appraisal wells on its Concessions (ranging from 809 to 2,800 metres in depth). Two of these deep wells were appraisal wells at the Aljubarrota gas discovery (**Alj-2** sidetrack and the **Alj-4**). **Alj-4** was suspended in August 2005 while the Company used the contracted drilling rig to drill two exploratory wells and one appraisal well. **Alj-4** is slated for re-entry and deepening as part of the Company's planned work program. Another appraisal well, located in the Torres Vedras-3 Concession, was drilled at the Lapaduços-2, a 700 metre updip offset to the Benfeito 1 well ("**Bf-1**") light oil discovery made in 1982 that reportedly tested 41° API oil with water during testing, but was never successfully completed due to operator inability to remedy mechanical problems related to a very poor cementing of well casing or offset (see "*Narrative Description of Business*"). This well also did not reach the proposed depth due to rig difficulties. The two remaining deep wells located in the Torres Vedras-3 and Aljubarrota-3 Concessions were exploration wells, the Torres Vedras G-1 and Lagoa-1 wells. Although both were unsuccessful, the Torres Vedras G-1 well confirmed the presence of the Upper Jurassic reef complex located in the western portion of Torres Vedras-3 Concession. This reef complex is the objective of a 120 km² 3D seismic acquisition program that consisted of 80 km² acquired early in 2011 and 40 km² acquired in 2008. The 120 km² is currently being interpreted.

From mid 2000 to 2008, MOGC also drilled an additional thirteen shallow wells (less than 400 metres in depth) to evaluate oil accumulation along the Monteunto Anticline as part of a government sponsored scientific study of fault permeability. While the drilling provided additional information, it is not the focus of exploration efforts.

The Company is currently planning a focused drilling program to: (a) continue the appraisal and development of the Aljubarrota gas discovery; (b) continue the evaluation of a reef play in the western portion of the Torres Vedras-3 Concession; and (c) evaluate the Presalt Triassic sandstones in the Aljubarrota-3 Concession. The Company also plans to acquire 3D seismic over the Montejuto Anticline on the Torres Vedras-3 Concession and an offshore 3D seismic programs on the São Pedro de Muel-2 and Cabo Mondego 2 Concessions.

History of the Company

The Company was incorporated under the *Business Corporations Act* (British Columbia) on November 14, 2006 with the intention of being the corporate entity through which MOGC could raise investment capital and pursue an initial public offering.

Through a series of transactions which occurred between December 1, 2006 and June 1, 2007, the Company issued 17,227,496 Common Shares to MOGC's shareholders to acquire all of the issued and outstanding shares of MOGC and, as a result, to indirectly acquire all of the petroleum rights granted to MOGC under the previously held concessions and the current Concessions.

On April 20, 2007, the Company raised gross proceeds of US\$587,862 for working capital purposes through a private placement of 631,674 Common Shares.

On June 1, 2007, the Company raised gross proceeds of US\$10,137,250 through a private placement of 8,230,913 units, each unit comprised of one Common Share and one half of a warrant. Each full warrant entitled the holder to purchase one additional Common Share at a price of US\$1.31 per share until May 30, 2010. Such warrants expired on May 30, 2010 unexercised.

On August 3, 2007, the Company was awarded five Concessions from the Portuguese government. The Aljubarrota-3 and Torres Vedras-3 Concessions replaced the Aljubarrota-2 and Torres Vedras-2 concessions previously held by MOGC that covered the same areas. The São Pedro de Muel-2, Cabo Mondego-2 and Rio Maior-2 Concessions are new Concessions also awarded on August 3, 2007 that cover areas for which MOGC has held prior concessions historically. The Company's working interest in all of the Concessions is 100% with the exception of the Torres Vedras-3 Concession in which the Company has a 97.5% interest for reservoirs below a depth of 400 metres and 87.5% working interest for reservoirs above 400 metres. See "*The Concessions and Prospects*".

On August 4, 2007, the Company issued NPIs to 17 persons in consideration for the services, expertise and assistance provided by such persons to assist the Company in obtaining the Concessions as well as the Company's previous concession agreements in Portugal. These NPIs formally documented the non-participating interests that had been previously granted by the Company to such persons during the period from 1993 to 2000.

On November 8, 2007, the Company completed a consolidation of its outstanding share capital on a three for one basis. All Common Share and per share amounts in this Prospectus have been adjusted to give retroactive effect to this share consolidation as well as Amalgamation.

On January 4, 2008, the Company acquired the majority of the NPIs which had been granted by the Company and issued 275,196 Common Shares and 1,444,780 performance warrants as consideration for such NPIs. Officers, directors and employees were issued 250,566 of these Common Shares and 1,315,474 Performance Warrants in respect of NPI's held by them. See "*Non-Participating Interests*".

During the summer of 2008, the Company completed private placements of 3,699,230 units for total gross proceeds of US\$4,708,223. Each unit was comprised of one Common Share and one-half of a warrant. The warrants expired unexercised.

On August 1, 2008, the Company issued 300,619 Common Shares to vendors in exchange for debt in the amount of US\$375,000.

On April 29, 2009, the Company re-issued NPIs to the 13 persons that sold their NPIs back to the Company on January 4, 2008 as well as to one additional person. These NPIs were again in consideration for the services, expertise and assistance provided by such persons to assist the Company in obtaining and maintaining the Concessions as well as the Company's previous concession agreement in Portugal. On December 3, 2009 and in contemplation of the Amalgamation, the Company entered into agreements to reacquire NPIs representing an approximate 4.0% overriding royalty interest in the Concessions in exchange for 4,426,173 Common Shares. Officers and directors were issued 1,525,789 of these Common Shares in respect of NPI's held by them. See "*Non-Participating Interests*".

The Reorganization Transactions

PEC was incorporated under the laws of British Columbia by Notice of Articles dated October 8, 2009 for the purpose of leading the financial reorganization and recapitalization of the Company

On October 16, 2009, the Company signed a letter of intent with PEC pursuant to which, among other things, it agreed to pursue a business combination with PEC by way of amalgamation. Also on October 16, 2009, the Company, MOGC and PEC entered into a share purchase agreement, loan agreement and a share pledge agreement and PEC and MOGC entered into a general security agreement.

On October 16, 2009 and November 25, 2009, respectively, the Company entered into agreements to acquire Palace Exploration Company's ("**Palace**") 25% working interest and DualEx Portugal Inc.'s ("**DualEx**") 10% working interest on certain of the Concessions. The purchase of the working interest of Palace was in the Aljubarrota-3, Torres Vedras-3, and São Pedro de Muel-2 Concessions and for a purchase price of US\$838,650 and the purchase of the working interest of DualEx was in the Aljubarrota-3 and Torres Vedras-3 Concessions and for a purchase price of US\$350,000. Both acquisitions were completed in late 2009.

In October 2009, PEC completed a financing of 12,000,000 common shares of PEC for aggregate gross proceeds of US\$120,000.

On October 29, 2009, PEC entered into a financial advisory agreement with Haywood Securities Inc. pursuant to which PEC agreed that Haywood Securities Inc. would be issued 900,000 Common Shares of the Company for its services as a financial advisor in connection with the closing of the Amalgamation, financing and debt settlements. In connection with the Amalgamation and pursuant to certain finder's fees agreements, the Company also issued 400,000 Common Shares to certain finders as consideration for the introduction of PEC to the Company.

In November 2009, PEC completed a financing for gross proceeds of US\$3,900,000 by issuing 19,500,000 common shares of PEC and 9,750,000 warrants. Each warrant entitles the holder thereof to acquire one Common Share at an exercise price of US\$0.50 for twelve months following closing of the Offering.

During the year ended August 31, 2010, the Company entered into debt settlement agreements for conversion of US\$5,516,717 debt in exchange for issuing 15,846,919 Common Shares, including 5,686,255 Common Shares issued to related parties. These transactions were settled by the issuance of 8,503,816 Common Shares for settlement of US\$2,296,761 debt prior to the Amalgamation and issuance of 7,343,103 Common Shares for settlement of US\$3,219,956 debt subsequent to the Amalgamation. As a net result of the debt settlement in Common Shares and cash, US\$6,198,869 has been recorded as a gain on settlement of debt in the statement of operations for the year ended August 31, 2010.

On January 14, 2010, PEC and the Company entered into the Combination Agreement and Amalgamation Agreement. On January 29, 2010, both PEC and the Company held special meetings and their respective shareholders approved the Amalgamation by special resolution, which Amalgamation occurred on January 30, 2010. The former PEC shareholders were issued 32,800,000 Common Shares under the Amalgamation and the pre-Amalgamation shareholders of the Company were issued 43,295,117 shares under the Amalgamation.

Recent Developments

In February 2010, the Company raised gross proceeds of US\$1,985,000 by issuing 3,970,000 Common Shares and 1,985,000 warrants. Each warrant entitles the holder thereof to acquire one Common Share at an exercise price of US\$1.00 for twelve months following closing of the Offering.

In April 2010, the Company raised gross proceeds of US\$5,805,000 by issuing 11,610,000 Common Shares and 5,805,000 warrants. Each warrant entitles the holder thereof to acquire one Common Share at an exercise price of US\$1.00 for twelve months following closing of the Offering.

In December 2010, the Company raised gross proceeds of US\$17,596,000 by issuing 29,326,683 Common Shares and 29,326,683 warrants. Each warrant entitles the holder thereof to acquire one Common Share at an exercise price of US\$0.85 for twenty-four months following closing of the Offering. In conjunction with the private placement, the Company issued 1,559,600 agent warrants entitling the holder thereof to acquire one Common Share at an exercise price of US\$0.85 for twenty-four months following closing of the Offering. In addition, investors in the December 2010 financing were provided certain anti-dilution and liquidity rights that terminate on the closing of the Minimum Offering.

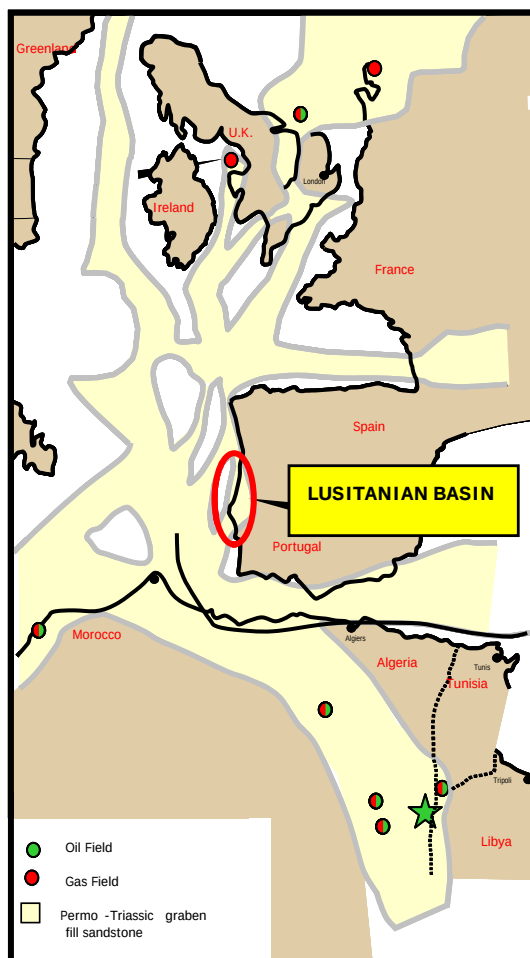
See “Prior Sales”.

NARRATIVE DESCRIPTION OF THE BUSINESS

The geological and historical information contained under this section is primarily based on various public sources made available by the Portuguese government’s Ministério da Economia e da Inovação Direcção Geral de Energia e Geologia, (“DGEG”) at www.dgge.pt as well as other published sources.

Lusitanian Basin

The Lusitanian Basin is located on and offshore west-central Portugal and covers an area of approximately 30,000 km². It is a Mesozoic basin containing two petroleum systems that are stratigraphically separated by a regional Lower Jurassic evaporite sequence. The sediments that provide most of the components of these two systems are Triassic clastics that include sandstone and dolomite reservoir targets, Lower Jurassic evaporites that provide a regional seal to Triassic sandstone and dolomites, Lower and Middle Jurassic carbonates that include source and reservoir rocks, Upper Jurassic carbonates and clastics that include source, reservoir and seal rocks. Thick sections of Paleozoic rocks that contain rich source rocks are a component of the lowest petroleum system of the basin. A generally thin layer of Tertiary clastic rocks overlay most of the Western portion of the basin. The entire stratigraphic column, both above and below the Lower Jurassic evaporite sequence, contains many elements that are analogous to that of North African basins including the prolific Ghadames and Illizi Basins in Algeria and Libya and is part of rift basins from North Africa to the North Sea. This is significant in that the North African basins are the site of several large oil and gas discoveries made over the last twenty years, all from this same stratigraphic column. The Lusitanian Basin is also host to younger Jurassic geology that is analogous to Eastern Canada.



The basin formation was initiated during a phase of Triassic rifting and resulted in the development of large high horst and graben structures. One of the targets of the Company's planned drilling program is Triassic sandstone and Jurassic carbonate reservoirs associated with these horst blocks. Later tectonic events of wrenching, first during the later part of the Middle Jurassic through the end of the Late Jurassic and then again in the Tertiary Miocene period, caused movement along strike slip faults that were coincident with most of the previous rift faults and created many additional structures including large "pop up" structures as well as a regional anticline in the basin. This type of structure has hosted several large discoveries, such as the Midway-Sunset, Elk Hills and South Belridge fields in the San Joaquin basins in California, and is the focus of the Company's ongoing 3D seismic programs in the Aljubarrota-3 and Torres Vedras-3 Concessions (onshore) and planned 3D seismic program in the São Pedro de Muel-2 and Cabo Mondego-2 Concessions (offshore). These major tectonic episodes resulted in the creation of 6 sub-basins within the Lusitanian Basin and a basin stratigraphy that includes three source rock intervals, five reservoir rock units (including Triassic sandstones, Early Jurassic dolomites, Middle Jurassic carbonate grainstones, Upper Jurassic reefal carbonates, and Upper Jurassic turbidite sandstones) and three regional seal intervals. During the creation of some of the sub-basins, thick layers of shaley source rocks and overlying carbonate reservoirs were highly fractured during basin subsidence. These fractured carbonate reservoirs are a major focus of the Company's drilling program and will also be defined from 3D seismic data that is currently being acquired.

During the late Middle Jurassic into the Upper Jurassic period major reef development occurred in the south central portion of the basin. This reef building period is time equivalent and on trend during the Upper Jurassic period with the Panuke deep reef discovery of Encana Corporation located off the Atlantic Coast of Canada. The Company's planned drilling program also targets reefal carbonate reservoirs developed along the reef trend that will be defined with a 3D seismic survey over the area that was recently acquired.

Exploration History of the Lusitanian Basin

This information disclosed in the section is largely derived from information provided by the Portuguese oil and gas authority, Divisão para a Pesquisa e Exploração de Petróleo ("DPEP").

For many years, surface oil seeps and asphalt occurrences in the Lusitanian Basin indicated the presence of petroleum systems and, during the mid-to-late 1800's, asphalt and bitumen were mined at several locations. The basin has been the site of periodic exploration activity since 1910, but is still highly under-explored. Slightly over 100 wells have been drilled in the Lusitanian Basin. This indicates an average drilling density of about one well per 72,000 acres. Of those wells, 57 were drilled before 1960, 46 were less than 600 metres deep and 47 did not penetrate Middle Jurassic aged rocks. Prior to 1963, early exploration focused primarily on shallow drilling on structures associated with wrench fault zones and oil seeps. Only three wells during this period penetrated the Triassic Silves formation or older rocks. Oil shows and minor oil and gas recoveries were reported from the post-rift or post-salt section, but no commercial production was established. During 1969, exploration interest turned to the offshore with major international company participation in regional seismic, gravity and magnetic surveys. Offshore concessions were awarded in the early 1970's, leading to acquisition of the first 2D seismic data (approximately 2,500 km) in the basin and the subsequent drilling of twelve wells, five of which penetrated the Triassic Silves formation with only a few minor gas shows in that section. Abundant oil and gas shows were recorded in the post-rift section and live oil (24° to 37° API) was recovered from two wells. These wells mostly drilled structural anomalies on the basin shelf that were formed in a period that post-dated the migration of hydrocarbons in the basin. These wells were ultimately plugged and abandoned. Operators completed their offshore work commitments and withdrew from the country in the late 1970's shortly after the attempt to establish a Communist regime in 1975 and 1976.

Onshore drilling that had ceased in 1963 did not recommence until 1981 due to depressed commodity prices, political unrest and the nationalization of the oil and gas industry. Several operators drilled a total of seven wells during the 1980s, all in the southern part of the basin. Only one of those wells penetrated strata older than Lower Jurassic in age, but did not penetrate any Triassic Silves formations. The most significant well of this decade was the Bf-1 well, drilled on the flank of the large Montejunto Anticline structure in 1982 by Petrogal. This well reportedly tested 41° API oil with water during testing but was never successfully completed due to operator being unable to remedy mechanical problems related to very poor cementing of the well's casing, and damage to reservoirs that resulted from invasion of very heavy drilling mud.

The 1990s witnessed nine shallow wells drilled on the Montejunto Anticline with total drilling depths of 200 to 400 metres. Six of these wells were drilled to evaluate shallow heavy oil potential and three were part of a government sponsored scientific study of fault permeability.

Four deep wells, including three by MOGC, were drilled during this period in the Aljubarrota area, to the north. The Company wells Aljubarrota-1 and Aljubarrota-2 ("Alj-1" and "Alj-2") both penetrated the Silves strata. The Alj-1 well verified the presence of the Presalt petroleum system. The Alj-2 well confirmed the presence of Silves sandstone and drilled over 585 metres of this section which

had oil and gas shows, but testing was unsuccessful due to design and execution. The Alj-2 also penetrated a significant thickness of gas saturated, fractured carbonate of the post rift, Jurassic Brenha formation which became the target of subsequent appraisal drilling, including the Alj-3 well that was drilled in 2000 but was executed poorly and did not reach target depth and subsequently temporarily abandoned until further appraisal drilling was conducted.

From 2000 to 2008, the Company has drilled five deep exploration and appraisal wells on its Concessions. Two of these deep wells were appraisal wells at Aljubarrota (Alj-2 Sidetrack and Alj-4). The Alj-4 is slated for re entry and deepening as part of the Company's current work program. The Company has initiated landowner permitting and surveying for a 160 km² 3D seismic acquisition program over the area around this well expected to be completed by early April 2011. Another appraisal well was drilled by MOGC, the Lapaduços-2, a 700 metre updip offset to the Bf-1 light oil discovery made in 1982. This well however did not reach the proposed depth due to rig difficulties and is presently scheduled for re entry and deepening into the targeted reservoir sections after completion of a planned 225 to 360 km² seismic survey over the Montejunto Anticline including the area around this well. The remaining two deep wells were exploration wells. Both were unsuccessful, however the Torres Vedras G-1 well confirmed the presence of the reef complex. This reef complex is the objective of a recently completed 120 km² 3D seismic acquisition program. A portion of this 3D survey has been completed and processed and provides very high quality definition of the targeted reef complex.

In late 2007, a near-offset to the original shallow Moinho Velho Southwest-1 well, the Moinho Velho Southwest 2 well, was drilled on the Montejunto Anticline to evaluate an oil bearing sandstone found on the prospect in the original well. This new well encountered correlative sand with oil shows, but of poor reservoir quality. As a result of this well, the prospect is being re-evaluated and further drilling will be delayed until the planned 3D seismic survey is completed over the area.

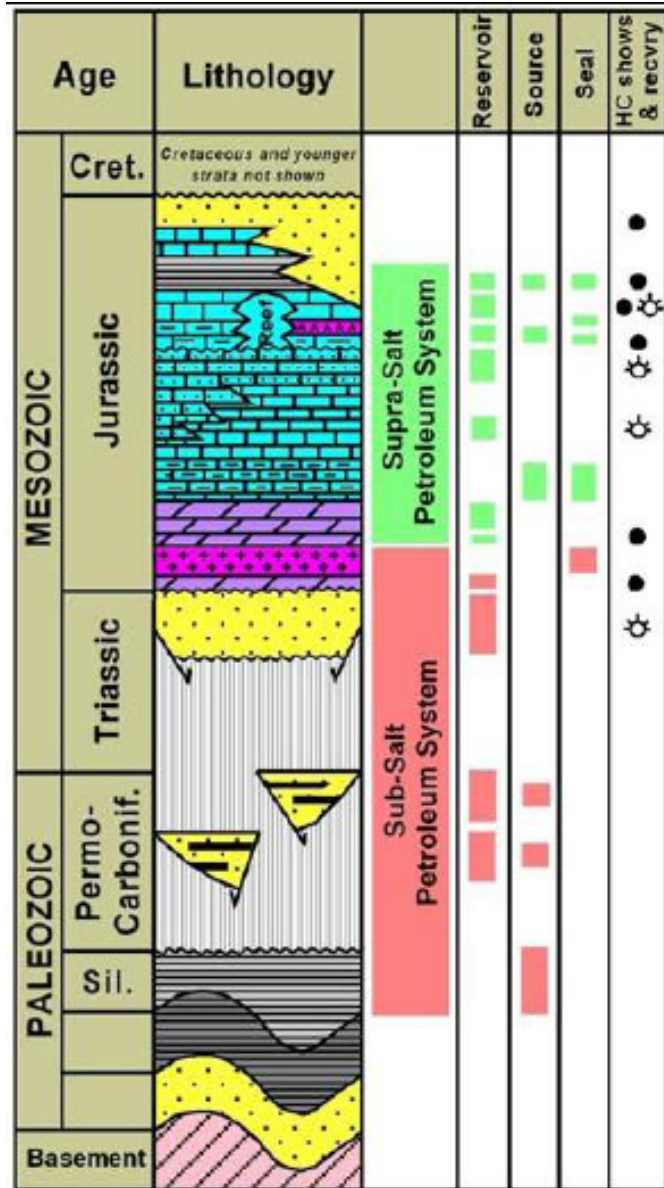
From mid 2000 to 2008, MOGC also drilled an additional thirteen shallow wells (less than 400 metres in depth) to evaluate oil accumulation along the Montejunto Anticline as part of a government sponsored scientific study of fractured permeability in shallow carbonate oil reservoirs. While the drilling provided additional information, it is not the focus of the Company's current exploration efforts. Several of these wells however also confirmed the presence of numerous high quality oil bearing sandstone reservoirs at shallow depths within the Fan Delta play where it overlaps the Anticline. The 3D seismic survey planned over the area is therefore also expected to provide definition as to where these reservoirs may be targeted for drilling.

During 2008, Petrobras Internacional, S.A. (Brazil) and its partners, Partex and Galp Energia initiated large marine seismic programs in concessions they hold in the deep water areas (greater than 1,000 metres) just west of the Lusitanian Basin and have been reported to have acquired over 11,700 km² of 2D seismic and reprocessed over 5,800 km on their concessions. Based on the interpretation of the 2D seismic, the consortium acquired 2,096 km² 3D seismic in 2010. Repsol (Spanish National Oil Company) is finalizing documents with the Portuguese government for deep water blocks over which they will also acquire 3D seismic.

Exploration and Development Strategy

The Company's strategy for the basin is a balanced appraisal and exploration approach that targets both oil and gas prospects on the seven major trend types in the Concessions. Particular emphasis will be on: (1) the appraisal and expected development of the two separate carbonate reservoirs in Aljubarrota Gas Discovery trend utilizing underbalanced drilling technology as well as horizontal drilling and guided by 3D seismic data, (2) exploration drilling of Upper Jurassic Reef trend, that will be very well defined with 3D seismic data, (3) exploration drilling guided by 3D seismic that targets sandstone reservoirs on large structures in the Presalt Triassic Clastics and Dolomite trend, (4) the acquisition of 3D seismic over the 30 km long Montejunto Anticline trend in preparation for future appraisal and exploration drilling and (5) the acquisition of 1,000 km² 3D seismic offshore survey that will be used to identify final locations for exploration wells that would be drilled on prospects in the Monte Real Platform and the Presalt Triassic Clastics and Dolomite trends.

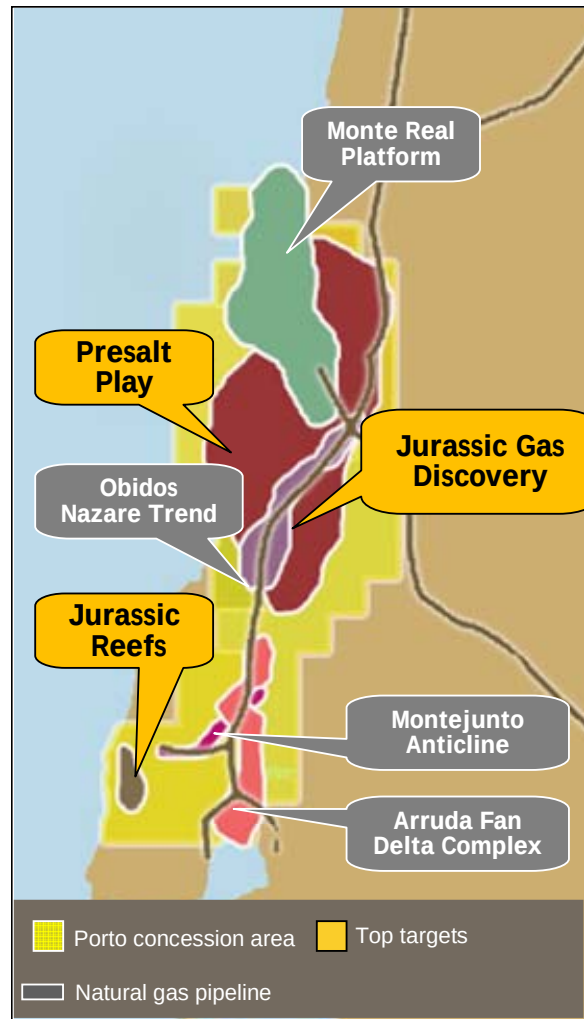
Below is a diagram that provides a stratigraphic column for the Lusitanian Basin:



**Lusitanian Basin, Portugal
Petroleum Systems**

The interaction in the basin between the stratigraphic units and tectonics has resulted in the generation of several exploration trends in the Concessions. These include:

Trend	Planned Work Program	Concession
The Aljubarrota (Jurassic) Gas Discovery – over an area of approximately 1,400 km ²	The Company is planning appraisal drilling on the Aljubarrota gas discovery located in this trend. A 160 km ² 3D seismic survey is currently underway over the area of this prospect and is expected to be completed by early April 2011. The wells planned for the Aljubarrota-3 Concession includes the Alj-4 re-entry and Alj-4H appraisal wells, the Alj-3 re entry and Alj-3H appraisal wells and a subsequent development horizontal well (Alj-5H). Two separate gas bearing carbonates zones are the reservoir targets in the Alj-4H and Alj-5H wells. The Alj-3 re entry well will be drilled to further evaluate the lowermost of the two gas bearing zones at a location three km from the Alj-4 well. In the event the Maximum Offering is completed, an additional development horizontal well (Alj-6H) will be drilled.	Aljubarrota-3
An Upper Jurassic Reef Trend - that extends over 100 km ² .	The Company is planning to drill four exploration wells in this trend based on interpretation of a 120 km ² 3D seismic program that was recently completed and currently being interpreted. The existing 3D seismic data consists of 80 km ² recently acquired and 40 km ² acquired in 2008.	Torres Vedras-3
Presalt Triassic Clastics and Dolomite Trend – on structural highs over the entire basin.	The Company drilling program includes one exploration well (Presalt) on the Rhodochrosite Prospect in this trend where Triassic clastics and Lower Jurassic dolomites are the targets. A 160 km ² 3D seismic survey is currently underway over the area of this prospect and expected to be completed by early April 2011. The Company also plans to acquire 1,000 km ² of offshore 3D seismic data over this trend.	Aljubarrota-3 São Pedro de Muel-2 Cabo Mondego-2
Montejunto Anticline Trend – covering an area of 150 km ² .	The Company is planning a 225 to 360 km ² 3D seismic survey over this trend.	Torres Vedras-3
Monte Real Platform Trend – with many structural features covering an area greater than 1,000 km ² .	The Company is planning to acquire 1,000 km ² of offshore 3D seismic data over prospects in this trend.	São Pedro de Muel-2 Cabo Mondego-2
Obidos Nazare Structural Trend.	A portion of this trend will be covered by the ongoing 160 km ² 3D seismic survey expected to be completed by early April 2011.	Aljubarrota-3
Arruda Upper Jurassic Fan Delta Clastic Trend – that covers an area of 800 km ² .	The Company is planning a 225 to 360 km ² 3D seismic survey that covers the Montejunto Anticline which also covers a large portion of this trend.	Torres Vedras-3



Land Holdings

The following table summarizes the Company's undeveloped land holdings on its principal properties in the Lusitanian Basin in Portugal:

Concession	Basin	Company Working Interest ⁽²⁾	Net Acreage	Expiry Date ⁽¹⁾
Aljubarrota-3	Lusitanian Onshore	100%	1,214 km ² = 299,986 ac	August 3, 2015
Torres Vedras-3	Lusitanian Onshore	97.5%	1,237 km ² = 305,738 ac	August 3, 2015
São Pedro de Muel-2	Lusitanian Offshore	100%	1,016 km ² = 251,059 ac	August 3, 2015
Cabo Mondego-2	Lusitanian Onshore and Offshore	100%	1,103 km ² = 272,557 ac	August 3, 2015
Rio Maior-2	Lusitanian Onshore	100%	1,274 km ² = 314,812 ac	August 3, 2015
Total			5,844 km² = 1,444,152 ac	

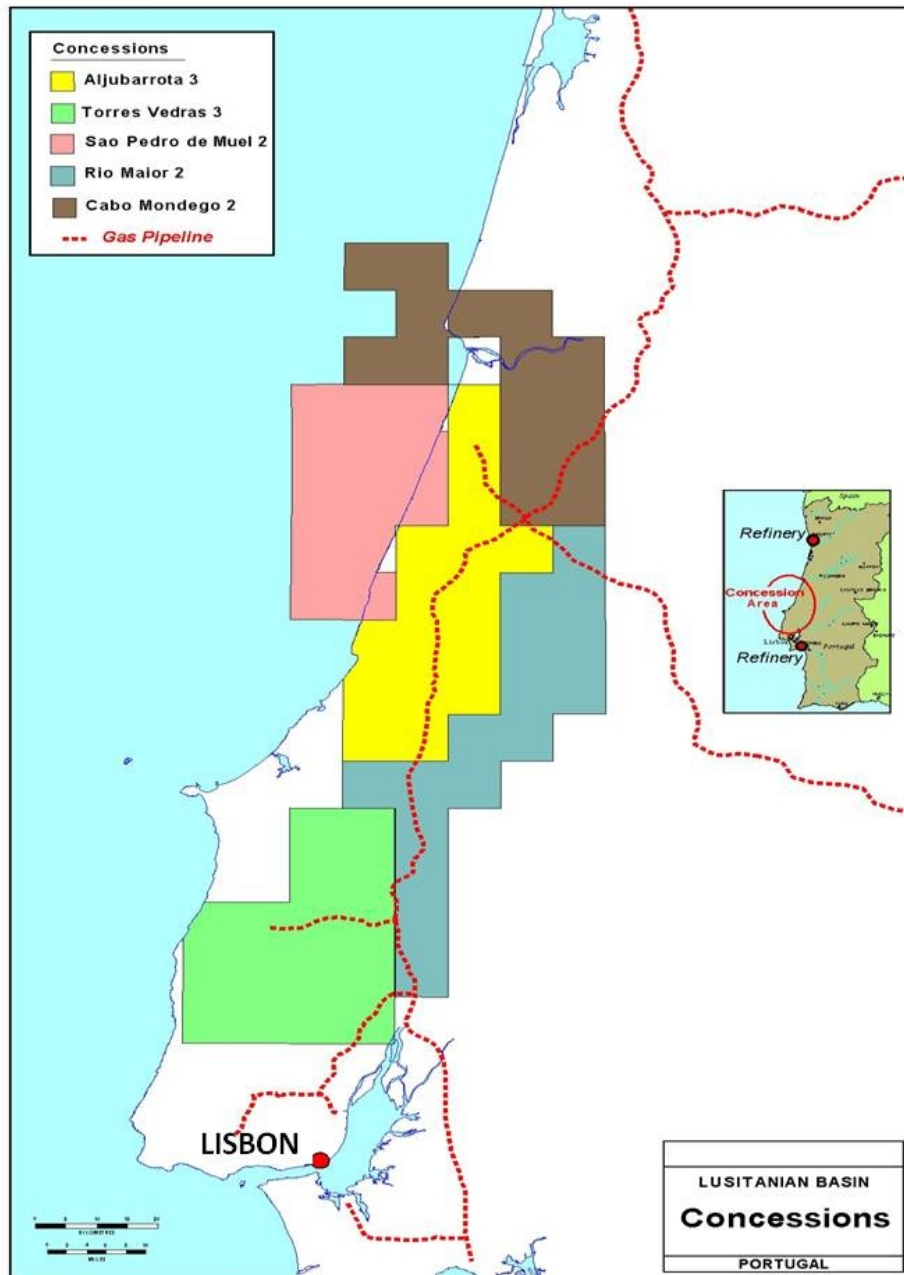
Notes:

- (1) The Concessions are subject to two extensions of one year, a 25 year production lease and five extensions of three years for the production lease.
- (2) The Company's working interests in the Torres Vedras-3 Concession is 97.5% for reservoirs below a depth of 400 metres and 87.5% for reservoirs above 400 metres.

THE CONCESSIONS AND PROSPECTS

Concession Map

Below is a map of the Concessions in Portugal followed by a description of each Concession and the prospects on each Concession that the Company intends to perform exploration and drilling activities on through 2012 as part of its work program assuming funding can be secured. The Company defines a prospect as an area of a Concession that it has determined contains one or more drilling targets based upon geological, seismic or other data available to the Company. If warranted, a prospect can accommodate several wells.



Concessions

The Concessions expire on August 3, 2015, subject to two extensions of one year subject to relinquishments, a 25 year production lease and five extensions of three years for the production lease

The Company is obliged to relinquish fifty percent (50%) of the Concession area by August 3, 2012. The Company will choose the area so it does not materially affect the Company's core prospects. In the event a Concession converts to a 25 year production lease, the designated perimeter surrounding the production lease could be extended into the area previously relinquished if it can be technically justified.

The Company may in the future seek to joint venture or farm out prior to drilling a portion its prospects on the Concessions. As at the date of this Prospectus, the Company has no agreements to joint venture or farm out any of its prospects on the Concessions.

Aljubarrota-3 Concession

The Aljubarrota-3 Concession (100% working interest) was granted to MOGC on August 3, 2007 and contains 1,214 km² or approximately 299,986 net acres. The terms of the Concession provide for an initial exploration period of eight years that expires on August 3, 2015. The Concession area contains four trends and 11 defined prospects and lead areas. The identified prospects and leads include: Aljubarrota Area; Rhodochrosite; Garnet; Cinnabar; Citrine; Jasper; Onyx; Pyrope; Sphene; Tiger Eye and Zircon. The Company's 2011 to 2012 work program currently includes plans to drill the Aljubarrota Area and Rhodochrosite prospects, which are described in detail below. A 160 km² 3D seismic survey is currently underway and is expected to be completed early April 2011 and covers five of the prospects listed above.

Aljubarrota Prospect

The Alj-2 well was drilled in 1999 with the Silves as the primary exploration target. The well penetrated over 585 metres of Silves section with oil and gas shows, but testing was unsuccessful. The well also penetrated a 750 meter interval of gas charged Jurassic Brenha Formation carbonates. The Brenha in this area is characterized by three mappable units: an upper 450 meters of tight argillaceous micrites underlain by 260 meters of fractured limestones with matrix porosities of 4%-8% and a basal grainstone member with a gross interval of 40 meters that exhibits intergranular log porosity of up to 11%. Well log analysis indicates the entire Brenha section is gas saturated, and there is a potential gas-water contact (GWC) at the base of the formation.

An open-hole drillstem test (DST) was conducted and resulted in gas to surface with an estimated unmeasured flow rate of 3 to 5 mmcf/d. After the well reached total depth, casing was set, and three additional DSTs were run. An initial high gas flow rate was achieved but rapidly declined to less than 0.25 mmcf/d.

The Alj-3 well was drilled in 2000 and is located approximately three km to the north of the Alj-2 well. The well penetrated the Brenha roughly 60 metres high to the Alj-2 well. Well logs indicate the section to be gas charged but containing significantly less fractures than seen in the equivalent section in the Alj-2 well. An open-hole testing program failed to provide any conclusive flow data.

The Alj-2 sidetrack well was drilled as a 45-degree slant hole on a southern orientation. The well encountered fractures in the upper Brenha, but the section became more argillaceous with increasing depth, and fracturing was not encountered. The Alj-4 well was drilled 350 metres to the northwest of the Alj-2 well as a twin. It was temporarily abandoned above the primary target fractured Brenha section and will be re-entered and deepened.

The Aljubarrota gas accumulation is a west-dipping nose that bisects a north-south-trending syncline. North-south-trending wrench faults define the eastern and western limits of the trap. The presumed GWC controls the northern extent, and a down-to-the-south normal fault is the southern limit.

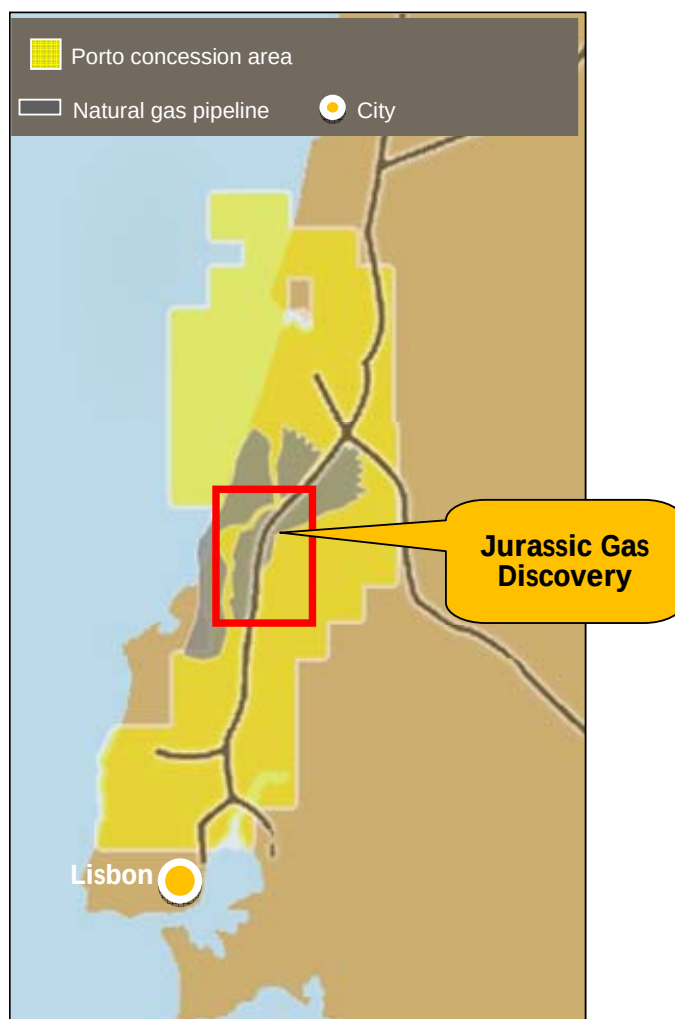
There are three unpenetrated fault blocks on the structure associated with the Aljubarrota Gas Discovery. Each fault block has been evaluated independently for the Brenha grainstones and Brenha fracture porosity.

The Aljubarrota East 1 Prospect is upthrown to the Aljubarrota Gas Discovery across an east-dipping wrench fault. The northern and southern limits of the trap are structural spill on an east-dipping wrench fault that defines the eastern limit of the prospect. Principal risks for the Brenha grainstones are trap definition, reservoir presence, and porosity development.

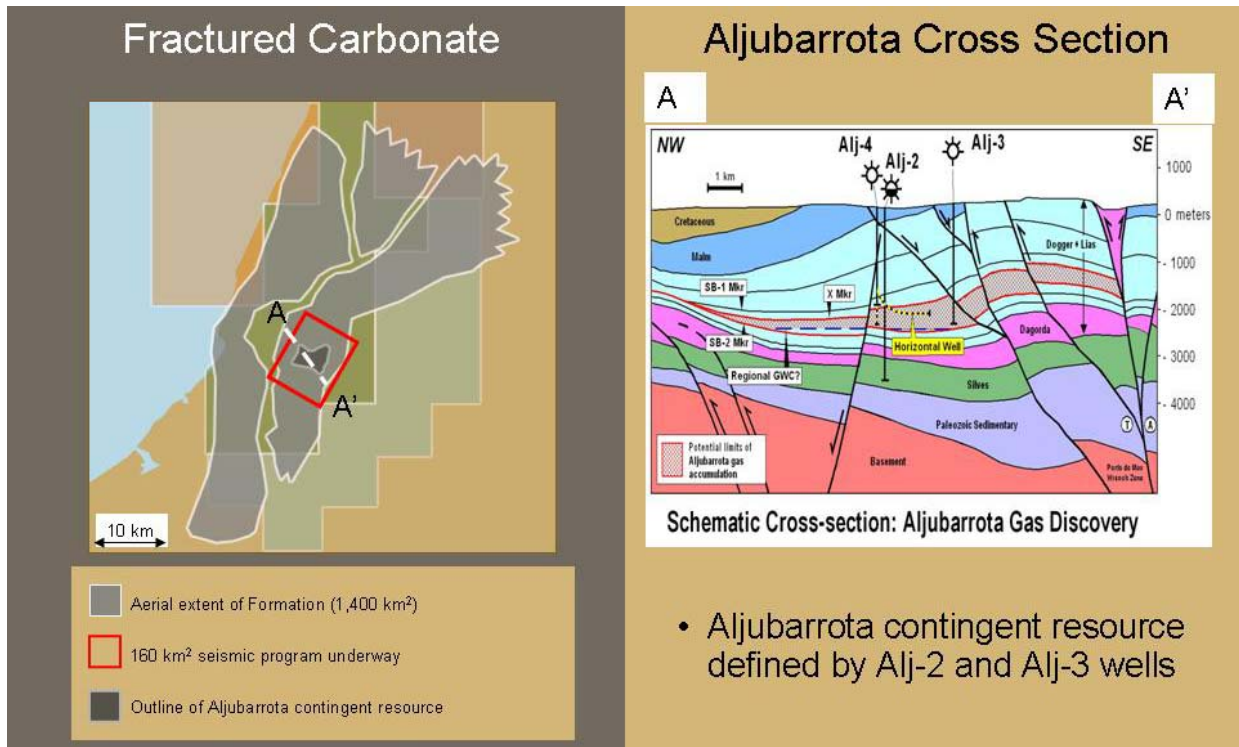
The Aljubarrota East 2 Prospect is upthrown to the Aljubarrota East 1 Prospect across the east-dipping wrench fault that controls the eastern limit of the Aljubarrota East 1 Prospect. The northern and southern limits of the trap are structural spill on an east-dipping wrench fault that defines the eastern limit of the prospect. Principal risks for the Brenha grainstones are trap definition, reservoir presence, and porosity development.

The Aljubarrota West Prospect is upthrown to the Aljubarrota Gas Discovery across a west-dipping wrench fault that defines the eastern limit of the prospect. The northern limit of the trap is structural spill on a west-dipping wrench fault that defines the western portion of the trap. The southern limit is a down-to-the-south normal fault. Principal risks for the Brenha grainstones are reservoir presence and porosity because the fault block is on the western edge of the grainstone development. Principal risk for the Brenha fractured reservoir is porosity development.

The prospect will be covered the 160 km² 3D seismic survey that is currently underway and expected to be completed by early April 2011. The Alj-4 well will be re-entered and deepened by 400 metres to a depth of 2,500 metres to appraise the two gas bearing reservoirs in the Brenha carbonate. The Company intends to apply horizontal drilling techniques to further appraise, and if warranted, develop the Aljubarrota gas accumulation.



The Aljubarrota gas discovery occurs within the fractured Jurassic Brenha Formation. Porto has seismically mapped the Brenha reservoir over an area of approximately 1,400 km².



Rhodochrosite Prospect

The Rhodochrosite Prospect is located southwest of and adjacent to the Aljubarrota area prospect in the Aljubarrota-3 Concession and targets Presalt Dagorda dolomites and Triassic Silves sandstones. The target structure is the south-plunging nose of the feature drilled by the Alj-1 well. The prospect offsets the Alj-1 well, which penetrated hydrocarbon shows in the Dagorda. The trap at this level is a three-way closure against a down-to-the-north, east-west-trending normal fault. Source beds are Silurian in age. Principal risk in the Dagorda reservoir is porosity. Structure at the Silves level is similar to the Dagorda structure. Silves sandstone development is expected to be similar to that encountered by the Alj-2 well. The principal risk element for the Silves is trap definition. The prospect covers a maximum of 7,000 acres and will be covered by the 160 km² 3D seismic program that is currently underway expected to be completed by early April 2011. A well to a depth of 3,500 metres is planned to evaluate the reservoir targets of the prospect.

Torres Vedras-3 Concession

The Torres Vedras-3 Concession (97.5% working interest in reservoirs below 400 metres and 87.5% for reservoirs above 400 metres.) was granted to MOGC on August 3, 2007 and contains 1,269 km² or approximately 305,738 net acres. The terms of the Concession provide for an initial exploration period of eight years that expires on August 3, 2015. The Concession area contains three trends and 39 defined prospects and leads that the Company has identified. The prospects and leads include the Abadia Dome deep and shallow, Cruz da Pedra, Montelegre Arch A7, Montelegre Arch A9, Montelegre Arch A8, Montejunto MJ-1, Montejunto MJ-2, Montejunto MJ-3, Montejunto MJ-4, Montejunto MJ-5, Lapaduços, Aruda Subbasin A4, Arruda Subbasin A5, Hematite, Limonite, Moinho do Ceu, Montelegre, Olivine, São Juliao, Sphalerite, TVR reef 1, TVR reef talus 1 TVR reef 2, TVR reef talus 2, TVR reef 3, TVR reef talus 3, TVR reef C, TVR C reef talus, TVR reef E, TVR reef E talus, TVR reef F, TVR reef F talus, TVR reef G, TVR reef G talus, TVR reef H, TVR Reef I, TVR reef I talus, TVR reef J, and TVR reef J talus prospects. The Company will initially focus its efforts in the Concession on a Jurassic Reef trend and the Montejunto anticline. Nineteen prospects have been identified in the reef trend. The reef trend is covered by a 120 km² 3D seismic survey that was recently completed and is currently being interpreted for a planned drill

program. This survey covers 13 of the prospects listed above. The Company also plans to conduct a 225-360 km² 3D seismic survey over the Montejunto Anticline trend that includes 15 of the prospects listed above.

Jurassic Reef Play

There are three north-south-striking reef complex prospects that have been delineated by a 3-D survey located in the western portion of the Concession. These reefs are located at a paleo shelf break building back from one another and are identified as Reefs 1, 2, and 3. The upper reefs occur in the Montejunto while the lower reefs may be Dogger in age. The reservoir consists of reefal limestones and associated reef debris and oolitic and biolclastic grainstones on the reef top and back reef environment. Late Jurassic aged shales are the principal source beds. Traps and seals consist of three-way structural closure and lateral pinchout into lagoonal and shelf limey mudstones. The reefs are well delineated by the 3-D seismic data.

Vertically stacked bands of high energy seismic reflections basinward of Reefs 1, 2, and 3 indicate the presence of reef talus debris bodies associated with the 3 reefs discussed above. Source rocks and vertical seals would be the same as for the reefs. Lateral seals would consist of deeper marine shales and limes. The extents of the talus bodies are well defined by 3-D seismic.

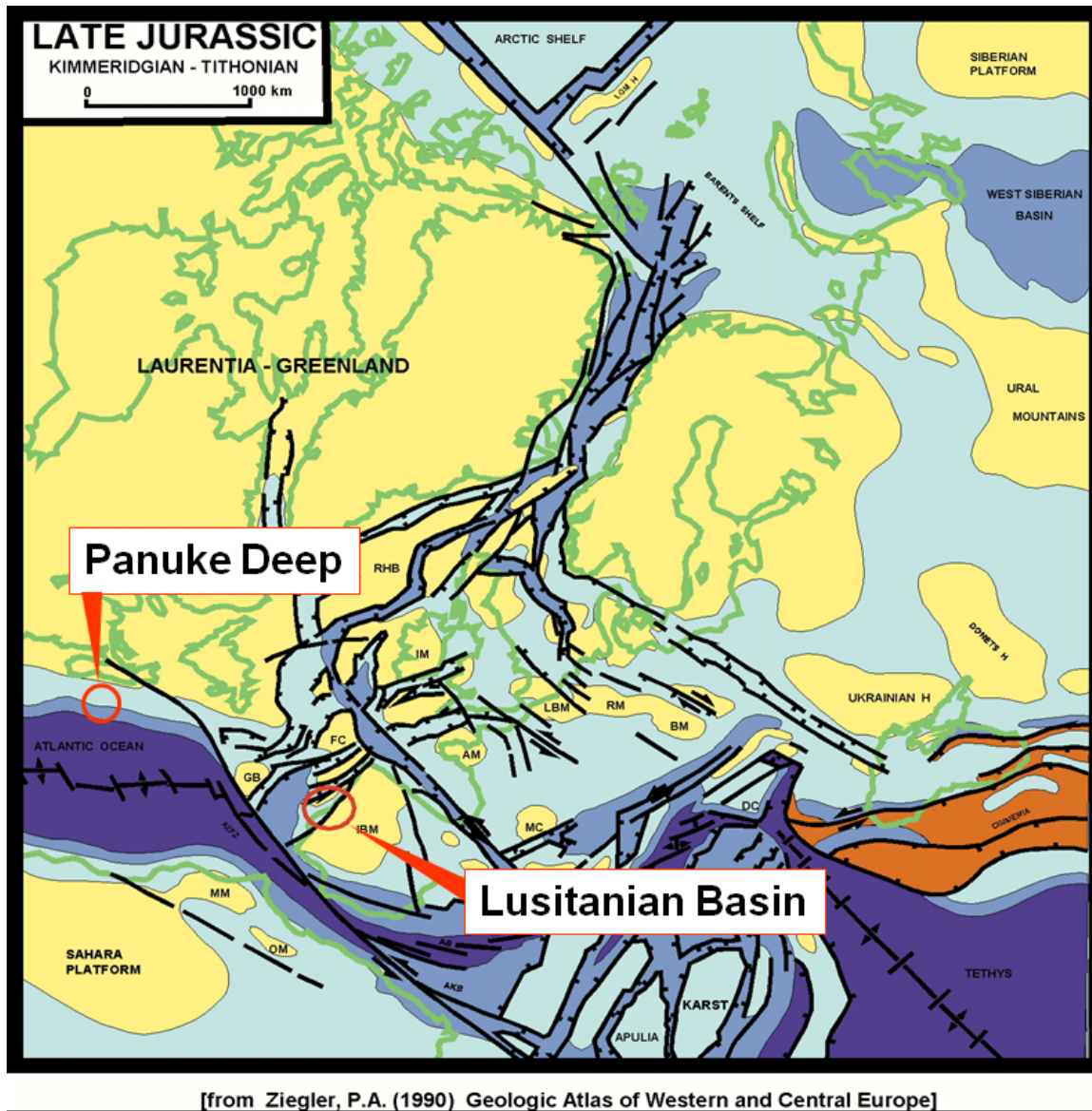
Three reef prospects (F, G and I) have been delineated by existing 2-D seismic control on the western side of the Concession south of the 3-D reefs. These reefs have similar seismic character to the 3-D reefs and are designated as Reefs F, G, and I. Trap source and seal are the same as for the 3-D reefs. Principal risks are porosity development and trap definition. Similar to the 3-D reefs, the 2-D reefs have seismically-identified talus slopes labeled Reef Talus F, G, and I.

Three reef prospects (C, E, and J) have been identified on 2-D seismic control in the central portion of the Concession. These reefs are located on the southwestern end of the Montejunto anticline and are labeled as Reefs C, E, and J. Trap, sources and seals are similar to the previously discussed reefs. Trap definition and porosity development are the main risks for all three. Similar to the western reefs, the eastern reefs have associated slope talus prospects. Trap, sources, and seals are similar to the previously discussed reef talus prospects.

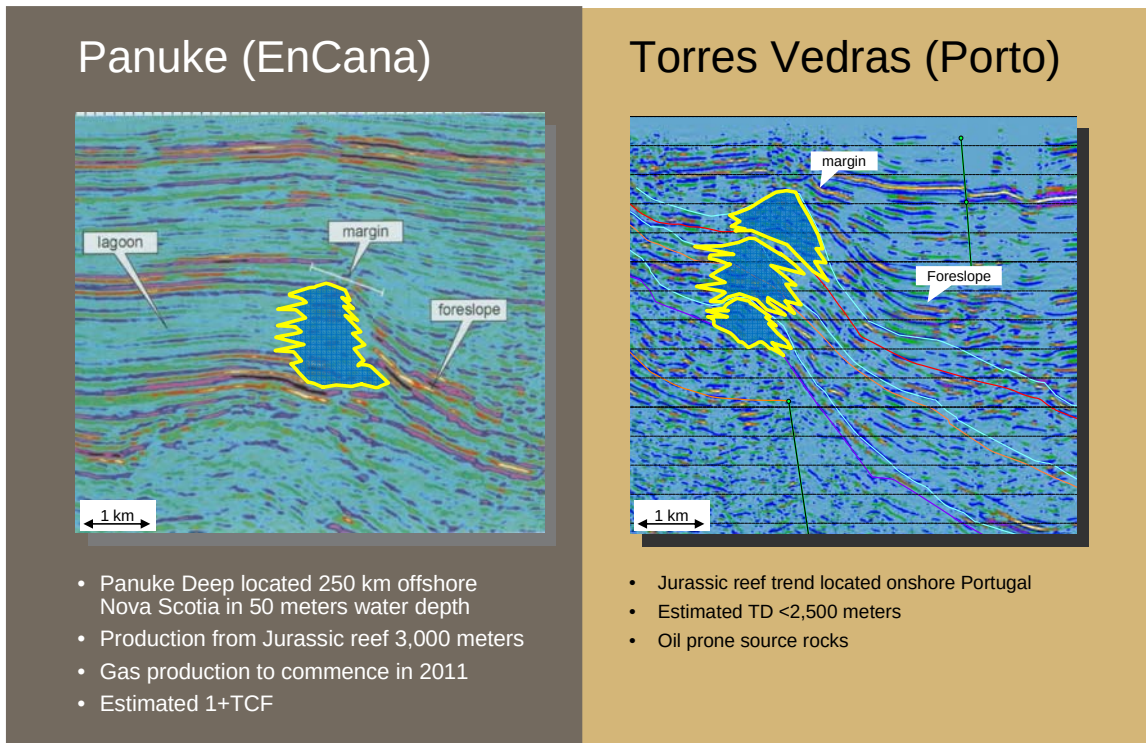
Reef H is an elongated reef complex located slightly east and basinward of the western 3-D and 2-D reefs. The prospect has the appearance of a slump block. Trap and seals are the same as the other reefs. The northern portion of the reef is delineated by the 3-D seismic control and the southern portion is sparsely delineated by 2-D seismic.

The reef trend is covered by 120 km² 3-D seismic survey of which 80 km² was acquired in early 2011 and 40 km² was acquired in 2008.. Four of the reef prospects identified from 2-D seismic will be brought to drillable status with the additional 3-D seismic data from this survey. Wells to drilling depths of 1,500 to 2,500 metres will evaluate the reservoir targets.

The Jurassic reef play in the Torres Vedras-3 Concession exhibits similar geology to offshore Eastern Canada as shown in the figure below.



The Jurassic reef development offshore Nova Scotia and the onshore Portugal reef development have similar geological characteristics. The Lusitanian Basin Jurassic reef development is well documented in DPEP literature, including an exhumed 500 foot thick Jurassic reef of dead oil exposed at the surface approximately 25 km to the east of the Jurassic reef trend. Below is a figure displaying 3D seismic data from the Company's onshore Jurassic reef development on the Torres Vedras-3 Concession and the 3D seismic data of Encana Corp.'s Panuke gas discovery offshore Nova Scotia, Canada.



Lapaduços Prospect

The Lapaduços Prospect is located on the central part of the Montejunto Anticlinorium in the northern central part of the Torres Vedras-3 Concession. The objective of this Prospect is the appraisal of the discovery of oil in the suprasalt Montejunto Formation (Jurassic - fractured limestone) and the Dogger limestone (Jurassic). The Benfeito-1 well (Bf-1) was drilled in 1982 by Petrogal on the southeast flank of the Lapaduços Prospect. The well recovered 37 to 41 °API gravity oil from the fractured Montejunto limestones. The trap consists of a three-way fault closure within the hanging wall of the thrust anticline updip from the Bf-1 well. Top seals include the shales of the Abadia. Source beds are Jurassic age shales. The Bf-1 well was not successfully completed because of an inability to isolate water zones. The other objective is potential oil in the suprasalt Dogger age limestones and dolomites, consisting of oolitic and bioclastic grainstones. The limestones are characterized by good matrix porosity. The trap consists of a three way closure fault closure. Organic rich shales of the Cabacos provide a good top seal. Source rocks consist of organic-rich carbonate shales and mudrock within the Brenha and the basal zone of the Cabacos. Porosity with hydrocarbon shows, some of which calculated to be logged pay, is indicated within Dogger age limestones and dolomites in the Bf-1 well. The Lapaduços-2 well, which was initiated in late 2005 and drilled to a depth of 806 metres, may be re-entered to evaluate the Montejunto and Dogger reservoir targets after completion of a 225-360 km² 3D survey planned for the Montejunto Anticline.

Cruz da Pedra Prospect

The Cruz da Pedra prospect is located on the northern end of the axis of the Montejunto Anticlinorium. It is bounded on the east by a major wrench fault, and the carbonate reservoirs were deformed into a rollover anticline with separate three-way closure. Reservoir targets are the Coimbra dolomites and the Dogger age limestones. This prospect is also based on prior drilling during the 1950's and surface mapping. A well drilled on the northwest flank of the prospect in 1952 encountered over 400 metres of tar charged reefal carbonate in the Upper Jurassic very near the surface.

The objective at the Coimbra level is a four-way closure along the Montejunto Anticline. The primary objective is potential oil in the suprasalt Dogger age limestones and dolomites. The limestones are characterized by good matrix porosity. Traps consist of a four-way-closure combination of a fault and a rollover anticline. Faults provide lateral seals. The organic-rich shales of the Cabacos provide an excellent top seal. Source rocks consist of organic-rich carbonate shales and mudrock within the Brenha and the basal zone of the Cabacos. The prospect consists of four fault-separated reservoirs within the Dogger Formation.

The Company plans to conduct a 225-360 km² 3D seismic survey over the Montejunto Anticline that includes the location of this prospect.

São Pedro de Muel-2 Concession

The São Pedro de Muel-2 Concession was granted to MOGC on August 3, 2007 and contains 1,016 km² or approximately 251,059 net acres (100% working interest). The terms of the São Pedro de Muel-2 Concession provide for an initial exploration period of eight years that expires on August 3, 2015. Over 90% of this Concession area lies offshore in relatively shallow water depths of less than 75 metres. The Concession area contains three trends and four well-defined prospects that MOGC has identified. The identified prospects are Emerald, Azurite, Amethyst and Turquoise. The Company plans to conduct a 1,000 km² 3D seismic survey over the area of the prospects prior to delineating final drillsites on each prospect.

Emerald Prospect

Emerald Prospect is an oil and gas prospect located in the southeast central edge of the São Pedro de Muel 2 Concession approximately 9 km offshore in 50-60m water depth. The prospect targets the synsalt Dagorda dolomites and the Presalt Silves sandstones. It covers an area of approximately 17,000 acres at the Silves level, approximately 14,000 acres at the Dagorda level. The targets in the suprasalt play are the Lower Jurassic Dagorda dolomite. Source beds are Jurassic limy mudstone. The prospect is a faulted, three-way closure at the Dagorda level. Wells to the north have logged numerous dolomite beds within the overall section, and these dolomites contained oil and gas shows.

Two segments have been identified for the trap at the Silves level in the Presalt section of the prospect. Segment 1 is a large, west-dipping, tilted fault block bound to the north, east, and west by normal faults. Segment 2 is a faulted, three-way closure adjacent to Segment 1. The Silves sandstones are interpreted to be very thick at this location, similar to the section encountered in the Alj-2 well.

A well to a depth of 3,500 metres should evaluate the reservoir targets on this prospect. A planned 1,000 km² 3D offshore seismic survey is expected to cover the Emerald Prospect and further refine its definition in preparation for drilling. This survey will cover all four of the prospects in the Concession.

Cabo Mondego-2 Concession

The Cabo Mondego-2 Concession (100% working interest) was granted to MOGC on August 3, 2007 and contains 1,103 km² or approximately 272,557 net acres. The terms of the Concession provide for an initial exploration period of eight years that expires on August 3, 2015. Approximately 30% of the Concession area lies offshore in water depths of less than 75 metres. There are several different play types and levels within this Concession including four-way closures, three-way traps against faults, and stratigraphic traps. The Silves Formation (Silves) sandstones are the primary target for Presalt prospects. The Dagorda Formation (Dagorda) dolomites are synsalt and suprasalt targets. Suprasalt targets include Brenha Formation (Brenha) fractured limestones and grainstones and Candieiros Formation (Candieiros) limestones and oolitic grainstones. The Concession area contains three prospects and leads that have been identified. The identified prospects and leads are Sapphire, Moreia Deep and Topaz. All these prospects are offshore in shallow water. The Company plans to conduct a 3D seismic survey over the area of the prospects prior to delineating final drillsites on each prospect, subject to obtaining the required consent from the Portugal authorities. The 1,000 km² offshore 3D seismic survey that the Company is planning to acquire will cover all three prospects and leads in the Concession. This 3D survey will also include the offshore area in the São Pedro de Muel 2 Concession.

Topaz Prospect

The Topaz Prospect is located in the northern area of the offshore portion of the Concession. Reservoir targets are in the Presalt Silves and the suprasalt Brenha, Candieiros, and Dagorda.

At the Silves level, the prospect is an elongated, northeast-southwest-trending, four-way closure bisected by two down-to-the-southwest normal faults. Silurian shales are the source rocks, and vertical seal is provided by Dagorda evaporites.

At the suprasalt levels, the prospect is a tilted fault block with three-way closure on northeast dip between two down-to-the-southwest normal faults. Paleo environment mapping at the Candieiros level indicates a shallow marine depositional environment that would be conducive to the formation of oolitic grainstones. Oil shows and log pay in the Dagorda dolomites were recorded in the Sun Dorado 1C well drilled nine km to the west of the prospect. Source beds for the suprasalt levels include Late Jurassic shales and Early Jurassic limy mudstones. The 1,000 km² offshore 3D seismic survey that the Company is planning to acquire will also cover this prospect.

Rio Maior-2 Concession

The Rio Maior-2 Concession (100% working interest) was granted to MOGC on August 3, 2007 and contains 1,274 km² or approximately 314,812 net acres. The terms of the Concession provide for an initial exploration period of eight years that expires on August 3, 2015. The Concession area contains three trends, but no defined prospects at this time given the lack of seismic data on the Concession. As such, the Company presently does not intend to perform any drilling on these trends until after seismic data over the areas is obtained and prospects are defined.

Minimum Work Requirements

On a yearly basis, the Company has to submit a detailed exploration work program and budget for approval by the Portuguese authorities for each Concession. The 2011-2012 work program was presented and approved by the Portuguese authorities, with certain modifications, and includes the transfer of certain obligations between the Concessions. Contingent on completing the Maximum Offering, the Company plans on drilling eleven wells, including four horizontal wells and approximately 1,360 km² of 3D seismic data which will keep the Concessions in good standing until August 2013. Contingent on completing the Minimum Offering, the Company plans on drilling ten wells, including three horizontal wells and 1,225 km² of 3D seismic data which will keep the Concessions in good standing until August 2013. During the exploration period, the Company is required to post security deposits.

Notwithstanding the above, the Concessions are subject to a 25 year production lease and five extensions of three years for the production lease should the Company experience commercial success in its current or future work programs.

The future annual work commitments can be transferred between the Concessions subject to the approval of the Ministry. Please see the table below for a summary of the future work commitments:

	Annual Work Commitments					Total Commitment
	Aljubarrota-3	Torres Vedras-3	Rio Maior-2	Cabo Mondego-2	São Pedro de Muel-2	
2013 ⁽¹⁾⁽²⁾	1 well	1 well	1 well	1 well	1 well	5 wells
2014 ⁽¹⁾⁽²⁾	1 well	1 well	1 well	1 well	1 well	5 wells
2015 ⁽¹⁾⁽²⁾	1 well	1 well	1 well	1 well	1 well	5 wells
Annual Fees	€ 47,967	€ 48,910	€ 34,665	€ 32,528	€ 31,441	€ 195,511

Notes:

- (1) Period end date is August 3rd for each respective year.
(2) The annual work commitments can be transferred between the Concessions subject to the approval of the Ministry.

Working Interest Partners

MOGC is the operator of all the Concessions and holds a 100% working interest in all the Concessions with the exception of the Torres Vedra-3 Concession where it has farmed out a 2.5% non-operating working interest in reservoirs below 400 metres and 12.5% for reservoirs above 400 metres to Argus. Argus is responsible for all its proportionate share of costs on the Torres Vedras-3 Concession with the exception of the recently completed 120 km² of 3D seismic and possible re-entry of the Lapaduços-3 well, where the Company is carrying Argus's costs.

Royalties to the Company

Pursuant to the Argus Royalty Agreement, Argus has granted in favour of MOGC a 4% gross overriding royalty that is proportionally reduced to Argus' 2.5% working interest in the Torres Vedras-3 Concession.

NON-PARTICIPATING INTERESTS

On August 4, 2007, the Company issued the NPIs to 17 persons in consideration for the services, expertise and assistance provided by such persons to assist the Company in obtaining the Concessions as well as the Company's previous concession agreements in Portugal. These NPIs formally documented the non-participating interests that had been previously granted by the Company to such persons. The NPIs are a carried interest entitling the NPI Holder to a percentage of the gross sales proceeds, less transportation and marketing costs, derived from the hydrocarbon production from the relevant Concession. The NPI Holders are not obligated to provide any funding in respect of, and are not entitled to participate in the conduct of, operations on the Concessions.

On November 8, 2007, the Company decided to acquire the NPIs in exchange for Common Shares and performance warrants. The Company acquired 13 of the 17 outstanding NPIs for aggregate consideration of 275,196 Common Shares and 1,444,780 performance warrants. Directors and officers received 98,140 Common Shares and 515,235 performance warrants with respect to the sale of their respective NPIs to the Company.

On April 29, 2009, to retain key executives and staff, the Company decided to re-issue NPIs to the 13 NPI holders that had previously exchanged their NPIs for Common Shares and performance warrants as well as to one employee. The gross percentage of the re-issued NPIs was less than the NPIs previously held by this group. These NPI holders retained the Common Shares previously exchanged for their NPIs, but their performance warrants were cancelled.

In December 2009 and January 2010, the Company acquired 13 of the 18 existing NPIs in exchange for 4,426,173 Common Shares, including 1,525,789 Common Shares to officers and directors. The remaining NPIs held in the Concessions by the remaining five persons all at arm's-length are set out in the table below:

Concession	NPIs Held by the Five Remaining NPI Holders
Aljubarrota-3	2.8900%
Torres Vedras-3	0.6250%
São Pedro de Muel-2 (offshore)	1.5000%
São Pedro de Muel-2 (onshore)	2.5000%
Cabo Mondego-2	1.2500%
Rio Maior-2	2.5455%

PROPOSED WORK PROGRAM

Proposed Work Program

The Company's currently proposed 2011-2012 work programs for the Lusitanian Basin in Portugal for both the Minimum Offering and Maximum Offering are set forth under the heading "*Use of Proceeds*".

Variations to the Proposed Work Program

Due to the nature of the oil and gas industry, work programs are regularly reviewed with respect to the success of expenditures and other opportunities that may become available. The Company's actual 2011 to 2012 work program will vary depending upon a number of factors, including drilling success, availability of drilling equipment and assessment of recently acquired seismic data over the Company's exploration blocks. Accordingly, while the proposed 2011 to 2012 work program described above reflects the Company's current expectation, the actual work program carried out by the Company may in fact differ from that set forth above. In addition, the Company may seek industry partners to fund the contemplated 3D seismic surveys to further expand its exploration plan.

SUMMARY OF RECOVERABLE CONTINGENT AND PROSPECTIVE OIL AND GAS RESOURCES

General

The Company has not yet established proven reserves on any of its properties due to the fact that its oil and gas activities are currently in the preliminary stages and production has not been established in the volumes or duration necessary to establish reserves. Given the early stage of exploration and development of its resources, the Company has not presently engaged an independent evaluator to review potential reserves or associated future net reserves.

The NSAI Report

The Company engaged the services of NSAI to evaluate the prospective and contingent resources of the Company's exploration prospects in the Aljubarrota-3, Torres Vedras-3, São Pedro de Muel-2 and Cabo Mondego-2 Concessions in the Lusitanian Basin in Portugal effective August 31, 2010. Their evaluation of the Company's prospective and contingent petroleum resources is contained in the NSAI Report. The NSAI Report does not assess the contingent or prospective resources of the Rio Maior-2 Concession.

The prospective resources estimated herein are those volumes of petroleum that are potentially recoverable from accumulations yet to be discovered and the contingent resources estimated herein are those volumes of petroleum that are potentially commercially

recoverable from discovered accumulations. As a result of the lack of commerciality or sufficient exploration drilling, the prospective resources estimated and included in the NSAI Report cannot be classified as reserves pursuant to NI 51-101.

Although the Company has identified contingent and prospective resources, there are numerous uncertainties inherent in estimating oil and gas resources, including many factors beyond the Company's control and no assurance can be given that the indicated level of resources or recovery of oil and gas will be realized. The resources reported herein are estimates only and there is no certainty that it will be economically or technically viable to produce any portion of the reported contingent resources. In general, estimates of recoverable oil and gas resources are based upon a number of factors and assumptions made as of the date on which the resource estimates were determined, such as geological and engineering estimates which have inherent uncertainties and the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the recoverable oil and gas and the classification of such resources based on risk of recovery, when prepared by different engineers or by the same engineers at different times, may vary substantially.

Estimates of resources always involve uncertainty, and the degree of uncertainty can vary widely between accumulations/projects and over the life of a project. Consequently, estimates of resources should generally be quoted as a range according to the level of confidence associated with the estimates. An understanding of statistical concepts and terminology is essential to understanding the confidence associated with resources definitions and categories.

The range of uncertainty of estimated recoverable volumes may be represented by either deterministic scenarios or by a probability distribution. Resources should be provided as low, best, and high estimates as follows:

- **Low Estimate:** This is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.
- **Best Estimate:** This is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.
- **High Estimate:** This is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

This approach to describing uncertainty may be applied to reserves, contingent resources, and prospective resources. There may be significant risk that sub-commercial and undiscovered accumulations will not achieve commercial production. However, it is useful to consider and identify the range of potentially recoverable quantities independently of such risk.

Prospect Risk Assessment

Unrisked prospective resources are estimated ranges of recoverable oil and gas volumes assuming a petroleum discovery is made and are based on estimated ranges of undiscovered in-place volumes. The estimates for risked resources are derived directly from the estimates for unrisked resources, incorporating a geologic risk assessment for each prospect. Geologic risk assessment of prospective resources addresses the probability of success for the discovery of petroleum; this risk analysis is conducted independently of probabilistic estimations of petroleum volumes and without regard to the chance of development. Geologic risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators and is subject to revisions with further data acquisition or interpretation.

Exploration for hydrocarbons is conducted under conditions of multiple uncertainties. Prospect risk assessment considers elements of the overall hydrocarbon system to estimate the probability that a hydrocarbon accumulation exists. The risk assessment is applied independently of the Monte Carlo simulation. Prospect risk typically uses a four component equation to measure probability of geological success (Pg). The four components are trap integrity, reservoir quality, source evaluation, and timing/migration. A study of seismic data and analogous field data provides additional information to supplement the risk analysis. By carefully examining the many subcategories under each of these components and assigning a confidence ranking to them, a numerical risk value can be

assigned. The product of these four risk factors yields the Pg value. Pg values can range from 0 to 1. A Pg of 0.10 would suggest that a prospect has a 1 in 10 chance of discovering hydrocarbons without regard to commerciality.

Assessment of prospect risk is primarily dependent on the interpretations made from the available seismic data and assessment of source rock maturity, source migration, and timing of trap development in relation to hydrocarbon migration. Trap integrity is estimated from the structural and stratigraphic trapping characteristics of the prospect in addition to estimating the presence, extent, and capacity for low-permeability beds above or adjacent to reservoir beds to seal or trap hydrocarbons. Reservoir quality is a component that is interpreted from relative continuity of reflective bedding layers, seismic amplitude, and seismic frequency to infer depositional environments of potential reservoir intervals. Analog data from wells drilled on trend or from similar age, depths, and depositional environments supplement the risk assessment.

A primary consideration in petroleum exploratory ventures is determining the presence of an active petroleum system. An active petroleum system requires (1) the presence of organically rich, thermally mature source beds capable of generating hydrocarbons and (2) the presence of adequate migration pathways for mature hydrocarbons to migrate out of source beds into porous and permeable reservoir beds. The hydrocarbon resource potential of a basin is dependent on (1) the proximity of prospects (traps) to potential source beds; (2) the timing of source maturation and hydrocarbon migration relative to trap development; (3) the area, thickness, porosity, and permeability characteristics of the reservoir beds; and (4) trap and seal capacity. The principal risks elements for each reservoir level are discussed by prospect in the individual Concession discussion sections.

The table “*Recoverable Contingent Resources Targeted under Maximum Offering*” represents the aggregated value for probability of geological success (Pg) associated with prospects targeted under the Maximum Offering. A value between 0.70 and 1.0 represents a low-risk component, where all elements of the component are well documented with encouraging to favorable parameters. Risk components with values between 0.50 and 0.70 are considered moderate risk, where one or more elements are encouraging or favorable, while some may be neutral. A value between 0.30 and 0.50 represents a component with a higher amount of risk, where one or more elements of the component are uncertain while some elements may be neutral. Risk components with values below 0.30 are considered to have greater uncertainty with one or more unfavorable elements. The risk values assigned to the components are subject to change with the acquisition of additional well and seismic data.

Oil and Gas Resources

According to the NSAI Report, if the Company’s prospects located in the Aljubarrota-3, Torres Vedras-3, São Pedro de Muel-2, and Cabo Mondego-2 Concessions result in successful discoveries and development and if the present discoveries result in economic development, estimates of the Company’s gross low, best, high, and mean estimate contingent resources and of the Company’s gross low, best, high, and mean estimate prospective resources, as of August 31, 2010, are summarized below.

Contingent Resources

Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable because of one or more contingencies. The contingent resources shown are contingent upon demonstration of the economic viability of the projects. Commercial flow rate testing and documentation of development plans will provide further evidence of economic viability of these projects. If these contingencies are resolved, some portion of the contingent resources estimated may be reclassified as reserves. There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

Contingent resources exist in the Aljubarrota-3 Concession at the Aljubarrota discovery in the Brenha limestone, which was penetrated by the Alj-2 well. Contingent resources also exist in the Torres Vedras-3 Concession in the Lapaducos discovery in the Montejunto Formation (Montejunto) limestone, which was penetrated by the Bf-1 well. See “The Concessions and Prospects” and “Narrative Description of the Business”.

Concession/Category	Recoverable Contingent Resources (Company Gross Interest) ⁽¹⁾		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)
Aljubarrota-3			
Low Estimate	0	87,692	14,615

Concession/Category	Recoverable Contingent Resources (Company Gross Interest) ⁽¹⁾		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)
Best Estimate	0	362,594	60,432
High Estimate	0	725,187	120,865
Mean	0	388,901	64,817
Torres Vedras-3			
Low Estimate	4	1	4
Best Estimate	43	13	45
High Estimate	423	128	444
Mean	176	55	185
Total Contingent ⁽²⁾			
Low Estimate	4	87,693	14,619
Best Estimate	43	362,606	60,477
High Estimate	423	725,315	121,309
Mean	176	388,956	65,002

Totals may not add because of rounding.

Notes:

- (1) The Company owns 100 and 97.5% gross interest in the Aljubarrota-3 and Torres Vedras-3 Concessions, respectively. The Company's working interests in the Torres Vedras-3 Concession is 97.5% for reservoirs below a depth of 400 metres and 87.5% for reservoirs above 400 metres.
- (2) Totals are the arithmetic sum of multiple probability distributions.

Prospective Resources

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. The prospective resources included in this report indicate exploration opportunities and development potential in the event a petroleum discovery is made and should not be construed as reserves or contingent resources. NSAI did not perform an economic analysis on these resources; as such the economic status of these resources is undetermined.

Prospective resources exist for the Aljubarrota-3, Cabo Mondego-2, São Pedro de Muel-2, and Torres Vedras-3 Concessions. See "The Concessions and Prospects" and "Narrative Description of the Business".

Prospective Resources

Concession/Category	Recoverable Prospective Resources (Company Gross Interest) ⁽¹⁾					
	Unrisked			Risked		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)	Oil (mbbls)	Gas (mmcf)	boe (mboe)
Aljubarrota-3						
Low Estimate	98,444	926,149	253,302	19,442	200,274	52,821
Best Estimate	309,095	2,368,313	703,814	64,481	531,423	153,051
High Estimate	1,080,317	7,203,892	2,280,966	239,267	1,685,749	520,225
Mean	497,380	3,528,249	1,085,421	108,009	813,982	243,672
Cabo Mondego-2						
Low Estimate	16,793	140,783	40,257	2,831	22,861	6,641
Best Estimate	54,775	304,056	105,451	9,358	50,539	17,781
High Estimate	160,729	593,498	259,645	27,555	101,297	44,438
Mean	76,164	343,106	133,349	13,032	57,736	22,655
São Pedro de Muel-2						
Low Estimate	67,024	622,925	170,845	12,307	109,988	30,639
Best Estimate	212,973	1,599,193	479,505	38,827	283,585	86,091
High Estimate	821,155	4,154,127	1,513,509	148,308	749,192	273,174
Mean	374,900	2,100,509	724,985	67,647	377,561	130,573
Torres Vedras-3						
Low Estimate	267,856	214,155	303,549	59,745	52,444	68,486
Best Estimate	454,181	431,034	526,020	92,638	101,312	109,524
High Estimate	1,041,990	958,796	1,201,789	169,167	204,791	203,299
Mean	602,274	537,946	691,931	108,351	119,397	128,251
Total Prospective ⁽²⁾						
Low Estimate	450,617	1,904,012	767,952	94,326	385,567	158,587
Best Estimate	1,031,024	4,702,595	1,814,790	205,304	966,859	366,447
High Estimate	3,104,191	12,910,313	5,255,910	584,298	2,741,030	1,041,136
Mean	1,550,718	6,509,811	2,635,686	297,039	1,368,675	525,151

Totals may not add because of rounding.

Notes:

- (1) The Company owns a 100% company gross interest in the Aljubarrota 3, Cabo Mondego 2, and São Pedro de Muel 2 Concessions; it owns a 97.5% company gross interest in the Torres Vedras-3 Concessions for reservoirs below a depth of 400 metres and 87.5% for reservoirs above 400 metres.
- (2) The resources for each Concession and the total resources are the arithmetic sum of multiple probability distributions.

Estimate of Recoverable Oil and Gas Resources Targeted under Maximum Offering

The table below highlights the gross working interest of prospective and contingent resources for prospects that the Company will be targeting under the Maximum Offering:

Concession/Prospect Category	Recoverable Contingent Resources Targeted (under Maximum Offering) (Company Gross Interest) ⁽¹⁾					
	Unrisked			Risked		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)	Oil (mbbls)	Gas (mmcf)	boe (mboe)
Aljubarrota-3						
Aljubarrota						
Low Estimate	0	87,692	14,615	0	87,692	14,615
Best Estimate	0	362,594	60,432	0	362,594	60,432
High Estimate	0	725,187	120,865	0	725,187	120,865
Mean	0	388,901	64,817	0	388,901	64,817
Torres Vedras-3						
Lapaducos						
Low Estimate	4	1	4	4	1	4
Best Estimate	44	13	46	43	13	45
High Estimate	434	131	455	423	128	444
Mean	180	56	189	176	55	185
Total ⁽²⁾						
Low Estimate	4	87,693	14,619	4	87,693	14,619
Best Estimate	44	362,607	60,479	43	362,606	60,477
High Estimate	434	725,318	121,320	423	725,315	121,309
Mean	180	388,957	65,006	176	388,956	65,002

Concession/Prospect Category	Recoverable Prospective Resources Targeted (under Maximum Offering) (Company Gross Interest) ⁽¹⁾						
	Unrisked			Prospect Pg	Risked		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)		Oil (mbbls)	Gas (mmcf)	boe (mboe)
Aljubarrota-3							
Aljubarrota				0.31			
Low Estimate	0	137,870	22,978		0	42,077	7,013
Best Estimate	0	215,931	35,988		0	66,158	11,026
High Estimate	0	355,689	59,282		0	108,302	18,050
Mean	0	235,022	39,170		0	71,692	11,949
Garnet				0.59			
Low Estimate	3,205	61,083	13,386		2,019	35,325	7,907
Best Estimate	14,323	213,854	49,965		9,024	122,221	29,394
High Estimate	63,138	810,455	198,214		39,777	456,253	115,819
Mean	26,917	361,773	87,212		16,958	204,715	51,077
Jasper				0.22			
Low Estimate	4,967	4,371	5,695		1,073	944	1,230
Best Estimate	18,423	16,367	21,151		3,979	3,535	4,569

**Recoverable Prospective Resources Targeted
(under Maximum Offering)
(Company Gross Interest) ⁽¹⁾**

Concession/Prospect Category	Unrisked			Prospect Pg	Risked		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)		Oil (mbbls)	Gas (mmcf)	boe (mboe)
High Estimate	68,199	61,087	78,380		14,731	13,195	16,930
Mean	30,140	27,043	34,647		6,510	5,841	7,484
Pyrope				0.20			
Low Estimate	22,712	59,075	32,558		4,809	10,969	6,637
Best Estimate	66,647	173,185	95,511		14,084	31,591	19,349
High Estimate	242,791	516,200	328,825		50,949	92,742	66,406
Mean	110,763	248,319	152,150		23,326	44,657	30,769
Rhodochrosite- Carrascal				0.23			
Low Estimate	5,185	94,460	20,928		1,192	22,040	4,866
Best Estimate	17,371	267,379	61,934		3,995	62,517	14,415
High Estimate	54,906	748,586	179,671		12,628	175,344	41,852
Mean	25,469	366,932	86,624		5,858	85,843	20,165
SubTotal ⁽²⁾							
Low Estimate	36,069	356,859	95,545		9,093	111,355	27,653
Best Estimate	116,764	886,716	264,549		31,082	286,022	78,753
High Estimate	429,034	2,492,017	844,372		118,085	845,836	259,057
Mean	193,289	1,239,089	399,803		52,652	412,748	121,444
Torres Vedras-3							
Abadia Dome				0.06			
Low Estimate	21,508	5,435	22,413		1,753	436	1,825
Best Estimate	69,859	17,651	72,801		5,111	1,280	5,325
High Estimate	353,913	87,358	368,473		21,520	5,328	22,408
Mean	159,535	39,799	166,169		10,118	2,519	10,538
Cruz da Pedra				0.12			
Low Estimate	19,236	9,602	20,836		2,272	688	2,386
Best Estimate	45,057	27,220	49,594		5,328	1,651	5,604
High Estimate	126,802	93,141	142,326		15,784	4,737	16,574
Mean	64,222	44,993	71,721		7,863	2,397	8,262
Hematite				0.14			
Low Estimate	16	6	17		2	1	2
Best Estimate	95	37	101		12	5	13
High Estimate	644	330	699		92	49	100
Mean	299	154	325		43	23	46
Lapaducos				0.33			
Low Estimate	369	197	402		122	65	133
Best Estimate	3,057	1,667	3,335		1,009	550	1,101
High Estimate	22,830	12,565	24,924		7,534	4,146	8,225
Mean	9,446	5,236	10,319		3,117	1,728	3,405
Limonite				0.15			
Low Estimate	395	156	421		57	23	61

**Recoverable Prospective Resources Targeted
(under Maximum Offering)
(Company Gross Interest) ⁽¹⁾**

Concession/Prospect Category	Unrisked			Prospect Pg	Risky		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)		Oil (mbbls)	Gas (mmcf)	boe (mboe)
Best Estimate	1,500	638	1,606		220	94	236
High Estimate	5,312	2,315	5,698		785	346	843
Mean	2,402	1,041	2,575		353	155	379
MJ-1				0.09			
Low Estimate	0	0	0		0	0	0
Best Estimate	3	0	3		0	0	0
High Estimate	26	4	27		2	0	2
Mean	11	2	11		1	0	1
MJ-2				0.06			
Low Estimate	1	0	1		0	0	0
Best Estimate	7	1	7		1	0	1
High Estimate	36	6	37		3	1	3
Mean	15	2	16		1	0	1
MJ-3				0.07			
Low Estimate	7	2	7		1	0	1
Best Estimate	37	10	39		3	1	3
High Estimate	126	35	132		10	3	10
Mean	56	15	59		4	1	4
MJ-4				0.07			
Low Estimate	1	0	1		0	0	0
Best Estimate	14	3	15		1	0	1
High Estimate	153	35	159		12	3	12
Mean	68	16	70		5	1	5
MJ-5				0.06			
Low Estimate	2	0	2		0	0	0
Best Estimate	10	2	10		1	0	1
High Estimate	37	9	38		3	1	3
Mean	16	4	16		1	0	1
Moinho do Ceu				0.15			
Low Estimate	793	168	821		120	25	124
Best Estimate	3,802	808	3,936		574	122	594
High Estimate	20,080	4,330	20,802		3,032	654	3,141
Mean	8,776	1,859	9,086		1,325	281	1,372
Olivene				0.15			
Low Estimate	766	176	795		91	21	94
Best Estimate	4,393	1,119	4,579		598	158	625
High Estimate	36,930	10,337	38,652		5,501	1,550	5,759
Mean	16,166	4,469	16,911		2,384	665	2,495
Reefs Eastern 2-D				0.25			
Low Estimate	86,510	12,792	88,642		21,301	3,141	21,825
Best Estimate	122,813	18,608	125,914		30,237	4,593	31,002
High Estimate	169,968	26,597	174,401		42,167	6,589	43,265

Recoverable Prospective Resources Targeted (under Maximum Offering) (Company Gross Interest) ⁽¹⁾							
Concession/Prospect Category	Unrisked			Prospect Pg	Risky		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)		Oil (mbbls)	Gas (mmcf)	boe (mboe)
Mean	126,224	19,241	129,431		31,181	4,753	31,973
Reefs Western 2-D				0.15			
Low Estimate	40,738	5,964	41,732		6,010	880	6,157
Best Estimate	58,796	8,815	60,265		8,687	1,300	8,904
High Estimate	82,392	12,714	84,511		12,118	1,872	12,430
Mean	60,430	9,135	61,953		8,919	1,347	9,144
Reefs 3-D				0.29			
Low Estimate	94,277	13,887	96,592		27,572	4,062	28,249
Best Estimate	134,969	20,418	138,372		39,339	5,952	40,331
High Estimate	193,396	30,429	198,467		55,865	8,761	57,325
Mean	140,399	21,477	143,979		40,793	6,235	41,832
São Juliao				0.22			
Low Estimate	1,524	701	1,641		322	150	347
Best Estimate	5,251	2,531	5,673		1,129	546	1,220
High Estimate	14,589	7,078	15,769		3,146	1,528	3,401
Mean	7,003	3,423	7,573		1,507	738	1,630
Sphalerite				0.15			
Low Estimate	309	164	336		44	23	48
Best Estimate	1,485	868	1,630		215	128	236
High Estimate	8,207	5,193	9,072		1,221	783	1,352
Mean	3,553	2,236	3,925		527	335	583
SubTotal ⁽²⁾							
Low Estimate	266,452	49,250	274,659		59,667	9,515	61,252
Best Estimate	451,148	100,396	467,880		92,465	16,380	95,197
High Estimate	1,035,441	292,476	1,084,187		168,795	36,351	174,853
Mean	598,621	153,102	624,139		108,142	21,178	111,671
São Pedro de Muel-2							
Amethyst				0.19			
Low Estimate	2,196	457	2,272		426	89	441
Best Estimate	9,675	2,101	10,025		1,877	408	1,945
High Estimate	31,198	6,878	32,344		6,052	1,334	6,275
Mean	14,146	3,117	14,666		2,744	605	2,845
Azurite				0.16			
Low Estimate	28,748	306,733	79,871		5,145	44,972	12,640
Best Estimate	114,957	755,424	240,861		20,398	109,484	39,645
High Estimate	477,780	1,796,415	777,182		84,088	260,706	127,539
Mean	209,946	937,704	366,230		36,787	136,768	59,582
Emerald				0.20			
Low Estimate	2,253	292,319	50,973		415	60,623	10,519
Best Estimate	18,933	793,458	151,176		3,484	164,814	30,953
High Estimate	175,173	2,251,802	550,474		32,232	469,139	110,422

Recoverable Prospective Resources Targeted (under Maximum Offering) (Company Gross Interest) ⁽¹⁾							
Concession/Prospect Category	Unrisked			Prospect Pg	Risky		
	Oil (mbbls)	Gas (mmcf)	boe (mboe)		Oil (mbbls)	Gas (mmcf)	boe (mboe)
Mean	71,648	1,103,533	255,570		13,183	229,915	51,502
Turquoise				0.19			
Low Estimate	33,827	23,415	37,729		6,322	4,304	7,039
Best Estimate	69,408	48,210	77,443		13,068	8,879	14,548
High Estimate	137,004	99,032	153,509		25,936	18,013	28,939
Mean	79,160	56,155	88,519		14,932	10,273	16,644
SubTotal ⁽²⁾							
Low Estimate	67,024	622,925	170,845		12,307	109,988	30,639
Best Estimate	212,973	1,599,193	479,505		38,827	283,585	86,091
High Estimate	821,155	4,154,127	1,513,509		148,308	749,192	273,174
Mean	374,900	2,100,509	724,985		67,647	377,561	130,573
Cabo Mondego-2							
Moreia Deep				0.22			
Low Estimate	0	29,739	4,956		0	6,424	1,071
Best Estimate	0	81,862	13,644		0	17,682	2,947
High Estimate	0	195,718	32,620		0	42,275	7,046
Mean	0	101,638	16,940		0	21,954	3,659
Sapphire				0.19			
Low Estimate	4,235	605	4,336		822	117	841
Best Estimate	17,468	2,545	17,892		3,389	494	3,471
High Estimate	54,079	8,295	55,462		10,491	1,609	10,760
Mean	24,883	3,727	25,504		4,827	723	4,948
Topaz				0.15			
Low Estimate	12,558	110,439	30,965		2,009	16,320	4,729
Best Estimate	37,306	219,649	73,915		5,969	32,363	11,363
High Estimate	106,649	389,485	171,563		17,064	57,413	26,633
Mean	51,282	237,741	90,905		8,205	35,059	14,048
SubTotal ⁽²⁾							
Low Estimate	16,793	140,783	40,257		2,831	22,861	6,641
Best Estimate	54,775	304,056	105,451		9,358	50,539	17,781
High Estimate	160,729	593,498	259,645		27,555	101,297	44,438
Mean	76,164	343,106	133,349		13,032	57,736	22,655
Total ⁽²⁾							
Low Estimate	386,338	1,169,817	581,306		83,898	253,719	126,185
Best Estimate	835,660	2,890,361	1,317,385		171,732	636,526	277,822
High Estimate	2,446,359	7,532,118	3,701,713		462,743	1,732,676	751,522
Mean	1,242,974	3,835,806	1,882,276		241,473	869,223	386,343

Totals may not add because of rounding.

Notes:

- (1) The Company owns a 100% company gross interest in the Aljubarrota 3, Cabo Mondego 2, and São Pedro de Muel 2 Concessions; it owns a 97.5% Company's gross interest in the Torres Vedras-3 Concession at depths below 400 metres and 87.5% Company's gross interest at depths above 400 metres.

- (2) The resources for each Concession and the total resources are the arithmetic sum of multiple probability distributions.

Undeveloped Land Holdings

The undeveloped land holdings of the Company total 5,844 net km² or 1,444,152 net acres. See “*Narrative Description of the Business - Land Holdings*”.

Production and Marketing

Any commercial production of oil resources by the Company will likely be sold to Galp Energia, the owner and operator of Portugal’s two refineries. An agreement for oil sales between the Company and Galp Energia will have to be negotiated.

The Company also anticipates that any gas production by the Company will be sold to Galp Energia or other third party marketers of gas and transported by the REN gas pipeline that transects the Company’s property holdings. Although numerous discussions between the Company, Galp Energia and REN have taken place with respect to the purchase of any potential future gas production by the Company, no formal purchase agreement can be settled until the Company has established specific gas reserve volumes that can be committed to a gas sales agreement.

All gas transported and sold through the REN pipeline is imported from Algeria (via Spain) or arrives through the REN LNG facility in southern Portugal. The Company believes the pricing of its natural gas will be no less than the imported costs of the imported gas.

Forward Contracts and Future Commitments

The nature of oil and natural gas operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Abandonment and Reclamation Costs

Abandonment and reclamation costs were estimated for all legal obligations associated with the retirement of long lived tangible assets such as wells, facilities and plants based on market prices or on the best information available where no market price was available. As at November 30, 2010, the Company has accrued US\$98,599 as an asset retirement obligation under long term liabilities reflecting the future abandonment costs or reclamation costs of its wells drilled in Portugal.

Tax Horizons

Due to the accumulated net operating losses in both the United States as well as in Portugal, the Company’s management does not expect that it will have current taxable income during the next three years. However, the Company may be susceptible from time to time to alternative minimum tax in the United States which is designed to limit the amount of deductions it may be eligible for to offset possible future income. The Company expects the overall cash impact to be immaterial.

Environment

The Company carries out its activities and operations in compliance with all relevant and applicable environmental regulations and best industry practice. At present, the Company believes that it meets all applicable environmental standards and regulations and has included appropriate amounts in its capital expenditure budget to continue to meet its continuing environmental obligations. See “*Industry Conditions - Environmental Regulation*” and “*Risk Factors - Risks Related to the Company and its Business - Environmental*”.

INDUSTRY CONDITIONS

Portugal Overview

Portugal has been a member of the EU since 1986. Portugal’s membership in the EU contributed to economic growth, largely through increased trade and an inflow of EU funds for infrastructure improvements. Until 2001, average annual growth rates consistently exceeded those of the EU average. However, due to slower economic growth, Portugal has lost some ground relative to the rest of the EU since 2002. In order to enter the European Monetary Union (the “**EMU**”) in January 1999, Portugal agreed to cut its fiscal deficit and undertake structural reforms. The EMU brought exchange rate stability, lower inflation and lower interest rates. Falling interest

rates, in turn, lowered the cost of public debt and helped the country achieve its fiscal targets. The Portuguese government has made statements recently that it intends to reduce its annual deficits and control its debt by taking such measures as wage moderation in the public sector and capping personal and company tax breaks to raise extra revenues. The Company does not believe this will materially affect its plan or operations.

Portugal's economy is based on traditional industries such as textiles, clothing, footwear, cork and wood products, beverages (wine), porcelain and earthenware and glass and glassware. In addition, the country has increased its role in Europe's automotive sector and has a world-class mould-making industry. Services, particularly tourism, are playing an increasingly important role. The government is working to change Portugal's economic development model from one based on public consumption and public investment to one focused on exports, private investment and development of the high-tech sector.

Portugal Facts

The following is a brief summary of the economic and energy market conditions encountered in conducting oil and natural gas operations in Portugal. Information in this section has been taken from public sources, including the United States Energy Information Administration and www.cia.gov.

Total Area ⁽¹⁾	92,010 km ² (22,737,000 ac)
Population ⁽¹⁾	10.7 Million (July 2010 estimate)
GDP ⁽¹⁾	US\$ 227.9 billion (2009 estimate, nominal basis)
Currency	Euro

Oil and Gas Exploratory Area ⁽²⁾	
Onshore	~ 26,000 km ² (6,245,000 ac)
Offshore	~ 93,000 km ² (22,982,000 ac)
Overall	~ 119,000 km ² (29,407,000 ac)
Area Under Concession	~ 33,000 km ² (8,155,000 ac)
Concession as % of Total	~ 28%

Total Consumption ⁽³⁾	
Oil	271 mbbls/d (2009)
Gas	468 mmcf/d (2009)

Sources:

- (1) CIA Work Handbook (www.cia.gov).
- (2) The Company's estimate.
- (3) www.eia.gov/country/country_energy_data.cfm?fips=PO.

Portugal's Oil and Gas Industry

Portugal has approximately 119,000 km² of sedimentary areas of which roughly 93,000 km² are located offshore. These areas are spread across more than eight sedimentary basins, of which four are considered to be the main basins for exploration and production activities (five of which are offshore). Concessions for exploration and production have been granted for only approximately 33,000 km², or approximately 28% of these areas. To date, 126 wells have been drilled in Portugal (Source: DGEG). In comparison, 57,177 wells were drilled in the US in 2008, with a ten year average (1999-2008) of 38,536 wells drilled per year (Source: U.S. Energy Information Administration).

Although Portugal consumed only 468 mmcf/d of gas in 2009, the country's consumption has grown rapidly since 2000 (6.0% compound annual growth rate from 2000 to 2009). Natural gas was largely unavailable as a fuel source until the late 1990s. However, the introduction of the Magrheb pipeline from Algeria, and the opening of an LNG regas terminal at Sines have changed the country's energy consumption mix considerably. Approximately one-half of Portugal's natural gas consumption is served by LNG, the majority of which came from Nigeria in 2009. Crude oil consumption at 271 mbbls/d in 2009 has been essentially flat, yet crude remains the largest component of the country's energy mix (Source: US Energy Information Administration).

Portugal has two refineries, both operated by Galp Energia. Located in the town of Sines and the city of Porto, the facilities have a combined capacity of 340,000 bbl/d. The two refineries are located within 40 to 90 km of the Company's Concessions. Galp Energia also controls the retail market for refined oil and a significant portion of the gas products. REN operates the country's gas pipeline

network which consists of a 28 inch gas pipeline (1,267 km long) with present throughput capacity of approximately 450 mmcf/d that runs the length of the Company's Concession holdings. There are no oil and gas production activities in Portugal at this time. The Company intends to sell any gas or oil production to Galp Energia or other natural gas marketers and has had multiple discussions in that regard, but under the terms of the Company's Concessions it also may freely dispose of any production through export.

Government Royalty Regime

Royalties on oil production in Portugal are applied on a sliding scale basis and on an individual field basis. The applied sliding scale is dependent on whether the production is onshore or offshore. The government is entitled to a revenue based royalty on a sliding scale basis on gas or condensate production in a given gas field after the concession holder has recovered investment and operating costs related to the field.

For onshore oil production there is no royalty on the first 6,125 bbl/d produced from a given field. The royalty rate for the incremental daily production from the field that is between 6,125 and 10,200 bbl/d is 6%. The royalty rate for the incremental field production that exceeds 10,200 bbl/d is 9%.

For offshore oil production that is in a water depth of less than 200 metres, there is no royalty on the first 10,200 bbl/d from a given field. For all production from the field that exceeds 10,200 bbl/d the royalty rate is 10%.

For gas and condensate production, whether onshore or offshore, the government's revenue based royalty is 2% for the first 5 mmboe of total production from a given field after the concession holder has recovered investment and operating costs related to the field. The government's revenue based royalty increases to 5% for the incremental total production from the field between 5 mmboe and 10 mmboe. For all production volumes that exceed 10 mmboe from a given field the government's revenue based royalty is 7%.

Summary of Oil and Gas royalties

The Portuguese government royalties apply on a sliding-scale basis on each individual oil field as follows:

Onshore Oil Production

No royalty for increment of field production that is <6,125 bbl/d;

6% for increment of field production between 6,125 and 10,200 bbl/d;

9% for increment of field production that is >10,200 bbl/d.

Offshore Oil Production (water depths <200m)

No royalty on production for field production of <10,200 bbl/d;

10% royalty for increment of field production that is >10,200 bbl/d.

Government is entitled to a royalty on a sliding-scale basis in each individual gas and condensate field, after the concessionaire recovers investment and operating cost related to each field, as follows:

Gas and Condensate Production (Onshore and Offshore, all water depths)

2% in each field until cumulative field production is 5 mmboe;

5% for the increment of cumulative field production between 5 mmboe to 10 mmboe;

7% for the increment of cumulative field production that exceeds 10 mmboe of total field production.

Taxes

The present income tax rate on corporate net profits in Portugal is 25% and may be subject to a municipal surcharge of up to 1.5% for a maximum possible effective tax rate of 26.5%. There is no minimum tax assessment in Portugal at this time. A 23% value added tax ("IVA") is levied on goods and services purchased in Portugal. However, this tax is a pass through tax and is expected to be recovered through possible future hydrocarbons sales as well as through an early IVA recovery program.

Environmental Regulation

Portugal has environmental standards and guidelines for the oil and gas industry. Environmental permits are not required for onshore exploration wells, but all drilling proposals must include details of plans for handling drilling fluids, site preparation and site restoration and must be approved by the government agency that administers all oil and gas concessions. Environmental permits are required for offshore wells. Well proposals must also include an emergency response plan. All field development plans must include

an environmental assessment of the impact of production activities on the local area. However, production testing of oil or gas from a new discovery may be conducted without an environmental assessment.

The Company is currently not subject to any environmental liability. As at November 30, 2010, the Company has accrued US\$98,599 as an asset retirement obligation under long term liabilities reflecting the future abandonment costs or reclamation costs of its wells drilled in Portugal.

Industry Trends

During the past several years, several trends have developed in the oil and gas industry in Portugal and elsewhere in the world. These trends appear to be shaping the near future of the industry.

Volatility of commodity prices. Oil and gas prices are influenced by the world economy and the Organization of the Petroleum Exporting Countries' ability to adjust supply to world demand. Recently, oil and gas prices have been kept high as a result of strong and growing demand and political uncertainty.

Commodity price volatility has had a significant impact on the oil and gas industry. During periods of high oil and gas prices, producers generate sufficient cash flows to conduct active exploration programs without the need for external capital. Increased commodity prices frequently translate into busy periods for service providers triggering premium costs for their services. Purchase prices for properties and land similarly increase during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service providers also decline.

Oil and Gas Companies Operating in Portugal

In addition to the Company, several other oil and gas companies have recently begun to conduct operations in various basins in Portugal.

A consortium of Braspetro Petrobras Internacional, S.A. ("**Petrobras**"), Partex Oil and Gas (Holdings) Corporation and Galp Energia have begun operations on four new offshore concessions in the Peniche Basin located just west of the Lusitanian Basin and off the central west coast. Petrobras is the operator and the concession area is approximately 12,159 km². These operators are targeting opportunities in deep water (greater than 1,000 metres). In 2008, the consortium acquired 8,400 km and reprocessed an additional 5,859 km of 2D seismic. Based on the interpretation of the 2D seismic, the consortium acquired 2,096 km² 3D seismic in 2010.

Petrobras and Galp Energia have also begun operations on three new offshore concessions in the Alentejana Basin. Petrobras is the operator and the concession area is approximately 9,099 km². These operators are targeting opportunities in deep water (greater than 1,000 metres). In 2008, the consortium acquired 3,307 km of 2D seismic.

In addition, a consortium of Repsol YPF, S.A. (Spain) and RWE Dea AG (Germany) are preparing to initiate operations on two offshore concessions in the Algarve Basin off the southern coast of Portugal.

Farmin, Farmout and Participation Agreements

Companies in the oil and natural gas industry may assign their interests in a particular exploration block, in whole or in part, through agreements known as farmin and farmout agreements, or participation agreements, subject to obtaining the required consent from the Portugal authorities, the Concession agreement, the consortium agreement and joint operating agreement for such block. Such an approach is common in the oil and gas industry and the increasing participation of domestic and foreign private investors allows for future growth of partnership opportunities.

Insurance

The Company has in place what it believes is adequate general liability insurance for its current operations.

SELECTED FINANCIAL INFORMATION AND OPERATING RESULTS

The following table sets out certain financial information and operating results of the Company for the periods indicated. This information has been derived from the financial statements appearing elsewhere in this Prospectus. These results should also be read in conjunction with the disclosure under the heading "*Management's Discussion and Analysis*". The operating results for these periods

should not be relied upon as any indication of results for any future periods. Also refer to the “*Financial Statements of the Company*” beginning on page A-1 of this Prospectus.

Summary of Financial Results

	Three Months Ended November 30,	Year Ended August 31,		
	2010 (US\$)	2010 (US\$)	2009 (US\$)	2008 (US\$)
Revenues	1,221	4,243	2,566	94,118
Cash flow from operations	(694,225)	(4,010,275)	612,475	(2,534,711)
Net loss ⁽¹⁾	(913,709)	(3,148,775)	(4,273,846)	(2,642,676)
Comprehensive income (loss)	(1,279,202)	2,017,285	(4,759,900)	(4,414,256)
Capital expenditures, net of related accounts payable	2,094,112	3,742,673	814,212	9,814,310
Oil and gas production ⁽²⁾	Nil	Nil	Nil	Nil
Basic and diluted income (loss) per share	(0.01)	0.03	(0.16)	(0.16)

Balance Sheet Data

Total assets	38,765,642	39,743,689	32,874,530	27,635,943
Long term liabilities ⁽³⁾	98,599	98,065	92,184	86,302
Cash and cash equivalents	471,236	3,315,591	45,510	110,663
Working capital (deficiency)	(1,106,145)	1,866,842	(14,177,022)	(8,394,853)

Notes:

- (1) Before income taxes and gain on settlement of debt.
- (2) The Concessions are currently undergoing exploration and appraisal.
- (3) Consists of asset retirement obligation for future well abandonment costs.

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following management’s discussion and analysis (“**MD&A**”), which is given as of the date of this Prospectus, should be read in conjunction with the Company’s audited and unaudited consolidated financial statements and related notes appearing elsewhere in this Prospectus and the selected unaudited financial information of the Company appearing under the heading “*Selected Financial Information and Operating Results*”. All dollar figures in the MD&A are expressed in US Dollars unless otherwise indicated.

Certain information contained in management’s discussion and analysis of the Company’s financial condition and results of the Company’s operations constitute forward-looking statements. These statements relate to future events or to the Company’s future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the Company’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. See “*Special Note Regarding Forward-Looking Statements*” and “*Risk Factors*”. All Common Share numbers and related per share amounts (including option and warrant exercise prices) have been restated in this Prospectus to reflect the effects of the Consolidation and the Amalgamation.

Overall Performance

The Company, through its wholly owned subsidiary, MOGC, is engaged in international exploration, development and production of oil and natural gas with a focus on the Aljubarrota-3, Torres Vedras-3, São Pedro de Muel-2, Cabo Mondego-2, and Rio Maior-2 oil and gas Concessions in Portugal. The Concessions cover 1,444,152 acres on a net basis. The Company is currently completing and interpreting a 240 km² 3D seismic program on its Aljubarrota-3 and Torres Vedras-3 Concessions in anticipation of its 2011-2012 exploration and development work programs.

The following selected financial data is derived from the audited and unaudited consolidated financial statements of the Company appearing elsewhere in this Prospectus.

Selected Annual Information

	Year Ended August 31,		
	2010 (US\$)	2009 (US\$)	2008 (US\$)
Revenue	4,243	2,566	94,118
Cash flow from operations	(4,010,275)	612,475	(2,534,711)
Net loss ⁽¹⁾	(3,148,775)	(4,273,846)	(2,642,676)
Comprehensive loss	2,017,285	(4,759,900)	(4,414,256)
Capital expenditures, net of related accounts payable	3,742,673	814,212	9,814,310
Basic and diluted loss per share	0.03	(0.16)	(0.16)
Balance Sheet Data			
Total assets	39,743,689	32,874,530	27,635,943
Long term liabilities ⁽²⁾	98,065	92,184	86,302
Cash and cash equivalents	3,315,591	45,510	110,663
Working capital (deficiency)	1,866,842	(14,177,022)	(8,394,853)

Notes:

- (1) Before provision on income taxes and gain on settlement of debt.
(2) Consists of asset retirement obligation for future well abandonment costs.

During the year ended August 31, 2008, the Company commenced exploration and development activities in Portugal including 3D seismic and drilling. Approximately 40 km² of its 3D seismic survey was completed over the reef trend in the Torres Vedras-3 Concession as well as four shallow appraisal/development wells in early 2008. The Company started to incur mobilization and standby charges for drilling and seismic equipment while it attempted to raise additional capital. The Company had difficulty raising capital during the early part of 2008 when the markets were volatile. As a result, the Company continued to incur material standby charges through 2008 and into 2009. The Company's working capital deficit grew to US\$14,177,022 by August 31, 2009. During the year ended August 31, 2010, the Company settled with the majority of creditors through cash and Common Share payments and ended the year with working capital of US\$1,866,842.

The Company's comprehensive loss increased from US\$4,414,256 during the year ended August 31, 2008 to US\$4,759,900 during the year ended August 31, 2009 while the Company had comprehensive income of US\$2,017,285 during the year ended August 31, 2010. The Company experienced comprehensive income during the most recent year end primarily due to the gain on settlement of debt of US\$6,198,869 as part of the Company's reorganization.

During the year ended August 31, 2009, the Company's operating costs decreased as it substantially curtailed its exploration and development activities but did incur US\$821,098 in stock based compensation for the pricing of stock options and US\$2,138,210 charge associated with the extension of warrants from a previous financing. These two non-cash expenses increased the loss and comprehensive loss by US\$2,959,308. During the year ended August 31, 2010, the Company's general and administrative expenses increased by US\$1,197,169 as it commenced its exploration and development activities and professional fees increased by US\$542,645 as the Company incurred legal and audit costs associated with its reorganization and preparing for the filing of the preliminary long form prospectus.

Selected Quarterly Information

	Nov 30, 2010 (US\$)	Aug 31, 2010 (US\$)	May 31, 2010 (US\$)	Feb 28, 2010 (US\$)
Revenue	1,221	2,784	1,002	248
Cash flow from operations	(694,225)	(2,719,260)	(582,768)	(292,722)
Net loss ⁽¹⁾	(913,709)	(887,731)	(1,355,886)	(560,727)
Comprehensive income (loss)	(1,279,202)	(1,221,158)	(1,934,413)	5,337,311
Capital expenditures, net of related accounts payable	2,094,112	267,955	552,607	1,316,845
Basic and diluted loss per share	(0.01)	(0.01)	(0.02)	0.11

	Nov 30, 2010 (US\$)	Aug 31, 2010 (US\$)	May 31, 2010 (US\$)	Feb 28, 2010 (US\$)
Balance Sheet Data				
Total assets	38,765,642	39,743,689	41,559,763	37,097,433
Long term liabilities ⁽²⁾	98,599	98,065	96,595	95,125
Cash and cash equivalents	471,236	3,315,591	6,297,475	2,169,236
Working capital deficiency	(1,106,145)	1,866,842	3,654,615	(77,248)

	Nov 30, 2009 (US\$)	Aug 31, 2009 (US\$)	May 31, 2009 (US \$)	Feb 28, 2009 (US\$)
Revenue	209	740	520	680
Cash flow from operations	(414,525)	155,989	466,478	(10,390)
Net loss ⁽¹⁾	(344,431)	(341,627)	(2,590,275)	(1,164,489)
Comprehensive income (loss)	(164,455)	(804,053)	(1,936,761)	(1,503,006)
Capital expenditures, net of related accounts payable	1,605,266	(150,162)	581,844	50,693
Basic and diluted loss per share	(0.00)	(0.03)	(0.06)	(0.05)

Balance Sheet Data				
Total assets	33,985,277	32,874,530	32,872,626	32,262,009
Long term liabilities ⁽²⁾	93,654	92,184	90,714	89,243
Cash and cash equivalents	59,369	45,510	37,970	16,640
Working capital deficiency	(15,916,099)	(14,177,022)	(13,047,020)	(13,560,227)

Notes:

- (1) Before provision on income taxes and gain on settlement of debt.
(2) Consists of asset retirement obligation for future well abandonment costs.

Results of Operations

Three Months Ending November 30, 2010 as compared to the Three Months Ending November 30, 2009

Revenues

Revenue during the three months ended November 30, 2010 was US\$1,221 as compared to US\$209 in the comparative period in 2009. Revenue is composed primarily of interest income from cash on hand. Whereas the Company has not yet established commercial oil and gas production from the Concessions in Portugal, its sources of revenue are not of a recurring consistent nature.

General and Administrative Expense ("G&A")

G&A expense for the three months ended November 30, 2010 was US\$726,017 as compared to US\$213,938 for the same period in the prior year. The increase in G&A expense for the three months ended November 30, 2010 was a result of hiring additional management and operations staff, higher office expenses from new office facilities and increased travel costs as a result of the increased activity of the Company compared to prior period when the Company was in cash conservation mode.

Stock Based Compensation

Stock compensation expense for the three months ended November 30, 2010 was US\$60,976 compared to US\$nil in the three months ended November 30, 2009. In 2010, stock compensation expense related to the grant of 11,150,000 stock options to officers, directors, employees and consultants, subject to vesting.

Professional Fees

Legal, audit and engineering related expenses totalling US\$135,774 were incurred in the three months ended November 30, 2010 as compared to US\$34,708 for the three month comparative period in 2009. Professional fees related to the Company's recent audit,

independent resource report and preparation of a long form preliminary prospectus and general corporate matters in the current period as compared to general corporate matters in the comparative period.

Interest Expense

Interest expense for the three months ended November 30, 2010 was US\$101 as compared to US\$28,090 in the comparative period in 2009. Interest expense during the comparative period reflects interest accrued on outstanding loans and related party loans all of which were repaid during the year ended August 31, 2010.

Foreign Currency Translation

Foreign currency translation gains for the three months ended November 30, 2010 was US\$11,400 compared to a translation loss of US\$63,656 in the comparative period in 2009. The foreign currency unrealized gains and losses reflect the changing value of the Canadian dollar/Euro versus the US dollar at the respective period ends, in which the Company maintains its accounts.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expenses of US\$3,462 were recorded during the three months ended November 30, 2010 as compared to US\$4,248 during the comparative period in 2009. These amounts largely reflect the non-cash accretion expense for future abandonment costs for prior wells drilled in Portugal.

Net Loss Before Income Taxes and Gain on Settlement of Debt

The Company recorded a net loss for the three months ended November 30, 2010 of US\$913,709 as compared to US\$344,431 for the three months ended November 30, 2009. As the Company is in the exploration and development phase, there is currently no oil and natural gas producing properties from which to generate revenues. The Company's net losses for the three months was generated primarily from G&A expenses including salaries, office costs and travel costs in addition to professional fees and stock based compensation. The fair value of stock based compensation was a non-cash expense in the current period.

Provision on Income Tax

The Company recorded a provision for income taxes in the amount of US\$365,493 during the three months ended November 30, 2010 as compared to a provision of US\$245,081 in the comparative period in 2009. The provisions are a result of differences between the tax and book values of property and equipment due to certain property and equipment assets and are non-cash items.

Gain on Settlement of Debt Expense

The Company recorded a non-recurring gain on the settlement of debt of US\$425,057 during the three months ended November 30, 2009 as compared to no such gain during the current period. The gain was a result of settling outstanding accounts payable and accrued liabilities at discounts to the recorded value through the payment of cash in the prior period when the Company was in the process of implementing a reorganization.

Comprehensive Loss

The Company recorded comprehensive loss for the three months ended November 30, 2010 of US\$1,279,202 as compared to a comprehensive loss of US\$164,455 in the comparative period in 2009. The difference between net loss and comprehensive loss is comprised of the non-recurring gain on the settlement of debt and provisions for income taxes.

Year Ending August 31, 2010 as compared to the Year Ending August 31, 2009

Revenues

Revenue during the year ended August 31, 2010 was US\$4,243 as compared to US\$2,566 in the comparative year. Revenue is composed primarily of interest income from cash on hand. Whereas the Company has not yet established commercial oil and gas production from the Concessions in Portugal, its sources of revenue are not of a recurring consistent nature.

General and Administrative Expense ("G&A")

G&A expense for the year ended August 31, 2010 was US\$2,250,528 as compared to US\$1,053,359 for 2009. The increase in G&A expense for the year ended August 31, 2010 was a result of hiring of additional management and operational team members, new office facilities and increased travel costs as a result of the increased activity of the Company compared to prior year when the Company was in cash conservation mode.

Stock Based Compensation

Stock compensation expense for the year ended August 31, 2009 was US\$821,098 as compared to no such expense for the current year. Stock compensation expense related to the pricing of 1,105,426 stock options to officers, directors, employees and consultants in 2009.

Professional Fees

Legal, audit and engineering related expenses totalling US\$706,228 were incurred in the year ended August 31, 2010 as compared to US\$163,583 for the year ended August 31, 2009. Professional fees related to the Company's recent audit, engineering and preparation of a long form preliminary Prospectus and general corporate matters in the current periods as compared to general corporate matters in the comparative period.

Interest Expense

Interest expense for the year ended August 31, 2010 was US\$102,739 as compared to US\$83,385 in the comparative year. Interest expense during both years reflects interest accrued on outstanding loans and related party loans all of which were repaid during the year ended August 31, 2010.

Foreign Currency Translation

Foreign currency translation loss for the year ended August 31, 2010 was US\$77,073 as compared to a translation gain of US\$213 in 2009. The foreign currency unrealized gains and losses reflect the changing value of the Canadian dollar/Euro versus the US dollar at the respective period ends, in which the Company maintains its accounts.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expenses of US\$16,450 were recorded during the year ended August 31, 2010 as compared to US\$16,990 during the comparative year. These amounts largely reflect the non-cash accretion expense for future abandonment costs for prior wells drilled in Portugal.

Net Loss Before Income Taxes and Gain on Settlement of Debt

The Company recorded a net loss for the year ended August 31, 2010 of US\$3,148,775 as compared to US\$4,273,846 for the year ended August 31, 2009. As the Company is in the exploration and development phase, there is currently no oil and natural gas producing properties from which to generate revenues. The Company's net losses for the years was generated primarily from G&A expenses including salaries, office costs and travel costs in addition to professional fees, the fair value of warrant extensions and stock based compensation. The fair value of warrant extensions and stock based compensation were non-cash expenses in the prior year.

Provision on Income Tax

The Company recorded a provision for income taxes in the amount of US\$1,032,809 during the year ended August 31, 2010 as compared to a provision of US\$1,389,354 in the comparative year. The provisions are a result of differences between the tax and book values of property and equipment due to certain property and equipment assets and are non-cash items.

Gain on Settlement of Debt Expense

The Company recorded a non-recurring gain on the settlement of debt of US\$6,198,869 during the year ended August 31, 2009 as compared to US\$903,300 in such gains during 2009. The gain was a result of settling outstanding accounts payable and accrued liabilities at discounts to the recorded value through the payment of cash and Common Shares.

Comprehensive Loss

The Company recorded comprehensive income for the year ended August 31, 2010 of US\$2,017,285 as compared to a comprehensive loss of US\$4,759,900 in the comparative period in 2009. The difference between net loss and comprehensive income/loss is comprised of the non-recurring gain on the settlement of debt and provisions for income taxes.

Twelve Months Ending August 31, 2009 as compared to the Twelve Months Ending August 31, 2008

Revenues

Revenue during the year ended August 31, 2009 was US\$2,566 as compared to US\$94,118 in the comparative 2008 year. Revenue is composed primarily of interest income from cash on hand. Whereas the Company has not yet established commercial oil and gas production from the Concessions in Portugal, its sources of revenue are not of a recurring consistent nature.

General and Administrative Expense ("G&A")

G&A expense for the year ended August 31, 2009 was US\$1,053,359 as compared to US\$1,890,603 for the year ended August 31, 2008. The decrease in G&A expense was a result of cost cutting measures during 2009 as compared to 2008 when the Company's exploration and development efforts were active during the first two quarter of 2008.

Stock Based Compensation

Stock compensation expense for the year ended August 31, 2009 was US\$821,098 as compared to no such expense for the year ended August 31, 2008. Stock compensation expense related to the pricing of 1,105,426 stock options to officers, directors, employees and consultants.

Professional Fees

Legal and audit related expenses totalling US\$163,583 were incurred in the year ended August 31, 2009 as compared to US\$1,205,534 for the comparative year ended August 31, 2008. Professional fees related to general corporate matters in the current year while in the comparative year the increase of US\$1,041,951 was largely related to the preparation and filing of a preliminary long form prospectus which was withdrawn in early 2008 as a result of markets conditions.

Interest Expense

Interest expense for the years ended August 31, 2009 and 2008 were US\$83,385 and US\$68,926, respectively, for interest accrued and paid on outstanding loans and related party loans.

Fair Value of Warrant Extension Expense

During the year ended August 31, 2009, the Company extended the expiry dates of certain warrants by one year, which has since expired. A fair value of US\$2,138,210 was calculated for the warrants extension during the year ended August 31, 2009 based on the Black-Scholes option-pricing model. There was no such expense during 2008 and the Company considers this non-cash transaction as non-recurring.

Foreign Currency Translation

Foreign currency translation gains for the years ended August 31, 2009 and 2008 were US\$213 and US\$452,439, respectively. The foreign currency unrealized gains reflects the changing value of the Canadian dollar/Euro versus the US dollar at the respective period ends, in which the Company maintains its accounts.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expenses of US\$16,990 and US\$24,170 were recorded during the years ended August 31, 2009 and 2008, respectively. These amounts primarily reflect the non-cash accretion expense for future abandonment costs for prior wells drilled in Portugal.

Net Loss Before Income Taxes and Gain on Settlement of Debt

The Company recorded a net loss for the year ended August 31, 2009 of US\$4,273,846 as compared to a net loss of US\$2,642,676 for the comparative year ended August 31, 2008. As the Company is in the exploration and development phase, there is currently no oil and natural gas producing properties from which to generate revenues. The Company's net losses for the two years was generated primarily from G&A expenses including salaries, office costs and travel costs in addition to professional fees, fair value of warrant extensions and stock based compensation. The fair value of warrant extensions and stock based compensation were non-cash expenses in 2009.

Provision on Income Tax

The Company recorded a provision for income taxes of US\$1,389,354 for the year ended August 31, 2009 and US\$1,771,580 during the comparative year in 2008. The provisions are a result of differences between the tax and book values of property and equipment due to certain property and equipment assets and are non-cash items.

Gain on Settlement of Debt Expense

The Company recorded a non-recurring gain on the settlement of debt US\$903,300 during the year ended August 31, 2009 as compared to no such gains during the year ended August 31, 2008. The gain was a result of settling one outstanding accounts payable and accrued liability at discounts to the recorded value through the issuance of Common Shares.

Comprehensive Loss

The Company recorded a comprehensive loss for the year ended August 31, 2009 of US\$4,759,900 as compared to US\$4,414,256 in the comparative year in 2008. The difference between net loss and comprehensive loss is comprised primarily of the non-recurring gain on the settlement of debt and provisions for income taxes.

Capital Expenditures

	Three Months Ended November 30,		Year Ended August 31,	
	2010	2009	2010	2009
	(US\$)	(US\$)	(US\$)	(US\$)
Capital Expenditures				
Acquisition of Property and Equipment	\$2,009,942	\$1,106,490	\$2,417,557	\$5,931,792
Accounts Payable and Accrued Liabilities	\$84,170	\$498,776	\$1,325,116	(\$5,117,580)
	<u>\$2,094,112</u>	<u>\$1,605,266</u>	<u>\$3,742,673</u>	<u>\$814,212</u>

During the three months ended November 30, 2010, the Company invested a total of US\$2,094,112 in property and equipment, net of related accounts payable, as compared to US\$1,605,266 in related investment for the comparative period in 2009. During 2010, the Company's investment primarily related to the permitting, surveying and acquisition of the Torres Vedras-3 and Aljubarrota-3 3D seismic programs. During the comparable period ended November 30, 2009, the costs primarily related to the buyout of two working interest partners in the oil and gas Concessions.

During the year ended August 31, 2010, the Company invested a total of US\$3,742,673 in property and equipment, net of related accounts payable, as compared to US\$814,212 for the year ended August 31, 2009. During 2010, the expenditures comprised of the acquisition costs from the buyout of two working interest partners in the oil and gas Concessions, the processing of existing 3D seismic data and the permitting of the 3D seismic work program currently underway. During 2009, the Company incurred the balance of expenditures from its 2008 work program which was primarily standby charges for drilling and seismic equipment and personnel and continued evaluation and planning for its work programs on the oil and gas Concessions.

A liability has been recorded for future abandonment and remediation work at well sites. The asset retirement obligation at November 30, 2010 was US\$98,599.

Liquidity and Capital Resources

At November 30, 2010, the Company had a working capital deficit of US\$1,106,145 and cash of US\$471,236 as compared to working capital of US\$1,866,842 and cash of US\$3,315,591 at August 31, 2010. Working capital decreased as a result of the comprehensive loss of US\$1,279,202 and net cash used in property equipment of US\$2,094,112 during the three months ended November 30, 2010.

During the year ended August 31, 2010, the Company completed private placements for gross proceeds of US\$7,790,000 and settled US\$5,516,717 of debt by issuing Common Shares. There were no capital transactions during the year ended August 31, 2009.

Until commercial oil and gas production is established, current revenue sources are based on investment income from the short term investment of cash.

The Company anticipates securing adequate financing in 2011, including this Offering, to undertake the exploratory and appraisal drilling work programs, however there can be no assurance that the Company will succeed as planned. If the Company is unable to secure adequate financing to continue with operations as planned, the Company may elect to suspend all or part of its field operations in Portugal, in addition to imposing further working capital requirement reductions sufficient to maintain operations on a minimal basis until adequate financing is secured.

As the Company is in the exploration and development phase of operations, the Company has incurred negative cash flow from operations since its inception. Through the proceeds of the Offering, the Company anticipates having sufficient funds on hand to sustain operations for a period of approximately twenty months following Closing in addition to all material capital expenditures currently contemplated under the Company's business strategy. See "Use of Proceeds" for further details of the Company's intended operating and material capital costs to be funded by the Offering.

Off Balance Sheet Transactions

The Company does not have any off balance sheet arrangements.

Related Party Transactions

The related party transactions for the three months ended November 30, 2010 were:

- (a) Included in related party payables as at November 30, 2010 is approximately US\$83,000 (August 31, 2010 - US\$107,000) in unpaid out of pocket expenses to the Company's Executive Vice President. Subsequent to November 30, 2010, all outstanding amounts owed to the Executive Vice President were paid in full.
- (b) The Company has retained a law firm to provide it with legal services where a director and officer of the Company is a partner of this law firm. Legal fees were incurred by the Company to the law firm for the three months ended November 30, 2010 of approximately US\$20,000 (2009 - US\$nil). Included in accounts payable and accrued liabilities as at November 30, 2010 is US\$80,000 (August 31, 2010 - US\$60,000).
- (c) During the three month period ended November 30, 2010, the Company recorded US\$16,444 (2009 - US\$23,000) rent expense for the use of office space and furniture and equipment to corporations with common officers and directors. Included in accounts payable and accrued liabilities at November 30, 2010 is US\$nil (August 31, 2010 - US\$514).
- (d) For the three months ended November 30, 2010, the Company incurred US\$nil (2009 - US\$30,234) in consulting fees and salary directly to a private Company controlled by a former director of the Company. There are no outstanding balances related to these service fees and salary at November 30, 2010 or at August 31, 2010.
- (e) During the three month period ended November 30, 2010, the Company recorded US\$nil (2009 - US\$5,700) as consulting fees payable to a company owned by the former Chief Financial Officer. There were no outstanding balances related to these consulting fees included in related party payables as at November 30, 2010 or August 31, 2010.

Transactions (a) through (e) are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The related party transactions for the year ended August 31, 2010 were as follows:

- (a) For the year ended August 31, 2010, the Company incurred US\$30,234, (2009 - US\$81,446) and for the year ended August 31, 2009, the Company incurred a total of US\$81,446 (2008-\$108,592) in consulting fees and salary directly or to a private Company controlled by a director of the Company. Included in related party payables at August 31, 2010 is US\$nil, (2009 - US\$176,562). During the year ended August 31, 2010, US\$171,650 of consulting fees was settled through the issuance of 858,250 Common Shares.
- (b) For the year ended August 31, 2010 the Company incurred a total of US\$165,000 (2009 - US\$165,000, 2008 - US\$165,000) in salaries to the Executive Vice President (formerly Chief Executive Officer). For the year ended August 31, 2010 the Company incurred a total of US\$140,000 (2009 - US\$140,000, 2008 - US\$140,000) in salaries to the Vice President, Exploration. The Executive Vice President and Vice President, Exploration received only partial cash payment of their salaries during the years ended August 31, 2008 and 2009. During the year ended August 31, 2010, the Executive Vice President settled US\$160,000 in outstanding salary through the issuance of 800,000 Common Shares and the Vice President, Exploration settled US\$115,667 in outstanding salary through the issuance of 578,335 Common Shares. Included in related party payables as at August 31, 2010 is approximately US\$107,000, (2009 - US\$622,984) in unpaid salaries and out of pocket expenses.
- (c) The Company had retained an accounting firm to provide the Company with taxation services where a former director of the Company is a partner. For the year ended August 31, 2010, fees in the amount of US\$nil (2009 - US\$2,366, 2008 - US\$21,751) were incurred by the Company for the year ended August 31, 2009 and recorded as professional fees. Included in accounts payable and accrued liabilities at August 31, 2010 is US\$nil (2009 - US\$11,388). During the year ended August 31, 2010, US\$11,388 of professional fees was settled through the issuance of 13,079 Common Shares.
- (d) The Company has retained a law firm to provide the Company with legal services where a director of the Company is a partner of this law firm. Legal fees were incurred by the Company to the law firm for the year ended August 31, 2010 in the amount of US\$146,318 (2009 - US\$47,301, 2008 -\$672,237) were incurred by the Company to the law firm for professional fees. Included in accounts payable and accrued liabilities as at August 31, 2010 is US\$60,000 (2009 - US\$557,407). During the year ended August 31, 2010, the Company settled its outstanding account of approximately US\$600,000 by paying US\$100,000 in cash and issuing 1,000,000 Common Shares.
- (e) During the year ended August 31, 2010, the Company recorded US\$3,778 (2009 - US\$23,837) and during the year ended August 31, 2009, the Company recorded US\$23,837 (2008 - US\$19,864) as consulting fees payable to a company owned by the former Chief Financial Officer. Included in related party payables as at August 31, 2010 is US\$nil (2009 - US\$40,119). During the year ended August 31, 2010, US\$49,560 of consulting fees was settled through the issuance of 247,800 Common Shares.
- (f) During the year ended August 31, 2010, the Company recorded US\$33,502 (2009 - US\$nil, 2008 - US\$26,518) rent for the use of office space and furniture and equipment to corporations with common officers and directors. Included in accounts payable and accrued liabilities at August 31, 2010 is US\$514, (2009 - US\$3,067).
- (g) During the year ended August 31, 2008, the Company repaid in full a loan to a close family relative of the Chief Executive Officer of the Company in the amount of US\$125,000. The loan was unsecured and had no principal repayment schedule. Interest was paid annually at the rate of 8.32%.
- (h) The Company has granted to certain persons including current and former employees, directors, and officers of the Company NPIs on its oil and gas Concessions in consideration for various services and expertise in assisting the Company in securing existing concession agreements. The NPI agreements are in the form of participation whereby the employee is not required to fund a proportional share of capital expenditures on the project. On January 4, 2008, the Company issued 250,566 Common Shares and 1,315,474 Performance Warrants for acquisition of the NPIs. During the year ended August 31, 2009, all outstanding performance warrants were surrendered for NPIs. As at August 31, 2009, there are no outstanding performance warrants. During the year ended August 31, 2010, the Company entered into agreement to buyout NPIs representing approximately 4% net profit interest in exchange for issuing 4,426,176 Common Shares. Officers and directors were issued 1,525,789 of these Common Shares.

Transactions (a) through (h), with the exceptions of Common Shares issued for settlement of debt, are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Transactions (g) and (h) are measured at the exchange amount. The agreed exchange amounts reflect fair value.

Changes in Accounting Policies

Impact of New Accounting Pronouncements and Standards

During August, 2009, the CICA issued amendments to Section 3855, Financial Instruments – Recognition and Measurement. The amendments included the definitions of a financial asset or financial liability held for trading and loans and receivables, provided guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category and requires that Section 3025, Impaired Loans, be applied to assess whether held-to-maturity investments are impaired and to account for any such impairment. The amendment concerning the embedded derivatives was adopted for any reclassification made on or after July 1, 2009 and did not have any impact on the Company's consolidated financial statements. The remaining amendments to Section 3855 apply to the Company's annual consolidated financial statements for the year ended August 31, 2009. The adoption of the amendments to Section 3855 did not have an impact on the Company's consolidated financial statements.

During June, 2009, the CICA issued amendments to Section 3855, Financial Instruments – Recognition and Measurement, and Section 3862, Financial Instruments – Disclosures. The amendment to Section 3855 clarifies when an embedded prepayment option is separated from its host debt instrument for accounting purposes. The Company prospectively adopted the CICA amendment to Section 3855 which did not have an impact on the Company's consolidated financial statements. The amendments to Section 3862 enhance financial instrument disclosure requirements about liquidity risk and provide new disclosure requirements for fair value measurements. The amendments to Section 3862 apply to the Company's annual consolidated financial statements for the year ended August 31, 2010. Upon adoption of the Section 3862 amendments, the Company need not provide comparative information for the disclosures required by the amendments.

Effective September 1, 2009 the Company adopted CICA Handbook section 3064, Goodwill and Intangible Assets, which replaced section 3062, Goodwill and Other Intangible Assets and section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes new standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous section 3062. As the Company does not carry goodwill or intangible assets, as defined by section 3064, this new standard had no impact on the presentation and disclosures of the Company.

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is effective for the Company's interim and annual Consolidated Financial Statements for periods ending on or after March 31, 2009 with retrospective application without reinstatement of prior periods. The application of this abstract did not have a material effect on the Company's consolidated financial statements.

In December 2008, the CICA issued Section 1582, Business Combinations, which will replace CICA Section 1581 of the same name. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company is currently evaluating the impact of this changeover on its consolidated financial statements.

In December 2008, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non Controlling Interests, which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011, with earlier application permitted. Section 1602 currently does not impact the Company as it has full controlling interest of all of its subsidiaries. The Company is currently evaluating the impact of Section 1601 on its consolidated financial statements.

International Financial Reporting Standards

In October 2009, the Canadian Accounting Standards Board issued a third and final International Financial Reporting Standards ("IFRS") Omnibus Exposure Draft confirming that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting IFRS on its consolidated financial statements.

Financial Instruments

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The following outlines the Company's risk exposures, quantifies these risks, and explains how these risks and its capital structure are managed.

The Company categorized its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. At November 30, 2010, the Company valued cash using Level 1 inputs. At November 30, 2010, the Company did not have any assets and liabilities measured at fair value using Level 2 and 3 inputs.

The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Capital Management

The Company's objective is to maintain a strong capital position in order to execute its business plans and maximize value to shareholders. The Company defines its capital as shareholders' equity and working capital deficit. Changes to the capital structure are driven by the Company's business plans, changes in economic conditions and risks inherent in the global oil and gas industry. During the year ended August 31, 2010, there were material changes to the capital structure due to the settlement of the Company's working capital deficiencies accumulated during the years ended August 31, 2009 and 2008. Methods to adjust the Company's capital structure could include issue of new shares through a public offering or private placement, restructuring or repaying existing accounts payable, notes payable and related party notes payable and amalgamation with industry partners.

The shareholders' equity and working capital deficit for the respective periods were as follows:

	November 30, 2010	August 31, 2010
	(US\$)	(US\$)
Working Capital Deficit	1,106,145	N/A
Shareholders' Equity	31,082,474	32,300,700

The Company periodically reviews certain quantitative measures of its capital structure, in order to understand its position relative to industry peers. These measures include calculations such as return on equity and return on capital employed. The Company does not set certain limits or ranges with respect to these quantitative measures.

Financial instruments are recognized initially at fair value on the balance sheet, and include cash, accounts receivable, restricted cash, accounts payable and accrued liabilities and related party payables. The Company has classified its cash as held for trading; accounts receivable is classified as loans and receivables; and accounts payable and accrued liabilities and due from related parties is classified as other liabilities. Held for trading instruments are measured at fair value, while loans and receivables and other liabilities are measured at amortized cost.

Credit Risk

The Company is exposed to credit risk in relation to its cash, accounts receivable, due from joint venture partners, and restricted cash deposits. The cash and restricted cash are held with highly rated Canadian and United States banks. Therefore the Company considers these assets to have negligible credit risk.

The Company's accounts receivable are primarily with local and federal government agencies pertaining to the refund of excise taxes paid on certain expenditures. The Company has exposure for amounts due from joint venture partners, which are primarily junior oil and gas partners. Its overall exposure to credit risk from joint venture partners is considered to be low given, the Company acquired, during the fiscal year end August 31, 2010, the interests in the properties held by two of its three joint venture partners including any related outstanding receivables.

The carrying amounts of cash, accounts receivable, due from joint venture partners, and restricted cash represent the Company's maximum credit exposure. The Company does not have an allowance for doubtful accounts at November 30, 2010 or August 31, 2010.

Liquidity Risk

The Company manages the risk of not meeting its financial obligations through management of its capital, annual budgeting of its expenditures and cash flows and cash flow forecasting.

Accounts payable and accrued liabilities, as disclosed on the consolidated balance sheet, fall due within the next year and are anticipated to be funded through future issuances of the Company's shares by private placement or public offering. The Company has no access to any further debt or debt facilities.

Market Risk

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net loss and in the fair value of its financial assets and liabilities.

Commodity Price Risk

Price fluctuations for crude oil, natural gas liquids and natural gas are a risk to the Company over which the Company has little influence. The Company is in the development stage and does not have any production. As a result, the commodity price risk is low.

Interest Rate Risk

The Company had no debt instruments outstanding at November 30, 2010. As a result the interest rate risk is low.

Foreign Currency Exchange Rate Risk

Substantially all of the Company's operations are conducted in a foreign jurisdiction, so the Company is exposed to foreign currency exchange rate risk. Most of its contractors and activities are denominated and reported in United States dollars. Operating and capital expenditures are incurred in United States dollars (US\$), Canadian dollars (\$) and in Euro's (€). In addition, cash is primarily in bank accounts denominated in United States dollars. As of November 30, 2010 and August 31, 2010, the Company considers its foreign currency exchange risk to be low.

Commitments

The following are the Company's commitments as of November 30, 2010:

- (a) On August 3, 2007 the Company executed five concession contracts with the Ministry of the Industry and Innovation for petroleum exploration, development and productions rights in Portugal (the "**Ministry**"). The contracts provide for an initial eight year term with 2 one year extensions and a twenty-five year production period based on an approved development and production plan with 5 three-year production period extensions. For each of the Concessions: Torres Vedras-3, Aljubarrota-3, Cabo Mondego-2, Rio Major-2 and São Pedro de Muel-2; the Company is committed to drill either six or seven wells with an estimated expenditure of €500,000 for well work. The minimum total contract commitment is €18.5 million starting in 2008 and expiring in 2015.

For each Concession the Company is required to make revenue-based royalty payments to the Ministry for any natural gas production after the Company has recovered the exploration and development expenses and deducting the operating costs of production.

Each Concession requires the Company to post an initial bond, in favour of the DGEG, the regulating agency for petroleum exploration and production in Portugal, to guarantee future performance and commitments under the concession agreement upon the issuance and/or signing of the concession contract. As of November 30, 2010 and August 31, 2010, the Company had approximately, US\$135,000 in standby letters of credit that are recorded as restricted cash. These initial bonds are renewed annually. The amount of each bond for future renewals will be for an amount equivalent of up to 50% of the value of the work budgeted for under the annual work program, as defined by the Company, that is periodically submitted to DGEG for approval.

In addition, the Company is committed to pay an aggregate fee on the above Concessions of €46,000 for years 1 through 3 and €64,500 for years 4 through 8 on various activities for the benefit of the Ministry. Additionally, the Company is responsible for annual surface rentals of approximately US\$200,000.

- (b) In July of 2010, the Company, through its wholly-owned subsidiary, entered into an office lease agreement for a minimum of 38 months with a monthly base rent of approximately US\$13,000.
- (c) In August, 2010, the Company, through its wholly-owned subsidiary, entered into an agreement to acquire 3D seismic in the Torres Vedras-3 and Aljubarrota-3 Concessions and was required to make a down payment of US\$318,500 in September 2010. The Company expects the seismic acquisition in both areas will be complete within three to four months and is estimated to cost approximately US\$8.5 million. This contract cost does not include permitting, operational quality control, damage claims, and data processing which is expected to add an additional US\$2.0 million to the base cost.
- (d) In the normal course of operations, the Company provides indemnifications that are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, director/officer contracts and leasing transactions. These indemnification agreements may require the Company to compensate the counterparties for costs incurred as a result of various events, changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that could be required to be paid to counterparties. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

Subsequent Events

Subsequent to the period ended November 30, 2010:

- (a) In December 2010, the Company completed a private placement of 29,326,683 units at a price of US\$0.60 per unit for gross proceeds of approximately US\$17,596,000. In conjunction with this placement, approximately US\$1,136,000 was paid in finders' fees and charged to share issue costs.
- (b) The Company terminated anti-dilution rights related to a debt settlement agreement dated December 21, 2009. In conjunction with the termination, the Company bought casing and existing drilling inventory for US\$850,000 from the third party.
- (c) The anti-dilution rights related to a debt settlement agreement dated December 24, 2009, including the right to put 1,400,000 common shares of the Company for US\$450,000, were terminated.

Outstanding Share Data

The following table sets forth the Company's outstanding number of securities as at January 31, 2011 before the Offering. See also "*Consolidated Capitalization*".

	Expiry Date	Exercise Price	Number of Securities Authorized	Number of Shares
Common Shares	N/A	N/A	Unlimited	128,479,563 ⁽¹⁾
Share Options	September 1, 2015	US\$0.60	11,550,000	11,550,000
Share Purchase	12 Months Following Closing of Offering	US\$0.50	9,750,000	
Warrants	12 Months Following Closing of Offering	US\$1.00	7,790,000	
	24 Months Following Closing of Offering	US\$0.85	30,886,283	48,426,283 ⁽²⁾
				<u>188,455,936</u>

Notes:

- (1) Includes the 101,250 Common Shares to be issued as a recruitment fee in conjunction with the Company's Chief Executive Officer search. See "Consolidated Capitalization".
- (2) This total does not include certain liquidity warrants and anti-dilution warrants that were issued by the Company concurrently with its December 3, 2010 financing. On December 3, 2010, the Company issued: (i) 29,326,683 liquidity warrants; and (ii) 29,326,683 anti-dilution warrants. These liquidity warrants and anti-dilution warrants will automatically expire on the closing of the Minimum Offering and listing on the TSX-V. See "Recent Developments" and "Prior Sales".

Additional Disclosure for Venture Issuers Without Significant Revenue

Below is a breakdown of the general and administrative expenses of the Company for the three months ended November 30, 2010 and 2009 and the three years ended August 31, 2010:

	Three Months Ended November 30,		Years Ended August 31,		
	2010 (US\$)	2009 (US\$)	2010 (US\$)	2009 (US\$)	2008 (US\$)
General and Administrative Expenses					
Consulting	14,879	5,743	277,486	72,607	315,583
Insurance	16,136	24,737	106,179	109,447	104,641
Realized Foreign Exchange (Gain) Loss	-	(29,825)	-	49,706	21,229
Rent and Office Expenses	129,234	27,400	249,428	202,960	278,439
Salaries and Benefits	481,609	172,856	1,423,467	598,057	918,347
Travel and Other	84,159	13,027	193,968	20,582	252,364
	<u>726,017</u>	<u>213,938</u>	<u>2,250,528</u>	<u>1,053,359</u>	<u>1,890,603</u>

The Company's expenses increased between the current three month periods with material increases in rent and office expenses, salaries and benefits and travel and entertainment. The rent and office expense increased primarily due to moving to new office facilities that resulted in higher overhead. Salaries and benefits increased primarily due to the hiring of management and operational staff compared to the previous period when the Company was in cash conservation mode. Travel and entertainment rose between the periods reflecting increased activity of the Company and corporate travel between the Company's offices in Portugal, the United States and Canada.

During the year ended August 31, 2009, the Company was in cash conservation mode as it dealt with its working capital deficit and most expenses decreased in each category. During the year ended August 31, 2010, the Company underwent a reorganization and commenced operations again in Portugal. As a result, expenses rose in almost every category.

Below is a breakdown of the capitalized oil and gas expenditures during the three months ended November 30, 2010 and the three years ended August 31, 2010:

	Three Months Ended November 30,	Years Ended August 31,		
	2010 (US\$)	2010 (US\$)	2009 (US\$)	2008 (US\$)
Additions to Oil and Gas Assets				

	Three Months Ended November 30,	Years Ended August 31,		
	2010 (US\$)	2010 (US\$)	2009 (US\$)	2008 (US\$)
Land and Acquisition Costs	-	1,458,324	69,560	591,809
Drilling and Completion	80,066	1,569,838	5,020,829	12,149,327
Seismic Acquisition	1,924,928	975,747	841,262	5,026,074
	<u>2,004,994</u>	<u>4,003,909</u>	<u>5,931,651</u>	<u>17,767,210</u>

The Company's capitalized expenditures during the related periods reflect the Company's investment in the oil and gas Concessions in Portugal. During the three months ended November 30, 2010, the expenditures primarily related to the permitting, surveying and acquisition of the Torres Vedras-3 and Aljubarrota-3 3D seismic programs. During the comparable period ended November 30, 2009, the costs related to the buyout of two working interest partners in the Concessions.

During the year ended August 31, 2010, the expenditures comprised of the acquisition costs from the buyout of two working interest partners in the oil and gas Concessions, the processing of existing 3D seismic data and the permitting of the 3D seismic work program. During the year ended August 31, 2009, the Company incurred the balance of expenditures from its 2008 exploration and development work programs which consisted of standby charges for drilling and seismic equipment and personnel. During the year ended August 31, 2008, the expenditures incurred included a seismic survey over 40% of the reef trend in the Torres Vedras-3 Concession, drilling four shallow appraisal/development wells, mobilization and standby of drilling and seismic equipment. The Company expects its capital expenditures to increase significantly during the balance of 2011 and into 2012, subject to attaining the necessary financing.

CONSOLIDATED CAPITALIZATION

The following table sets forth the Company's capitalization (along with the number of securities issued with respect thereto) as at November 30, 2010, and as at January 31, 2011, both before and after the Offering (assuming the Minimum and the Maximum Offering). The table must be read with the consolidated financial statements and accompanying notes, which appear in this Prospectus.

Description of the Security	Number of Securities Authorized	As at November 30, 2010	As at January 31, 2011	Outstanding as at January 31, 2011, After Giving Effect to the Minimum Offering ⁽³⁾	Outstanding as at January 31, 2011, After Giving Effect to the Maximum Offering ⁽⁴⁾
Common Shares	Unlimited	99,051,720 shares (US\$29,509,392)	128,497,653 shares ⁽²⁾ (US\$45,921,424)	188,479,653	198,479,653
Options ⁽¹⁾	Up to 10% of Total Number of Common Shares Outstanding	11,150,000 Options (\$60,976)	11,550,000 Options (\$60,976)	11,550,000 Options (\$60,976)	11,550,000 Options (\$60,976)
Warrants ⁽²⁾⁽³⁾	N/A	17,540,172 Warrants (US\$822,567)	48,426,283 Warrants (US\$6,706,054)	48,426,283 Warrants (US\$6,706,054)	48,426,283 Warrants (US\$6,706,054)
Long Term Debt	N/A	Nil	Nil	Nil	Nil

Notes:

- (1) The outstanding 11,150,000 and 11,550,000 stock options, respectively, are exercisable for Common Shares at an average exercise price of US\$0.60 per share and expire on September 1, 2015. One-third of the options vest on September 1, 2011, one-third vest on March 1, 2012 and the final third vests on September 1, 2012.
- (2) The Company incurred a US\$101,250 recruitment fee in conjunction with the Company's Chief Executive Officer search and agreed to pay the fee in shares at the Offering price. The Company is issuing approximately 101,250 Common Shares to the recruitment firm in conjunction with closing of the Offering.

- (3) This total does not include certain liquidity warrants and anti-dilution warrants that were issued by the Company concurrently with its December 3, 2010 financing. On December 3, 2010, the Company issued: (i) 29,326,683 liquidity warrants; and (ii) 29,326,683 anti-dilution warrants. These liquidity warrants and anti-dilution warrants will automatically expire on the closing of the Minimum Offering and listing on the TSX-V. See “Recent Developments” and “Prior Sales”.
- (4) The outstanding warrants as at November 30, 2010 were as follows:

Number	Exercise Price	Expiry Date
172	\$1.31	December 5, 2010
9,750,000	US\$0.50	12 Months Following Closing of Offering
7,790,000	US\$1.00	12 Months Following Closing of Offering
17,540,172		

The outstanding warrants as at January 31, 2011 were as follows:

Number	Exercise Price	Expiry Date
9,750,000	US\$0.50	12 Months Following Closing of Offering
7,790,000	US\$1.00	12 Months Following Closing of Offering
30,886,283	US\$0.85	24 Months Following Closing of Offering
48,426,283		

DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Common Shares without par value. All of the Common Shares are fully paid and rank equally as to voting rights, participation in a distribution of the assets of the Company on a liquidation, dissolution or winding-up of the Company and the entitlement to dividends. The holders of the Common Shares are entitled to receive notice of all meetings of shareholders and to attend and vote the Common Shares at all such meetings. Each Common Share carries with it the right to one vote. The Common Shares do not have pre-emptive or conversion rights. In the event of the liquidation, dissolution or winding-up of the Company or other distribution of its assets, the holders of the Common Shares will be entitled to receive, on a pro rata basis, all of the assets remaining after the Company has paid out its liabilities. Distributions in the form of dividends, if any, will be set by the Board of Directors. As at January 31, 2011, there are currently 11,550,000 Options and 48,426,283 warrants outstanding.

USE OF PROCEEDS

The Company expects to receive approximately \$56,400,000 of net proceeds in the event the Minimum Offering is completed and approximately \$65,800,000 of net proceeds in the event the Maximum Offering is completed (\$75,670,000 if the Over-Allotment Option is exercised in full). The Company’s intention is to use these proceeds through 2012 for:

- (a) appraisal and development drilling at the Aljubarrota gas discovery in the Aljubarrota-3 Concession;
- (b) exploration drilling of reefs identified from 3D seismic in the Torres Vedras-3 Concession;
- (c) exploration drilling of Presalt targets in the Aljubarrota-3 Concession identified from 3D seismic;
- (d) acquisition of 3D seismic data in the Torres Vedras-3, São Pedro de Muel-2 and Cabo Mondego-2 Concessions; and
- (e) for general and administrative expenses and other corporate costs.

The Company’s objective for the use of proceeds is to identify, explore and exploit the multiple working petroleum systems, seven exploration trends, many untested geological structures, low operating costs and mild climate by undergoing the above described work programs. If the discoveries prove commercially successfully, the Company intends to take advantage of the developed downstream infrastructure in place in Portugal to bring the commodities to market and earn revenue and cash flow. In order for the Company’s object to succeed, the Company must have exploration and engineering success, transport the commodity to market and negotiate an agreement for the sale of the commodity. The Company believes that the timeframe to complete its first phase work program on the Concessions is approximately twelve to eighteen months.

The following table specifies the amounts allocated to the items listed above.

Concession Areas	Use of Proceeds	Minimum Offering Amount ⁽¹⁾ (\$)	Maximum Offering Amount ⁽¹⁾ (\$)
Appraisal and Development Wells			
Aljubarrota-3	Drill Alj-4 Re-entry and Alj-4H appraisal wells	8,600,000	8,600,000
Aljubarrota-3	Drill Alj-3 Re-entry and Alj-3H appraisal wells	7,500,000	7,500,000
Aljubarrota-3	Drill Alj-5H development well	6,000,000	6,000,000
Aljubarrota-3	Drill Alj-6H development well	-	6,000,000
Exploration Wells and 3D Seismic			
Torres Vedras-3 and Aljubarrota-3	Drill Reef 1, 2, 3, 4 and Presalt 1 Exploration Wells	15,700,000	15,700,000
Torres Vedras-3, São Pedro de Muel-2, and Cabo Mondego-2	Acquire 1,225 to 1,360 km ² of 3D Onshore and Offshore Seismic Data	16,400,000	19,800,000
	General and Administrative and Other Corporate Costs	7,200,000 ⁽²⁾	7,200,000 ⁽²⁾
TOTAL		61,400,000	70,800,000

Notes:

- (1) The Minimum and Maximum Offering Amount includes approximately \$5,000,000 in working capital that the Company expects to have on closing of the Offering.
- (2) Management's estimate of the general and administrative and other corporate costs of the Company for the 24 month period following completion of the Offering.

The Company's exploration plans for the Lusitanian Basin initially focuses on certain prospects and trends identified by the Company within the Aljubarrota-3, Torres Vedras-3, São Pedro de Muel-2, and Cabo Mondego-2 Concessions. These include the Aljubarrota Jurassic gas trend, the upper Jurassic reef trend, the Presalt Triassic clastics and dolomite trend, the Montejunto Anticline trend, the Monte Real Platform trend, the Obidos Nazare trend and the Arruda upper Jurassic trend. The Company has identified multiple prospects within each of these plays and is currently planning to drill eleven onshore wells on these prospects in three of these trends in the event the Maximum Offering is completed and ten onshore wells in the event the Minimum Offering is completed. The work program includes exploration, appraisal and development drilling with planned drilling depths of 1,500 to 3,500 metres. All of these prospects will be defined with a combination of 2D and 3D seismic data including 240 km² of 3D seismic acquired or currently being acquired over certain areas of the Aljubarrota-3 and Torres Vedras-3 Concessions that will provide final definition for several reef wells and the Presalt well.

The wells to be drilled as part of the 2011 to 2012 work program include wells for both the Aljubarrota-3 and Torres Vedras-3 Concessions. The wells planned for the Aljubarrota-3 Concession includes the Alj-4 re-entry and Alj-4H appraisal wells, the Alj-3 re-entry and Alj-3H appraisal wells and one subsequent development horizontal well (Alj-5H). Two separate gas bearing carbonates zones are the reservoir targets in these wells. In the event the Maximum Offering is completed, one additional development horizontal well (Alj-6H) will be drilled. The Alj-3 re-entry and Alj-3H wells will be drilled to further evaluate the lowermost of the two gas bearing zones at a location three km from the Alj-4 well. The Company will also drill a Presalt exploration well on this Concession, located on the Rhodochrosite Prospect, where Triassic sandstones and Lower Jurassic dolomites are the targets. On the Torres Vedras-3 Concession, the Company is planning four exploration wells on the Upper Jurassic reef trend where it just completed a 3D seismic program to provide definition on drill targets.

The work program also includes several 3D seismic work programs that will cover a total of approximately 1,360 km² in the event the Maximum Offering is completed and approximately 1,225 km² in the event the Minimum Offering is completed. The Company expects to complete a 1,000 km² 3D offshore seismic survey on the São Pedro de Muel-2 and Cabo Mondego-2 Concessions, which is expected to define exploration well locations. In the event the Maximum Offering is completed, the Company is planning a 360 km² 3D seismic program for the Montejunto Anticline on the Torres Vedras-3 Concession that includes the Lapaduços and Cruz de Pedra prospects or 225 km² in the event the Minimum Offering is completed. The purpose is to high-grade prospects and define locations for future wells.

Due to the nature of the oil and gas industry, budgets are regularly reviewed with respect to the success of the expenditures and other opportunities which may become available to the Company. The amounts and timing of the expenditures will vary depending upon a

number of factors, including drilling success, availability of drilling equipment, assessment of newly acquired seismic data over the Company's exploration blocks and unexpected expenses. Accordingly, while it is currently intended by management of the Company that the net proceeds of the Offering will be expended as set forth above, actual expenditures may in fact differ from these amounts and allocations. Pending utilization of the net proceeds of the Offering, the Company will invest the funds in government backed securities and/or secure short term interest bearing instruments issued by Canadian chartered banks. As at January 31, 2011, the Company had cash and cash equivalents of approximately US\$10,500,000 and working capital of approximately US\$7,000,000. The existing working capital is currently being utilized for the 240 km² of 3D seismic acquired or currently being acquired over certain areas of the Aljubarrota-3 and Torres Vedras-3 Concessions and current work programs contemplated under this Offering.

PERSONNEL

The Company has ten employees in Portugal, the United States and in Canada. See "*Executive Officers, Key Employees and Directors - Employment Agreements*" for a description of the Employment Agreements with respect to the President and Chief Executive Officer and the Vice President, Exploration.

From time to time, the Company utilizes consultants to act in various capacities over the short or longer terms.

EXECUTIVE OFFICERS, KEY EMPLOYEES AND DIRECTORS

Executive Officers and Key Employees

The following table provides the names and municipalities of residence of the Company's executive officers and key employees as well as their positions with the Company and principal occupations for the previous five years.

Name and Municipality of Residence	Position Held	Principal Occupation in the Past Five Years
Joseph Ash The Woodlands, Texas, U.S.A.	President and Chief Executive Officer	President and Chief Executive Officer of the Company since May 20, 2010; prior thereto, various successive roles with Devon Energy Corporation, most recently Senior Vice President and VP Exploration, International and Offshore Divisions. Chief Executive Officer of MOGC since June 16, 2010.
Heath Cleaver The Woodlands, Texas, U.S.A.	Chief Financial Officer	Chief Financial Officer of the Company since January 26, 2011. Prior thereto he was the Company's Vice President, Controller and Chief Accounting Officer. Mr. Cleaver served as Vice President, Accounting Officer of BPZ Resources, Inc. from November 2008 until August 2010 and as Corporate Controller for BPZ from October 2006 until November 2008. Immediately prior to joining BPZ, Mr. Cleaver performed consulting services from August 2004 to October 2006 for a variety of public companies, such as, Rosetta Resources, Calpine Natural Gas and Index Oil and Gas.
Patric Monteleone The Woodlands, Texas, U.S.A.	Executive Vice President of the Company and President of MOGC	Chief Executive Officer of the Company from December 1, 2006 to May 20, 2010 and President from May 30, 2007 to May 20, 2010. President of MOGC since 1993 and Chief Executive Officer of MOGC from 1993 to June 16, 2010.
Christopher D. Wright West Vancouver, B.C., Canada	Vice President, Business Development	Independent businessman.
Richard W. Pawluk Calgary, AB, Canada	Corporate Secretary	Partner of the law firm McCarthy Tétrault LLP.

Biographies

Joseph Ash is the Company's President and Chief Executive Officer. Mr. Ash was employed by Devon Energy Corporation from 2001 to May 2010, serving in several capacities in both domestic and international operations. Most recently, Mr. Ash served as Devon's Senior Vice President and VP Exploration, International and Offshore Divisions where he led his team to three material deepwater discoveries in Brazil and Angola. Mr. Ash was previously Director of Special Projects and prior to that, Mr. Ash served as Exploration and Business Development Manager in Devon's International Division. He joined Devon in 2001 when the company acquired Santa Fe Energy. At the time of acquisition, Mr. Ash served as Santa Fe's Exploration Manager, South America. Mr. Ash was employed by Santa Fe from 1997 to 2001. Mr. Ash began his oil and gas career in 1985 with Mitchell Energy Corporation, where he was responsible for exploration and development projects within the Gulf Coast and Mid Continent regions until 1997. Mr. Ash's industry experience includes exploration, development, business development, budgeting and reserve planning. Mr. Ash has a bachelor's degree in Geology from Stanford University and did graduate work at the University of Texas. Mr. Ash is a full time employee of the Company and, pursuant to his employment agreement with the Company, is subject to a non-disclosure provision and a two year non-compete.

Heath Cleaver is the Company's Chief Financial Officer. Mr. Cleaver has been the Company's Chief Financial Officer since January 26, 2011. Prior thereto, Mr. Cleaver was the Company's Vice President, Controller and Chief Accounting Officer. Mr. Cleaver was previously employed as Corporate Controller and then as Vice President and Chief Accounting Officer for BPZ Energy from October 2006 to mid 2010. Prior to joining BPZ, Mr. Cleaver was a consultant for a variety of public companies such as Rosetta Resources, Calpine Natural Gas and Index Oil and Gas. Beginning in November 1997 through August 2004, Mr. Cleaver served in various accounting roles, including Financial Controller at Horizon Offshore Contractors, Inc. Mr. Cleaver is a CPA and holds a Bachelor's Degree in Business Administration - Accounting from Texas A&M University.

Patric Monteleone is MOGC's President. Mr. Monteleone founded MOGC in 1993. Previously, Mr. Monteleone was the Vice President of Heritage Exploration and Production Company from 1989 to 1993, Geologic Supervisor with Tenneco Exploration and Production Company from 1982 to 1989, Exploration Manager, Brazil with Occidental Petroleum and Production Company from 1981 to 1982 and Senior Geologist with British Petroleum from 1973 to 1981. Mr. Monteleone graduated from Northern Arizona University in 1970 with a Bachelor of Science degree in Geology and received a PhD in Geology from Leicester University in England in 1973. Mr. Monteleone is a full-time employee of the Company and, pursuant to his employment agreement with the Company, is subject to a non-disclosure provision and a two year non-compete.

Richard W. Pawluk is the Company's Corporate Secretary. Mr. Pawluk has been the Company's Corporate Secretary since April 28, 2010. Since 2003, Mr. Pawluk has been a partner of the law firm of McCarthy Tétrault LLP where he has developed a corporate finance practice with a strong focus on junior oil and gas issuers. During the period from August 1999 to June 2002, Mr. Pawluk was an associate and senior manager with the law firm of Donahue LLP. Prior to that experience, he was an associate with the law firm of Code Hunter LLP. Throughout his career, Mr. Pawluk has acted for a number of publicly traded oil and gas exploration companies, advising on all types of domestic and international transactions. In the past, Mr. Pawluk has been the corporate secretary of Brigg and Energy Corp. and Rally Energy Corp., both publicly traded companies, and is currently the corporate secretary of Sunshine Oilsands Ltd. and Drakkar Energy Ltd. Mr. Pawluk has also served as a Director of Rally Energy Corp., Catapult Financial Management Inc. (the general partner of Catapult Energy Limited Partnership) and Drakkar Energy Ltd. Mr. Pawluk is legal counsel to the Company and currently devotes 5% of this time to the Company as corporate secretary. Mr. Pawluk is not subject to non-competition or non-disclosure agreements.

Christopher D. Wright. Mr. Wright is the founder and former President and Chairman of the Board of Velvet Exploration Ltd., which in less than five years was built to over 10,000 boe/d, primarily through exploration, with an average success rate for drilling of over 75%. In 2001, Velvet was sold to El Paso Corporation (NYSE-EP) of Houston, Texas for US\$432 Million and became El Paso Canada Ltd. Mr. Wright's recent transactions include the Tiguino block in Ecuador, the Pincher Creek gas field in southern Alberta, the Big Muddy field in Wyoming, and the Lagunillas and Colon blocks in Colombia. He graduated from the University of Alberta with his Bachelor of Arts degree, and earned his LLB at the University of Victoria. Mr. Wright is an independent contractor of the Company and currently devotes 75% of his time to the Company. Mr. Wright is not subject to non-competition or non-disclosure agreements.

Directors

The following table provides the names and municipalities of residence of the Company's directors, their offices held with the Company, the date they were first appointed to the Board of Directors and their principal occupations for the previous five years.

Name and Municipality of Residence	Current Positions and Offices Held	Principal Occupation in the Past Five Years	Director Since
Joseph Ash ⁽³⁾ The Woodlands, Texas, U.S.A.	Chief Executive Officer and Director	President and Chief Executive Officer of the Company since May 20, 2010; prior thereto, various successive roles with Devon Energy Corporation, most recently Senior Vice President and VP Exploration, International and Offshore Divisions.	May 20, 2010
Ian B. McMurtrie ⁽²⁾⁽⁴⁾ Calgary, AB, Canada	Director and Chairman	Executive Vice President, Exploration and Development of Bankers Petroleum Ltd. since January 2008 and prior thereto. Vice President, Exploration of Rally Energy Corp.	September 4, 2007
Gerald A. Romanzin ⁽¹⁾⁽²⁾⁽³⁾ Calgary, AB, Canada	Director	Independent Businessman.	May 20, 2010
Gregory G. Turnbull, Q.C. ⁽²⁾⁽³⁾⁽⁴⁾ Calgary, AB, Canada	Director	Regional Managing Partner of McCarthy Tétrault LLP.	August 24, 2007
Agustin Llana ⁽¹⁾ Madrid, Spain	Director	Independent Businessman.	August 24, 2010
William Roach ⁽⁴⁾ Los Gatos, CA, U.S.A.	Director	Chief Executive Officer of Calera Corporation since October 2010. Chief Executive Officer of UTS Energy Corporation from June 2004 to October 2010.	September 24, 2010
Patric Monteleone ⁽¹⁾ The Woodlands, Texas, U.S.A.	Director, Executive Vice President and President of MOGC	Chief Executive Officer of the Company from December 1, 2006 to May 20, 2010 and President of the Company from May 30, 2007 to May 20, 2010. President of MOGC since August, 1993 and Chief Executive Officer of MOGC from 1993 to June 16, 2010.	December 1, 2006
Christopher D. Wright West Vancouver, BC, Canada	Vice President of Business Development	Independent Businessman.	November 16, 2009

Notes:

- (1) Member of Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance Committee.
- (4) Member of the Reserves Committee.

All of the Company's directors' terms of office will expire at the earliest of their resignation, the close of the next annual shareholder meeting called for the election of directors, or on such other date as they may be removed according to the corporate statute governing the Company. Each director will devote the amount of time as is required to fulfill their obligations to the Company.

Biographies

For a biography of each of Messrs. Ash, Monteleone and Wright see above under “*Executive Officers, Key Employees and Directors - Executive Officers and Key Employees*”.

Ian B. McMurtrie. Mr. McMurtrie was appointed the Chairman of the Company’s Board of Directors January 26, 2011. Mr. McMurtrie is the Executive Vice President, Exploration and Development of Bankers Petroleum Ltd. since January 2008. Mr. McMurtrie was the Vice President, Exploration of Rally Energy Corp., a position he held from July, 2004 to January 2008. He has been an advisor to Rally Energy Corp. since late 2003. He is also the President of Cawdor Investments Ltd., a private company managing oil and gas royalties and providing technical oil and gas consulting services to public and private companies. Mr. McMurtrie began his career with Texaco Exploration Canada Ltd. and received a B.Sc. (Honours) degree in Geology from Queen’s University in 1970.

Gerald A. Romanzin. Gerald Romanzin is an independent Calgary businessman who serves as a director of Crescent Point Energy Corp., Petrowest Energy Services Ltd., and Trimac Transportation Ltd.. He also previously served as a trustee of Trimac Income Fund and was formerly a member of the independent advisory committee for Titan Funds Incorporated until its sale in October 2010. Formerly, Mr. Romanzin served as a director of FET Resources Ltd., Ketch Resources Ltd., Ketch Resources Trust, Condence Energy Inc., Kereco Energy Ltd., and Flowing Energy Corporation. Mr. Romanzin was the Executive Vice President of the TSX Venture Exchange from November 1999 to April 2002 where he was responsible for overseeing the Corporate Finance group and regional operations. In addition, he assumed the role of Acting President of the TSX Venture Exchange from December 2001 to April 2002. Mr. Romanzin is a chartered accountant and was a financial analyst with the Alberta Securities Commission for four years prior to joining the Alberta Stock Exchange in 1987. Mr. Romanzin was the Executive Vice President of the Alberta Stock Exchange from June 1995 to its change to the TSX Venture Exchange in November 1999. Mr. Romanzin obtained a Bachelor of Commerce degree from the University of Calgary and is a member of the Institute of Chartered Accountants of Alberta.

Gregory G. Turnbull, Q.C. Currently the Regional Managing Partner of the Calgary office of the law firm of McCarthy Tétrault LLP and has been a partner of the firm since July 2002. From September 2001 to June 2002, Partner with Donahue LLP. Prior thereto, a Partner with Gowlings LLP and its predecessor law firms for over 10 years. Throughout his career, Mr. Turnbull has served as an officer or director of numerous private and publicly traded companies. Mr. Turnbull is currently a director of Storm Resources Ltd., Heritage Oil Plc, Hawk Exploration Ltd., Hyperion Exploration Ltd., Sonde Resources Corp., Seaview Energy Inc. and Crescent Point Energy Corp., all publicly traded entities listed on the TSX or TSX-V. Mr. Turnbull is also a director of Sunshine Oilsands Ltd. a private oil and gas exploration company. Mr. Turnbull received his Bachelor of Arts (Honours) Degree from Queen’s University in 1976 and his Bachelor of Laws Degree from the University of Toronto in 1979. He was called to the Alberta bar in 1980 and became Queen’s Counsel in 2010. Mr. Turnbull is a member of the Law Society of Alberta, the Canadian Bar Association and the Calgary Bar Association.

Agustin Llana. Mr. Llana is an independent businessman and spent 34 years working with the Royal Dutch Shell group. Most recently, from 2006 to 2008, Mr. Llana was the chairman of the board of Shell Espana S.A., where he oversaw revenue of € 1 billion, 260 employees and was the country chair of Spain, Portugal and Gibraltar. From 2000 to 2008, Mr. Llana was the General Manager for Gas and Power and Renewables for Shell Energy Europe (SEE) B.V. in Iberia and member of SEE’s Management Team for Southern Europe, where he was part of the team that launched the Company’s entry into the Spanish gas and power markets, which involved negotiation of LNG supply and sales contracts with main Iberian players, gas marketing to the I&C and power markets and the management of a gas for power tolling agreement with Spain’s first IPP. From 1991 to 1999, Mr. Llana was the Supply Director of Shell Espana SA and Shell Portuguesa SA, and from 1987 to 1991 he worked as Crude Oil and Oil Products Trader in Shell International Trading Co. (SITCO). Prior to that he worked in various technical, business development and commercial positions in Shell Coal International Ltd.

William Roach. Chief Executive Officer of Calera Corporation from October 2010 to present. Chief Executive Officer of UTS Energy Corporation from June 2004 to October 2010. Prior thereto, from 2000 to 2004, General Manager, East Coast Development, of Husky Energy Inc., a fully integrated oil and gas company. Prior thereto, from 1996 to 2000, Vice President of Projects of British Borneo USA, Inc., an oil and gas exploration and development company. Mr. Roach is currently a director of Sonde Resources Corp. Mr. Roach received a B.Sc. (Honours) degree in Metallurgy from UC Swansea in 1977 and his Ph.D. in Physical Metallurgy from UC Swansea in 1984. Mr. Roach is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta and also served on the CAPP Board of Governors from 2005 through to 2007.

Committees of the Board of Directors

Audit Committee

The Company's Audit Committee has a charter in the form attached as Appendix "C". The members of the Audit Committee are Gerald Romanzin, Agustin Llana and Patric Monteleone. Mr. Romanzin and Mr. Llana are independent within the meaning of National Instrument 52-110 - *Audit Committees* ("NI 52-110"). All members of the Audit Committee are financially literate (as defined in NI 52-110). The Audit Committee has a defined mandate and is responsible for reviewing and overseeing the external audit function, recommending the external auditor and the terms of such appointment or discharge, reviewing external auditor reports and significant findings and reviewing and recommending for approval to the Board of Directors all public financial disclosure information such as financial statements, management's discussion and analysis, annual information forms and prospectuses. The Audit Committee also pre-approves all non-audit services to be conducted by the external auditors and ensures that management has effective internal control systems, investigates any recommendations for improvement of internal controls and meets at least annually with the Company's external auditors without management present and at least quarterly with management present. The Company does not have internal auditors and given the size of the Company, the Company considers this to be practical and appropriate. The Audit Committee expects to convene no less than four times each year and as circumstances otherwise warrant.

Relevant Education and Experience

The following is a description of the education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member:

Gerald Romanzin. Mr. Romanzin is a member of the Institute of Chartered Accountants of Alberta and has served as a director of a number of Canadian oil and gas producers including being a member of their respective audit committees. Mr. Romanzin was the Executive Vice President of the TSX Venture Exchange from November 1999 to April 2002 where he was responsible for overseeing the Corporate Finance group and regional operations. In addition, he assumed the role of Acting President of the TSX Venture Exchange from December 2001 to April 2002. Mr. Romanzin was the Executive Vice President of the Alberta Stock Exchange from June 1995 to its change to the TSX Venture Exchange in November 1999. Mr. Romanzin obtained a Bachelor of Commerce degree from the University of Calgary.

Agustin Llana. Mr. Llana spent 34 years working with the Royal Dutch Shell group, most recently as chairman of the board of Shell Espana S.A., where he oversaw revenue of € 1 billion, 260 employees and was the country chair of Spain, Portugal and Gibraltar. Mr. Llana completed an MSc in Mineral Production Management at the Royal School of Mines of the Imperial College, London and an MBA at the University of the Witwatersrand, Johannesburg, South Africa.

Patric Monteleone. Mr. Monteleone has spent the past 30 years working in successively greater management roles in the oil and gas sector, including the 17 years as the Chief Executive Officer of the Company. Mr. Monteleone oversaw financials, budgets and work programs through this period. Mr. Monteleone graduated from Northern Arizona University in 1970 with a Bachelor of Science degree in Geology and received a PhD in Geology from Leicester University in England in 1973.

At no time since the commencement of the year ended August 31, 2010 has the Company relied on the following exemptions in Section 2.4 of NI 52-110 (De Minimis Non Audit Services). Furthermore, at no time since the commencement of the year ended August 31, 2010 has the Company relied on an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110 (Exemptions).

Audit Committee Oversight

At no time since the commencement of the year ended August 31, 2010 was a recommendation of the audit committee to nominate or compensate an external auditor not adopted by the Company's Board.

Pre-Approval Policies and Procedure

The Audit Committee has adopted specific policies and procedures for the engagement of non audit services, whereby the Audit Committee can pre-approve such services, as well as establish a threshold amount for fees for non audit services to be provided by the external auditors without advance approval of the Audit Committee. The nature of such services and the associated cost will be provided to the Audit Committee prior to the next following Audit Committee meeting.

External Auditor Services Fees (By Category)

The aggregate fees billed by the Company's external auditors in the 12 months ended August 31, 2010 and 2009 are as follows:

Fiscal Year	Audit Fees (\$)	Audit Related Fees (\$)	Tax Fees (\$)	All Other Fees (\$)
2010	\$143,904	\$84,800	\$Nil	\$23,638
2009	\$Nil	\$Nil	\$Nil	\$Nil

Compensation Committee

The members of the Compensation Committee are Gerald Romanzin, Ian McMurtrie and Gregory Turnbull. The Company's Compensation Committee reviews and makes recommendations to the Board of Directors concerning the compensation of the Company's directors, officers and employees which includes the review of the Company's executive compensation and other human resource philosophies and policies, the review and administration of the Company's bonuses, stock options and any share purchase plan, the review of and recommendations regarding the performance of the Chief Executive Officer of the Company and preparing and submitting a report for inclusion in annual continuous disclosure documents as required. The Compensation Committee is comprised of non-management members of the Board of Directors and is required to convene at least annually.

Corporate Governance Committee

The members of the Corporate Governance Committee are Gerald Romanzin, Joseph Ash and Gregory Turnbull. The Company's Corporate Governance Committee is responsible for proposing to the Board of Directors new nominees to the Board of Directors and for assessing current directors on an ongoing basis. The Committee is also responsible for the Company's response to and implementation of the guidelines set forth from time to time by any applicable regulatory authorities. The Corporate Governance Committee is comprised of a majority of non-management members of the Board of Directors and is required to convene at least annually.

Independence of Members of Board

The Board currently consists of eight directors, four of whom are independent based upon the tests for independence set forth in National Instrument 52-110. Messrs. McMurtrie, Romanzin, Roach and Llana are independent. Messrs. Ash, Monteleone and Wright are not independent by virtue of serving as executive officers of the Company. Mr. Turnbull is not independent by virtue of being a partner in the law firm that provides legal services to the Company.

Management Supervision by Board

The CEO and CFO report upon the operations of the Company, on a quarterly basis directly to the directors of the Board and on matters that affect the non independent directors, without the presence of such non independent directors. The independent directors hold meetings without the presence of non independent directors when matters arise that require their independent approval. Three current members of management (Messrs. Ash, Wright and Monteleone) are directors of the Company. While management who are not directors attend board meetings to report to the Board and participate in discussions, they are not eligible to vote on matters requiring Board approval. The directors meet at any time they consider necessary without any members of management, including the non independent directors, being present. The Company's auditors, legal counsel, financial advisors and employees may be invited to attend. The Audit Committee is composed of a majority of independent directors who meet with the Company's auditors without management in attendance. The independent directors exercise their responsibilities for independent oversight of management through the corporate governance committee, which is made up of a majority of independent directors, and the appointment of an independent Chair of the Board. The independent directors also have regular and full access to management.

Participation of Directors in Other Reporting Issuers

The participation of the directors in other reporting issuers is described in the table below:

Name of Director	Name of Other Reporting Issuer
Greg Turnbull	Crescent Point Energy Hawk Exploration Ltd. Heritage Oil plc Hyperion Exploration Corp. Online Energy Inc. Seaview Energy Inc. Sonde Resources Corp. (formerly Canadian Superior Energy Inc.) Storm Resources Ltd.
Gerald Romanzin	Crescent Point Energy Corp. Petrowest Energy Services Ltd. Trimac Transportation Services Inc.
William Roach	Sonde Resources Corp. (formerly Canadian Superior Energy Inc.)
Joseph Ash	None
Ian McMurtrie	Stealth Ventures Ltd.
Patric Monteleone	None
Christopher D. Wright	None
Agustin Llana	None

Board Mandate

The Board has overall responsibility for the business and affairs of the Company. The Board has adopted a written mandate that summarizes, among other things, the Board's duties and responsibilities.

Orientation and Continuing Education

While the Company does not have a formal orientation and training program, new board members are provided with:

- (a) a copy of this Prospectus which provides information respecting the functioning of the Board, committees and copies of the Company's corporate governance policies;
- (b) access to recent, publicly filed documents of the Company;
- (c) access to management; and
- (d) access to legal counsel in the event of any questions relating to the Company's compliance and other obligations.

Members of the Board are encouraged to communicate with management, legal counsel and, where applicable auditors and technical consultants of the Company; to keep themselves current with industry trends and developments and changes in legislation with management's assistance; and to attend related industry seminars and visit the Company's operations. Board members have full access to the Company's records.

Ethical Business Conduct

In establishing its corporate governance practices, the Board has been guided by applicable Canadian securities legislation and the guidelines of the TSX-V for effective corporate governance, including NP 58-201. The Board is committed to a high standard of corporate governance practices. The Board believes that this commitment is not only in the best interests of its shareholders, but that it also promotes effective decision making at the Board level.

Additionally, in order to encourage and promote a culture of ethical business conduct, the Board has adopted a Code of Conduct (the “Code”) wherein directors, officers and employees of the Company and others are provided with a mechanism by which they can raise complaints regarding financial and regulatory reporting, internal accounting controls, auditing or health, safety and environmental matters or any other matters and raise concerns about any violations of the Code in a confidential and, if deemed necessary, anonymous process.

The Board has instructed its management and employees to abide by the Code and to bring any breaches of the Code to the attention of the Corporate Governance Committee. Compliance with the Code is monitored primarily through the reporting process within the Company’s organizational structure.

It is a requirement of applicable corporate law that directors who have an interest in a transaction or agreement with the Company promptly disclose that interest at any meeting of the Board at which the transaction or agreement will be discussed and abstain from discussions and voting in respect to same if the interest is material. The Code imposes a similar disclosure requirement on all non director representatives of the Company and requires such persons to report such conflict to the executive officer to whom that person reports in the course of his employment responsibilities, or, in the case of a senior executive officer, to the Corporate Governance Committee and fully inform such person or the committee, as applicable, of the facts and circumstances related to the conflict or potential conflict. The representative is prohibited from taking any further action in respect of the matter or transaction giving rise to such conflict or potential conflict unless and until he is authorized to do so by his reporting officer, or the Corporate Governance Committee.

Nomination of Directors

The independent Corporate Governance Committee has responsibility for identifying potential Board candidates. The Corporate Governance Committee assesses potential Board candidates to fill perceived needs on the Board for required skills, expertise, independence and other factors. Members of the Board and representatives of the oil and gas industry are consulted for possible candidates. The Board has adopted a written charter setting forth the responsibilities, powers and operations of the Corporate Governance Committee, which include considering what competencies and skills the Board, as a whole, should possess, the appropriate size of the Board in order to facilitate effective decision making and assessing the same on a periodic basis, making recommendations to the Board with respect to filling vacancies, evaluating the performance of individual directors and making recommendations as to their further nomination, review proposed shareholder nominees and making recommendations to the Board regarding resignations of directors. The Corporate Governance Committee has the power to retain outside advisors as it considers necessary for the proper functioning of the committee, at the Company’s expense. The Corporate Governance Committee meets at least once annually and otherwise as requested by the Board or considered desirable by the Chair of the Corporate Governance Committee.

Compensation of Directors and Senior Management

The members of the Compensation Committee are independent and have the responsibility for determining compensation for the directors and senior management. (See “*Statement of Executive Compensation*” above.)

The Board has adopted a written charter that sets forth the responsibilities, powers and operations of the Compensation Committee, which include: reviewing the adequacy and form of any compensation program for executive officers, reviewing the adequacy and form of non employee directors’ compensation, reviewing and creating a position description for the CEO, evaluating the CEO’s performance in light of corporate goals and objectives, and making recommendations to the Board with respect to the CEO’s compensation. The Compensation Committee has the power to retain independent legal, accounting or other relevant advisors as it may deem necessary or appropriate to allow it to discharge its responsibilities, at the expense of the Company. The Compensation Committee meets at least once annually and otherwise as requested by the Board or considered desirable by the Chair of the committee.

Reserves Committee

The members of the Reserves Committee are William Roach, Gregory Turnbull and Ian McMurtrie. The Reserves Committee has the responsibility of meeting with the independent engineering firm commissioned to conduct the reserves evaluation on the Company's oil and gas assets and to discuss the results of such evaluation with such independent evaluators and management. Specifically, the Reserves Committee's responsibilities include, but are not limited to, reviewing management's recommendations for the appointment or proposed changes of independent evaluators, reviewing the Company's procedures for providing information to the independent evaluators, meeting with management and the independent evaluator to review the reserves data and report, including any restrictions imposed by management or significant issues on which there was a disagreement with management and reviewing reserve additions and revisions which occur from one report to the next, recommending to the Board of Directors whether to approve the content of the independent evaluators' report, reviewing the Company's procedures for reporting on other information associated with oil and gas producing activities and generally reviewing all public disclosure of estimates of the Company's reserves. The Reserves Committee meets at least once annually or otherwise as circumstances warrant.

Share Ownership by Directors and Officers

The Company's officers and directors beneficially own, as a group, or exercise control or direction over, directly or indirectly 21,648,617 Common Shares. Prior to the completion of the Offering, the Common Shares held by the Company's officers and directors represent approximately 16.9% of the issued and outstanding Common Shares and 11.5% of the issued and outstanding Common Shares on a fully diluted basis. In addition, the Company has issued 7,225,000 stock options pursuant to the Option Plan which are exercisable into Common Shares to certain directors and officers. See *"Options to Purchase Securities"*.

Corporate Cease Trade Orders or Bankruptcies

None of the Company's directors, officers or other members of the Company's management are, or have, within 10 years prior to the date of this Prospectus, been directors, officers or promoters of any other companies that, while such person was acting in that capacity: (i) were the subject of a cease trade order or similar order or an order that denied their access to any statutory exemptions for a period of more than 30 consecutive days; or (ii) were declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or were subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets, other than:

- (a) Mr. McMurtrie was a director of Nickel Petroleum Resources Ltd. ("**Nickel**") from May 2004 to December 2005. On December 6, 2005, Nickel was subject to a cease trade order in British Columbia and an interim cease trade order in Alberta for failing to file financial statements. On December 16, 2005, the Alberta interim cease trade order became final;
- (b) Mr. McMurtrie was a director of Raptor Capital Corp. ("**Raptor**") from March 1998 to June 2008. On May 7, 2007, each of the Alberta Securities Commission and the British Columbia Securities Commission issued a cease trade order against Raptor for failure to file annual audited financial statements for the year ended December 31, 2006. Subsequently, Raptor rectified this matter and the cease trade order was lifted;
- (c) Mr. Turnbull was a director of Mobilift Inc., a corporation engaged in the development, system integration and commercialization of innovative fall prevention technology. Mobilift Inc. was placed into receivership in September, 2001 by its major creditor after Mr. Turnbull left the board in August, 2001; and
- (d) Mr. Turnbull was a director of Action Energy Inc., ("**Action**") a corporation engaged in the exploration, development and production of oil and gas in Western Canada. Action was placed into receivership on October 28, 2009 by its major creditor and Mr. Turnbull resigned as a director immediately thereafter.

Penalties or Sanctions

None of the Company's directors, officers or principal shareholders have been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to trading in securities, promotion, formation or management of a publicly traded company, or involving theft or fraud other than:

- (a) In December 2002, Christopher D. Wright entered into a settlement agreement with the British Columbia Securities Commission, acknowledging that he had made insider trades based on non-public information in the stock of Velvet

Name and Principal Positions	Year	Salary (US\$)	Bonus (US\$)	Share-based Awards (US\$)	Option-based Awards (\$)	Non-Equity Incentive Plan Compensation			All Other Compensation (US\$)	Total Compensation (US\$)
						Annual Incentive Plans	Long-Term Incentive Plans	Pension Value (\$)		
Chief Financial Officer ⁽³⁾	2009	23,837	Nil	Nil	Nil	Nil	Nil	Nil	Nil	23,837
	2008	19,864	Nil	Nil	Nil	Nil	Nil	Nil	Nil	19,864

Notes:

- (1) The compensation of Mr. Ash, Mr. Monteleone and Mr. Stearns was paid by MOGC. Mr. Ash became the President and Chief Executive Officer of the Company on May 20, 2010. Mr. Monteleone ceased to be President and Chief Executive Officer on May 20, 2010 but remains an Executive Vice President.
- (2) Mr. Ash was paid a US\$400,000 signing bonus to becoming the Company's Chief Executive Officer. The bonus was provided as part of Mr. Ash's simultaneous purchase of five million Common Shares from existing shareholders to offset part of the purchase price.
- (3) Mr. McGrath became the Chief Financial Officer on January 29, 2010 replacing Douglas Urch and resigned as of January 26, 2011. Mr. Heath Cleaver became the Chief Financial Officer on January 26, 2011 replacing Mr. McGrath.
- (4) Mr. Stearns ceased employment with the Company on January 27, 2011.

Compensation Discussion and Analysis

The Compensation Committee of the Board determines the compensation payable to the executives and directors of the Company and, in doing so, ensures that the total compensation payable is fair and reasonable and is consistent with the Company's compensation philosophy. Prior to the amalgamation of PEC and the Company, executive compensation was set by the board of directors of the Company on the recommendation of the President and Chief Executive Officer.

The objective of the Company's compensation program is to attract, motivate, reward and retain highly talented and experienced executive officers. The compensation program is structured to ensure that compensation is competitive with other similarly situated companies and is reflective of the experience, performance, and contribution of the individuals involved and the overall performance of the Company. The Company's compensation philosophy is designed to align the interests of executive officers with shareholders' interests and with the execution of the Company's business strategy.

The Compensation Committee provides recommendations to the Board with respect to the compensation of executive officers of the Company, such compensation to include a base salary, the payment of annual cash bonuses, and participation in the Company's Option Plan. In addition, executive officers are entitled to broad-based benefit programs. The Compensation Committee believes that the combination of fixed and variable compensation elements will motivate executives to achieve corporate goals and enhance shareholder value.

Base Salary

The Compensation Committee and Board approve the base salary ranges for executive officers on an annual basis. Salaries are determined for each executive officer based on an evaluation of each officer's scope of responsibility and corporate and personal performance. Base salaries may be periodically adjusted to reflect current competitive market conditions, the growth and stage of development of the Company and any change to the roles and responsibilities of each executive officer.

The base salary element of the Company's compensation program is not designed to incentivize short-term company or individual performance (as annual cash bonuses are designed to do), but rather, to provide a baseline level of compensation that ensures the Company's executives maintain a reasonable standard of living.

Annual Incentives

The Compensation Committee, in its discretion, may reward the Company's executive officers (and other employees) with annual incentives for superior performance of their duties and for their contribution to the achievement of the Company's goals and objectives. All annual cash bonuses are awarded retrospectively. The annual bonus will provide a retention incentive to encourage key employees to remain in the employ of the Company. The short-term focus of the plan is complemented and balanced by the Option Plan (as hereinafter defined), which is designed to reward certain executive officers and other grantees in relation to the share price of the Company over the long-term.

The Company has no formal policy regarding the payment of annual cash bonuses, and such bonuses are only paid if and when the Compensation Committee deems appropriate based upon the circumstances. Such annual cash bonuses are not tied to the achievement

of any specific predetermined performance goals, but are based on an executive officer's individual performance, as well as the overall performance of the Company, over a given period of time.

Stock Option Plan

Pursuant to the Option Plan, options to purchase Common Shares may be granted by the Board of Directors to directors, officers, employees of and consultants to the Company. Options granted under the Option Plan will have an exercise price as determined by the Board of Directors which price shall not be less than the price allowed by regulatory authorities. The options will be non-transferable and will be exercisable for a period not to exceed five years. The aggregate number of Common Shares subject to options granted under the Option Plan, from time to time, cannot exceed 10% of the Common Shares outstanding after giving effect to the issuance of the options and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the issued and outstanding Common Shares.

Options granted under the Option Plan will terminate upon the date which is 90 days from the termination of an optionee's employment or, from the date such optionee ceased to be a director of the Company. In the event that an optionee dies or is permanently disabled, the options will remain exercisable for a maximum of 12 months following the death or permanent disability.

Outstanding Option-Based and Share-Based Awards

The following table sets forth in respect of all option-based and share-based awards outstanding at the end of the most recent fiscal year ended August 31, 2010, for the Named Executive Officers of the Company:

Name	Option-Based Awards				Share-Based Awards	
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of Unexercised in-the-Money Options (\$)	Number of Shares or Units of Shares that Have Not Vested (#)	Market or Payout Value of Share-Based Awards That Have Not Vested (\$)
Joseph Ash, President and Chief Executive Officer	Nil	N/A	N/A	N/A	Nil	Nil
Patric Monteleone, Executive VP	97,623	1.31	Nov. 8/12	N/A	Nil	Nil
Michael Stearns, VP Exploration ⁽¹⁾	97,623	1.31	Nov. 8/12	N/A	Nil	Nil
Patrick McGrath, Chief Financial Officer	Nil	N/A	N/A	N/A	Nil	Nil

Notes:

- (1) Mr. Stearns ceased employment with the Company on January 27, 2011.

Incentive Plan Awards - Value Vested or Earned During the Year

The following table sets forth information in respect of the value vested or earned during the Company's most recent fiscal year ended August 31, 2010, in respect of option-based awards and share-based awards for the Named Executive Officers of the Company:

Name	Option-Based Awards - Value Vested During the Year (\$)	Share-Based Awards - Value Vested During the Year (\$)	Non-Equity Incentive Plan Compensation - Value Earned During the Year (\$)
Joseph Ash, President and Chief Executive Officer	Nil	Nil	Nil
Patric Monteleone, Executive VP	Nil	Nil	Nil
Michael Stearns, VP Exploration ⁽¹⁾	Nil	Nil	Nil
Patrick McGrath, Chief Financial Officer	Nil	Nil	Nil

Notes:

(1) Mr. Stearns ceased employment with the Company on January 27, 2011.

Pension Plan Benefits

The Company does not have a pension plan or provide any benefits following or in connection with retirement. In addition, the Company does not have a deferred compensation plan.

Management Agreements, Consulting Contracts, Termination and Change of Control Payments

Other than with respect to Mr. Ash and Mr. Monteleone, the Company does not have any contracts, agreements, plans or arrangements that provide for payment to a Named Executive Officer at, following or in connection with any termination, resignation, retirement, a change in control of the Company or a change in the Named Executive Officer's responsibilities.

Mr. Ash, as President and Chief Executive Officer of the Company, is entitled to six months base salary, plus an additional 10% of the base salary for the loss of group benefits and any accrued bonus to the termination date in the event of termination or change of control. Mr. Monteleone, as Executive Vice President and former Chief Executive Officer of the Company, is entitled to six months base salary, plus an additional 10% of the base salary for the loss of group benefits and any accrued bonus to the termination date in the event of termination or change of control subsequent to September 30, 2012 otherwise Mr. Monteleone is entitled to be compensated from the time of a change of control through to September 30, 2012.

Summary of Directors' Compensation

The Company's directors do not have service contracts with respect to their roles as directors and are not provided with cash remuneration for their service to the Company as directors. All directors are reimbursed for reasonable expenses incurred by them in their capacity as directors, including travel and other out of pocket expenses incurred in connection with meetings of the Board of Directors or any committee of the Board of Directors. In addition, the directors are entitled to participate in the Option Plan. See discussion under "Executive Compensation – Stock Option Plan" and "Options to Purchase Securities".

The following table sets forth for each of the Company's directors, other than directors who are also Named Executive Officers, all amounts of compensation for the Company's most recently completed financial year ended August 31, 2010:

Name	Fees Earned (\$)	Share- Based Awards (\$)	Option-Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total (\$)
Joseph Ash	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Patric Monteleone	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Christopher D. Wright	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Ian B. McMurtrie	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Gerry Romanzin	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Gregory G. Turnbull Q.C.	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Patrick McGrath	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Incentive Plan Awards - Value Vested or Earned During the Year

The following table sets forth information in respect of the value vested or earned during the Company's financial year ended August 31, 2010, in respect of option-based awards and share-based awards for the directors of the Company:

Name	Option-Based Awards - Value Vested During the Year (\$)	Share-Based Awards - Value Vested During the Year (\$)	Non-Equity Incentive Plan Compensation - Value Earned During the Year (\$)
Joseph Ash	Nil	Nil	Nil
Patric Monteleone	Nil	Nil	Nil
Christopher D. Wright	Nil	Nil	Nil
Ian B. McMurtrie	Nil	Nil	Nil
Gerry Romanzin	Nil	Nil	Nil
Gregory G. Turnbull Q.C.	Nil	Nil	Nil
Patrick McGrath	Nil	Nil	Nil

Directors' and Officers' Liability Insurance

The Company carries directors' and officers' liability insurance for its directors or officers.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

No director or executive officer of the Company, nor any of their associates or affiliates, nor any employee of the Company is or has been indebted to the Company since the beginning of the most recently completed financial year of the Company, nor is, or at any time since the beginning of the most recently completed financial year of the Company has, any indebtedness of any such person been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

PRINCIPAL SECURITYHOLDERS

As of January 31, 2011, Trapeze Asset Management holds or controls 13,857,103 Common Shares and 3,957,000 warrants that entitle them to acquire the same number of shares at US\$1.00 for a period of twelve months following closing of the Offering, representing an aggregate of approximately 10.8% of the total issued and outstanding Common Shares and which will constitute 7.4⁽¹⁾% and 7.0⁽²⁾%, respectively, of the total issued and outstanding Common Shares assuming the completion of the Minimum Offering and the Maximum Offering. Patric Monteleone, the Company's Executive Vice President and founder, holds or controls 9,540,092 Common Shares and 200,000 stock options pursuant to the Option Plan which are exercisable into Common Shares, representing approximately 7.4% of the total issued and outstanding Common Shares and which will constitute 5.1⁽³⁾% and 4.8⁽⁴⁾%, respectively, of the total issued and outstanding Common Shares assuming the Minimum Offering and the Maximum Offering.

- (1) 5.6% on a fully diluted basis.
- (2) 5.4% on a fully diluted basis.
- (3) 3.8% on a fully diluted basis.
- (4) 3.7% on a fully diluted basis.

PLAN OF DISTRIBUTION

This Prospectus qualifies the distribution of Offered Shares pursuant to the Offering at the Offering Price of \$1.00 per Offered Share for minimum gross proceeds to the Company of \$60,000,000 in the event the Minimum Offering is completed and maximum gross proceeds to the Company of \$70,000,000 in the event the Maximum Offering is completed. Further, this Prospectus also qualifies the distribution of the Over-Allotment Option and the issuance of the Common Shares in connection with the exercise of the Over-Allotment Option. In this regard, the Company and the Agents entered into an agency agreement dated ●, 2011 (the “**Agency Agreement**”) wherein the Agents agreed to obtain subscriptions for the Offered Shares on a “commercially reasonable best efforts” basis at the Offering Price, subject to the conditions described in the Agency Agreement. The Agents have no obligation to purchase any of the Offered Shares. The Offering Price was determined based upon arm’s length negotiations among the Company and the Agents and is in United States dollars.

The Company has granted the Over-Allotment Option to the Agents pursuant to which the Agents will have the option to offer and sell up to an additional 10,500,000 Common Shares (i.e., 15% of the number of Offered Shares) at a price equal to the Offering Price. The Over-Allotment Option is exercisable in whole or in part, at any time on or before the date that is 30 days following the Closing Date of the Maximum Offering. If the Maximum Offering is completed and the Agents exercise the Over-Allotment Option in full, the total gross proceeds to the Company and Net Proceeds to the Company will be \$80,500,000 and \$75,670,000, respectively, before deducting expenses. This Prospectus qualifies the distribution of the Over-Allotment Option and any Common Shares issued pursuant to the exercise of the Over-Allotment Option regardless of whether the over allotment position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

A cash commission equal to six percent (6.00%) of the aggregate gross proceeds of the Offering (\$0.06 per Offered Share), for an aggregate cash commission (assuming the Maximum Offering) of \$4,200,000 will be paid to the Agents (\$4,830,000 in the event the Over-Allotment Option is exercised in full, before deducting expenses). The cash commission will be paid by the Company based on the number of Offered Shares sold under the Offering (and any Offered Shares sold pursuant to the exercise of the Over-Allotment Option).

The Agents will form a selling group with other registered investment dealers to market a portion of the Offering. Any fees payable to members of such selling group will be paid by the Agents out of their fee.

The Company, has agreed, subject to certain limited exceptions, not to directly or indirectly issue, sell, offer, grant an option or right in respect of, or otherwise dispose of, or agree to or announce any intention to, issue, sell, offer, grant an option or right in respect of, or otherwise dispose of, any additional Common Shares or any securities convertible or exchangeable into Common Shares, other than pursuant to: (i) the exercise of the Over-Allotment Option; (ii) the grant or exercise of stock options and other similar issuances pursuant to any stock option plan or similar share compensation arrangements in place at or prior to the Closing Date; and (iii) the issue of Common Shares upon exercise of convertible securities, warrants or options outstanding prior to the Closing Date, for a period of 180 days from the Closing Date (the “**Lock-Up Period**”), without the prior written consent of the Agents, such consent not to be unreasonably withheld.

The Offered Shares offered hereby have not been and will not be registered under the U.S. Securities Act or any state securities laws and accordingly may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the U.S. Securities Act and applicable state securities laws. Except as permitted in the Agency Agreement and as expressly permitted by applicable laws of the United States, the Agents will not offer the Offered Shares within the United States. The Agency Agreement permits the Agents to offer the Offered Shares to certain institutional accredited investors that meet the criteria in Rule 501(a) (1), (2), (3) or (7) of Regulation D under the U.S. Securities Act to whom the Company may sell the Offered Shares in transactions exempt from the registration requirements of the U.S. Securities Act in accordance with Rule 506 of Regulation D under the U.S. Securities Act, and similar exemptions under applicable state securities laws. The Agency Agreement also provides that the Agents will offer the Offered Shares outside the United States only in accordance with Regulation S under the U.S. Securities Act. This Prospectus does not constitute an offer to sell or a solicitation or an offer to buy any of the Offered Shares in the United States.

In addition, until 40 days after the commencement of this Offering, an offer or sale of the Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the U.S. Securities Act.

With respect to the United Kingdom (the “**U.K.**”) this Prospectus and the Offering is only being, and may only be, distributed to and directed at (i) persons outside the U.K. to whom this Prospectus may be lawfully distributed or (ii) persons in the U.K. who are (a) a “Qualified investor” within the meaning of Section 86(7) of the *U.K. Financial Services and Markets Act 2000* as amended from time

to time (the “**FSMA**”) and (b) within the categories of persons referred to in Article 19 (Investment professionals) or Article 49 (high net worth companies, unincorporated associations, etc.) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Financial Promotions Order**”) (all such persons together being referred to as “**relevant persons**”). The Offered Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Offered Shares will be engaged only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or its contents. This Prospectus is not a Prospectus for the purposes of Sections 85(1) and 102B of the FSMA. Accordingly this Prospectus has not been approved as a Prospectus by the U.K. Financial Services Authority (the “**FSA**”) under Section 87A of the FSMA and has not been filed with the FSA or published pursuant to the U.K. Prospectus Rules and nor has it been approved by a person authorized under the FSMA or the London Stock Exchange plc.

In the Agency Agreement, the Agents have represented and warranted to the Company and covenanted with the Company that: (i) except with respect to the placing of Offered Shares to persons in the United Kingdom who are (a) a “Qualified investor” within the meaning of Section 86(7) of the FSMA 2000 and (b) within the categories of persons referred to in Article 19 (Investment professionals) or Article 49 (High net worth companies, unincorporated associations, etc.) of the Financial Promotions Order, neither the Company nor any of its affiliates, nor any person acting on its or their behalf (other than the Agents, their respective affiliates or any person acting on their behalf, in respect of which no representation has been made), has made or will make: (A) any offer to sell, or any solicitation of an offer to buy, any Offered Shares to a person in the United Kingdom; or (B) any sale of Offered Shares; and (ii) during the period in which Offered Shares are offered for sale, neither the Company nor any of its affiliates, nor any person acting on its or their behalf (other than the Agents, their respective affiliates or any person acting on their behalf, in respect of which no representation has been made) has engaged in or will engage in any action that would cause the Prospectus exemption afforded by Section 86 of the FSMA to be unavailable for the placing of Offered Shares in the United Kingdom or the exemption from Section 21(1) of the FSMA pursuant to Articles 19 or 49 of the Financial Promotions Order to be unavailable for the placing of Offered Shares in the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”), an offer to the public of the Offered Shares may not be made in that Relevant Member State prior to the publication of a prospectus in relation to the Offered Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of such Offered Shares to the public in that Relevant Member State may be made at any time: (a) to entities which are “qualified investors” as defined in the Prospectus Directive; or (b) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Offered Shares shall require the Company or the Agents to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospective Directive.

For the purpose of this provision, the expression an “offer of the Offered Shares to the public” in relation to any Offered Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offered Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offered Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression “Prospective Directive” means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/2010.

The Company has agreed to indemnify the Agents and their respective affiliates, directors, officers, employees and partners (the “**Indemnified Parties**”) against certain claims with which the Indemnified Parties may become involved in any capacity in so far as the claims relate to performance of the professional services of the Agents pursuant to the Agency Agreement.

Subscriptions of the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The Offered Shares held by Canadian shareholders will be settled through the system operated by CDS, the registration name for The Canadian Depository for Securities Limited. A purchaser of Offered Shares comprising the Offering will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through which the Offered Shares are purchased. The Closing of the Offering is expected to occur on or about ●, 2011, or such later date as the Company and the Agents may agree but in any event not later than ●, 2011 (the “**Closing Date**”).

Should Closing occur in respect of the Minimum Offering, one or more additional Closings, if necessary, may occur until the earlier of the Offering being fully subscribed and ●, 2011. Notwithstanding the foregoing, the Offering will be discontinued in the event that a

Closing in respect of the Minimum Offering has not occurred by ●, 2011, unless each of the persons or companies who have subscribed within such period consents to the continuation of the Offering.

Until such time as a Closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agents will be held by the Agents pending closing of the Minimum Offering. If the Minimum Offering has not been subscribed for by ●, 2011, the Agents shall promptly return the proceeds of subscriptions to the subscriber without interest or deduction unless the subscribers have otherwise instructed the Agents.

As at the date of this Prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside Canada and the United States of America other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc. See “*Market for Securities*” below.

MARKET FOR SECURITIES

The Company intends to apply to list the Common Shares on the TSX Venture Stock Exchange (the “**TSX-V**”). Listing will be subject to the Company fulfilling all of the listing requirements of the TSX-V.

As at the date of this Prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside Canada and the United States of America other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Market Groups plc.

PRIOR SALES

Common Shares

The Company completed the following issuances of Common Shares during the 12 months preceding the date of this Prospectus:

Date	Number of Common Shares	Price per Common Share (US\$)	Value and Nature of Consideration (US\$)
February 16, 2010	6,321,000	\$0.50	\$3,160,500 Debt Settlement
February 26, 2010	3,970,000	\$0.50	\$1,985,000 Cash
February 26, 2010	33,500	\$0.50	\$16,750 Finders’ Fee
February 26, 2010	258,698	\$0.50	\$129,349 Debt Settlement
April 20/21, 2010	11,610,000	\$0.50	\$5,805,000 Cash
April 21, 2010	763,405	\$0.50	\$381,703 Debt Settlement
December 3, 2010 ⁽¹⁾	29,326,683	\$0.60	\$17,596,000 Cash
TOTAL	52,283,286		

Notes:

- (1) The December 3, 2010 financing also included the issuance of: (i) 29,326,683 purchase warrants exercisable at a price of US\$0.85 per Common Shares for a period of 24 months from the Closing Date; (ii) 1,459,601 broker warrants exercisable at a price of US\$0.85 per Common Shares for a period of 24 months from the Closing Date; (iii) 29,326,683 liquidity warrants; and (iv) 29,326,683 anti-dilution warrants. The liquidity warrants and anti-dilution warrants will automatically expire on the Closing Date.

ESCROWED SECURITIES

Under National Policy 46-201 “*Escrow for Initial Public Offerings*” (“**46-201**”) securities held by “Principals” (as defined below) are required to be held in escrow in accordance with 46-201. Equity securities, including Common Shares, owned or controlled by the Principals of the Company are subject to the escrow requirements. Principals include all persons or companies that, on the completion of the Offering, fall into one of the following categories:

- (a) directors and senior officers of the Company, as listed in this Prospectus;
- (b) promoters of the Company during the two years preceding this Offering;

- (c) those who own and/or control more than 10% of the Company's voting securities immediately after completion of this Offering if they also have appointed or have the right to appoint a director or senior officer of the Company or of a material operating subsidiary of the Company;
- (d) those who own and/or control more than 20% of the Company's voting securities immediately after completion of this Offering; and
- (e) associates and affiliates of any of the above.

The Principals of the Company are certain directors, senior officers, employees and certain former directors and officers of the Company. Pursuant to an agreement (the "**Escrow Agreement**") dated as of ●, 2011, by and among the Company, Olympia Trust Company (the "**Escrow Agent**") and each of Joseph Ash, Patric Monteleone, Patrick McGrath, Michael Stearns, Christopher D. Wright, Diane Wayand, Waymont Energy Inc., Thomas Uphoff, David Fung, Barry Lee, Nasim Tyab, Michael Darden and Alexandra Martel (the "**Escrowed Parties**"), the Escrowed Parties agreed to deposit in escrow their 37,389,432 Common Shares (the "**Escrowed Securities**") with the Escrow Agent. The Escrow Agreement provides that 10% of the Escrowed Securities will be released from escrow upon the first closing of the Offering and that an additional 15% will be released therefrom every 6 month interval thereafter, over a period of 36 months.

The Company is an "emerging issuer" as defined in 46-201 and if the Company achieves "established issuer" status during the term of the Escrow Agreement, it will "graduate" resulting in a catch-up release and an accelerated release of any securities remaining in escrow under the 18 month schedule applicable to established issuers as if the Company had originally been classified as an established issuer.

Pursuant to the terms of the Escrow Agreement, the Escrowed Securities may not be transferred or otherwise dealt with during the term of the Escrow Agreement unless the transfers or dealings within the escrow are:

- (a) transfers to continuing or, upon their appointment, incoming directors and senior officers of the Company or of a material operating subsidiary, with approval of the Company's board of directors;
- (b) transfers to an RRSP or similar trustee plan provided that the only beneficiaries are the transferor or the transferor's spouse or children;
- (c) transfers upon bankruptcy to the trustee in bankruptcy; and
- (d) pledges to a financial institution as collateral for a bona fide loan, provided that upon a realization the securities remain subject to escrow. Tenders of Escrowed Securities to a take-over bid are permitted provided that, if the tenderer is an Escrowed Party of the successor corporation upon completion of the take-over bid, securities received in exchange for tendered Escrowed Securities are substituted in escrow on the basis of the successor corporation's escrow classification.

In addition to the foregoing, and pursuant to the buyout of the NPI's in December 2009 and January 2010 for Common Shares, the arms-length NPI holders agreed to a voluntary lock-up of the 875,315 Common Shares and will be subject to resale restrictions over a period of eighteen months following the Closing of the Offering, and will be released at a rate of 15% every three months, with the first release being 10% and occurring on the Closing of the Offering.

The following table sets forth details of the Escrowed Securities that are subject to the Escrow Agreement as of the date of this Prospectus:

Name	No. of Escrowed Common Shares	Offering Percentage (After Giving Effect to the Minimum Offering)	Offering Percentage (After Giving Effect to the Maximum Offering) ⁽¹⁾
Patric Monteleone	9,540,092	5.06%	4.81%
Christopher D. Wright	6,000,000	3.18%	3.02%
Joseph Ash	5,000,000	2.65%	2.52%
Michael Stearns	3,567,911	1.89%	1.80%
Barry Lee	3,010,000	1.60%	1.52%

Name	No. of Escrowed Common Shares	Offering Percentage (After Giving Effect to the Minimum Offering)	Offering Percentage (After Giving Effect to the Maximum Offering)⁽¹⁾
Patrick McGrath	3,000,000	1.59%	1.51%
Nasim Tyab	2,528,333	1.34%	1.27%
Diane Wayand	1,340,550	0.71%	0.68%
Thomas Uphoff	991,335	0.53%	0.50%
Alexandra Martin	844,550	0.45%	0.43%
Waymont Energy Inc.	628,620	0.33%	0.32%
David Fung	621,486	0.33%	0.31%
Michael Darden	316,555	0.17%	0.16%
	37,389,432	19.83%⁽²⁾	18.85%⁽²⁾

Notes:

- (1) Without giving effect to the exercise of the Over-Allotment Option.
(2) Totals may not add because of rounding.

OPTIONS TO PURCHASE SECURITIES

The Company has issued issue stock options pursuant to the Plan which are exercisable into Common Shares to certain directors, officers and employees of the Company, as follows:

Group (Number in Group)	Number of Options Held as of November 30, 2010	Percentage of Outstanding Options	Exercise Price (US)
Directors and Officers (12)	7,625,000	68.4%	\$0.60
Employees (8)	2,850,000	25.6%	\$0.60
Consultants (6)	675,000	6.0%	\$0.60
TOTAL:	11,150,000	100.0%	

All of the stock options listed in the table above were granted on November 23, 2010 and vest over a two year period from the grant date. One-third of the stock options of each optionee vest on September 1, 2011, one-third vest on March 1, 2012 and the remaining one-third vest on September 1, 2012. In the case of directors who are not re-elected or employees who are terminated, all unvested options will be cancelled in accordance with the terms of the Plan. The stock options must be exercised within five years from the date of grant and expire on September 1, 2015.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McCarthy Tétrault LLP, counsel to the Company, and Heenan Blaikie LLP, counsel to the Agents (collectively, “**Counsel**”), the following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations applicable to a holder who acquires Offered Shares pursuant to this Offering. This summary is applicable only to a purchaser who, at all relevant times, deals at arm’s length and is not affiliated with the Company or the Agents, and who will acquire and hold such Offered Shares as capital property, all within the meaning of the Tax Act. Any Offered Shares will generally be considered to be capital property to a holder unless the holder holds such securities in the course of carrying on a business or has acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary does not apply to a holder: (i) that is a “financial institution” (as defined in the Tax Act for the purposes of the mark-to-market rules); (ii) that is a “specified financial institution” (as defined in the Tax Act); (iii) an interest which is a “tax shelter investment” (as defined in the Tax Act); (iv) to which the “functional currency” reporting rules in section 261 of the Tax Act apply; or (v) who holds or subsequently acquires Common Shares acquired on the exercise of a stock option received in respect of, in the course of, or by virtue of employment with the Company or any corporation or “mutual fund trust” not dealing at arm’s length with the Company, all within the meaning of the Tax Act. Such holders should consult their own tax advisors.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act (the “**Tax Proposals**”) which have been announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and counsel’s understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the “**CRA**”). This summary assumes that the Tax Proposals will be enacted in the form proposed and does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it

take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations discussed herein. No assurances can be given that such Tax Proposals will be enacted as proposed or at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in the Offered Shares. The following description of income tax matters is of a general nature only and is not intended to be, nor should it be construed to be, legal or income tax advice to any particular holder. It does not address the tax considerations relevant to a holder that borrows in order to acquire Offered Shares. Holders are urged to consult their own income tax advisors with respect to the tax consequences applicable to them based on their own particular circumstances.

Holders Resident in Canada

The following part of the summary is applicable to a holder who, at all relevant times, is or is deemed to be resident in Canada for the purposes of the Tax Act and any applicable income tax treaty or convention (a “**Canadian Holder**”).

Certain Canadian Holders who might not otherwise be considered to hold their Offered Shares as capital property may, in certain circumstances, be entitled to make an irrevocable election under subsection 39(4) of the Tax Act to have the Offered Shares and every other “Canadian security” (as defined in the Tax Act) owned by such Canadian Holder in the taxation year of the election and in all subsequent taxation years deemed to be capital property. Canadian Holders contemplating such an election should consult their own tax advisors for advice as to whether an election under subsection 39(4) is available and/or advisable in their particular circumstances.

Taxation of Dividends on Offered Shares

Dividends (including deemed dividends) received on the Offered Shares by a Canadian Holder who is an individual (other than by certain trusts) will be included in the individual’s income and will generally be subject to the gross-up and the dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations. To the extent the Company designates the dividends as “eligible dividends” in the prescribed manner, the Canadian Holder will be subject to the enhanced gross-up and dividend tax credit rules. There may be limitations on the ability of the Company to designate dividends as “eligible dividends”. Taxable dividends received by an individual (and certain trusts) may give rise to alternative minimum tax under the Tax Act, depending on the individual’s circumstances.

Dividends (including deemed dividends) received on the Offered Shares by a Canadian Holder that is a corporation will be included in computing the corporation’s income and will generally be deductible in computing the corporation’s taxable income.

A Canadian Holder that is a “private corporation” or a “subject corporation”, as such terms are defined in the Tax Act, will generally be liable to pay a 33⅓% refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Offered Shares to the extent such dividends are deductible in computing its taxable income.

Disposition of Offered Shares

In general, a Canadian Holder who disposes of or is deemed to have disposed of an Offered Share (other than to the Company) will realize a capital gain (or incur a capital loss) in the taxation year in which the disposition occurs equal to the amount by which the proceeds of disposition in respect of the Offered Share exceed (or are exceeded by) the aggregate of the adjusted cost base of such Offered Share immediately before the disposition and any reasonable expenses associated with the disposition. For this purpose, the adjusted cost base of any Offered Shares acquired pursuant to this Offering will generally be the average of the cost of all Common Shares held as capital property at that time by the Canadian Holder for the purposes of calculating capital gains or capital losses on subsequent disposition of such shares. If the Canadian Holder is a corporation, any capital loss arising on a disposition of a share may in certain circumstances be reduced by the amount of any dividends, including deemed dividends, which have been received on the share. Analogous rules may apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary.

Generally, one-half of any capital gain (a “**taxable capital gain**”) realized in a particular taxation year must be included in the Canadian Holder’s income for such year and one-half of any capital loss (an “**allowable capital loss**”) incurred in such year is required to offset any taxable capital gains realized by the Canadian Holder in the same taxation year, and any excess amount of allowable capital loss is generally deductible against taxable capital gains realized by the Canadian Holder in any of the three prior years or in any subsequent year in the circumstances and to the extent provided in the Tax Act.

A Canadian Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) throughout the relevant taxation year may be subject to an additional 6% refundable tax in respect of its aggregate investment income, which includes an amount in respect of taxable capital gains.

Alternative Minimum Tax

Individuals, including certain trusts, may be subject to an alternative minimum tax. Generally, dividends received or deemed to be received on the Offered Shares and capital gains realized on a disposition or deemed disposition of Offered Shares may give rise to a Canadian Holder's liability for alternative minimum tax. Canadian Holders should consult their own advisors with respect to alternative minimum tax.

Holders Not Resident in Canada

This part of the summary is generally applicable to a holder who, at all relevant times, is neither resident nor deemed to be resident in Canada for purposes of the Tax Act and any applicable income tax treaty or convention, and who does not use or hold, and is not deemed to use or hold, the Offered Shares in connection with carrying on a business in Canada (a "**Non-Resident Holder**"). Special rules not discussed in this summary may apply to a non-resident insurer carrying on an insurance business in Canada and elsewhere; such insurers should consult their own tax advisors.

Taxation of Dividends on Offered Shares

Amounts paid or credited or deemed to be paid or credited to a Non-Resident Holder as, on account or in lieu of, or in satisfaction of a dividend on the Offered Shares will be subject to a Canadian withholding tax under the Tax Act at a rate of 25% of the gross amount of the dividend, subject to reduction under the provisions of any applicable income tax treaty or convention. For example, under the *Canada-United States Tax Convention* (1980) (the "**Canada-U.S. Treaty**") or the *Canada-United Kingdom Income Tax Convention* (1978) (the "**Canada-U.K. Treaty**"), the withholding tax rate is generally reduced to 15% in respect of a dividend paid to a person who does not hold 10% or more of the voting stock of the Company; is the beneficial owner of the dividend; and is resident in the United States or the United Kingdom, as the case may be, for purposes of, and entitled to full benefits under, the Canada-U.S. Treaty and the Canada-U.K. Treaty, respectively.

Disposition of Offered Shares

A Non-Resident Holder of Offered Shares will not generally be subject to tax under the Tax Act in respect of the disposition of such shares, provided that the Offered Shares are not, and are not deemed to be, "taxable Canadian property" (as defined in the Tax Act) to the Non-Resident Holder at the time of disposition or if the Non-Resident Holder is entitled to relief under an applicable income treaty or convention.

Generally, the Offered Shares will not constitute taxable Canadian property to a Non-Resident Holder at a particular time where the Offered Shares are listed on a designated stock exchange (which includes the TSX-V) and the Offered Shares are not otherwise deemed under the Tax Act to be taxable Canadian property provided that in the sixty (60) month period immediately preceding the disposition of such shares, either: (a) the Non-Resident Holder, either alone or together with one or more persons with whom the Non-Resident Holder does not deal at arm's length, does not own or have an option or interest in, 25% or more of the issued shares of any class or series of shares in the capital of the Company; or (b) no more than 50% of the fair market value of the Offered Shares is derived directly or indirectly from real or immovable property situated in Canada, Canadian resource property, timber resource property (all within the meaning of the Tax Act) and/or options in respect of or interest in any of the foregoing types of properties.

In the event that the Offered Shares constitute or are deemed to constitute taxable Canadian property to any Non-Resident Holder, the tax consequences of realizing a capital gain on the disposition of such shares as described above under the heading "*Holders Resident in Canada - Disposition of Offered Shares*" generally will apply, subject to the Non-Resident Holder being entitled to relief under the provisions of an applicable income tax treaty or convention. Non-Resident Holders whose Offered Shares may be taxable Canadian property should consult with their own tax advisors for advice having regard to their particular circumstances.

RISK FACTORS

An investment in Common Shares is speculative and involves a high degree of risk that should be considered by potential investors. An investor should carefully consider the following risk factors in addition to the other information contained in this Prospectus before purchasing Common Shares. The risks and uncertainties below are not the only ones the Company is facing. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction

with, the detailed information appearing elsewhere in this Prospectus. In addition, there are additional risks and uncertainties that we do not presently know or that we currently consider immaterial which may also impair the Company's business operations and cause the price of the Common Shares to decline. If any of the following risks actually occur, the Company's business may be harmed and the Company's financial condition and results of operations may suffer significantly. In that event, the trading price of the Common Shares could decline, and an investor may lose all or part of his or her investment.

Risks Related to the Company and its Business

Competition

The oil and gas industry is intensely competitive. Competition is particularly intense in the acquisition of prospective oil properties and oil and gas reserves. The Company's competitive position depends on its geological, geophysical and engineering expertise, its financial resources, its ability to develop its properties and its ability to select, acquire and develop proved reserves. The Company competes with a substantial number of other companies having larger technical staffs and greater financial and operational resources. Many such companies not only engage in the acquisition, exploration, development and production of oil reserves, but also carry on refining operations and market refined products. The Company also competes with major and independent oil companies and other industries supplying energy and fuel in the marketing and sale of oil to transporters, distributors and end users, including industrial, commercial and individual consumers. The Company also competes with other oil companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time, and has been in particularly short supply recently due to the increase in the market price of oil. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. Finally, companies not previously investing in oil may choose to acquire reserves to establish a firm supply or simply as an investment. Such companies will also provide competition for the Company.

"Resource" vs. "Reserves"

The Company currently has no reserves. Throughout this document, the Company has attempted to provide an appreciation of the potential that the Company's asset base offers. In doing so, the Company often uses the terms "resource" or "resources". These terms refer to the estimated original resource size of a particular prospect and it should be distinguished from reserves. Reserves are the amount of hydrocarbons that are estimated to be economically recoverable from a particular resource base from a given date forward. Ultimate recoverable reserves can range widely depending on resource characteristics, available technologies and economic and contractual parameters.

Estimate of Resources

The resource estimates presented in the NSAI Report have been classified as contingent and prospective resources. The resource estimates in the NSAI Report are estimates only. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources. Readers are cautioned that the volumes presented are estimates only and should not be construed as being exact quantities. The Company's proposed exploration program must be considered as a high risk exploration play.

Status and Stage of Development

The Company has no producing properties and no history of earnings, and there is no assurance that any of its properties will commence production, generate earnings, operate profitably or provide a return on investment in the future. All of the Company's assets are currently in the early stages of exploration or development. As a consequence, there is a risk that some or all of the Company's assets may not be developed on a timely basis or at all. Numerous factors, many of which are beyond the Company's control, could impact the Company's ability to explore and develop the Company's assets and the timing thereof, including the risk factors set forth in this Prospectus.

Marketability of Production

The marketability and ultimate commerciality of oil acquired or discovered is affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment and government regulation. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See "*Industry Conditions*". Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position.

Commodity Price Fluctuations

Oil and gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of the Company's net production revenue and overall value and could result in ceiling test write downs. It may become uneconomical to produce from some wells as a result of lower prices, which could result in a reduction in the volumes and value of the Company's resources. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities. A substantial material decline in prices from historical average prices could reduce the Company's ability to borrow funds.

Nature of the Oil and Gas Business

The Company currently has no reserves. An investment in the Company should be considered speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of, oil and gas in Portugal. The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Any proved reserves the Company may establish will decline as reserves are produced from its properties unless it is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to develop the Company's asset base of oil and natural gas reserves will be impaired. In addition, there can be no assurance that even if the Company is able to raise capital to develop or acquire additional properties to develop the Company's reserves, the Company's future exploration, development and acquisition activities will result in proved reserves or that the Company will be able to drill productive wells at acceptable costs.

The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. The properties in which the Company has an interest are prospects in which the presence of oil and natural gas reserves in commercial quantities has not been established. The country of Portugal has had no commercial quantities of oil and gas produced in its history. There is no certain way to know in advance whether any of the Company's prospects will yield oil and/or gas in commercial quantities.

Hedging Activities

From time to time the Company may enter into agreements to receive fixed prices on its oil and gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases.

Financial Resources

The Company's cash flow from operations may not be sufficient to fund its ongoing activities and implement its business plans. From time to time the Company may enter into transactions to acquire assets or the shares of other companies. These transactions along with the Company's ongoing operations may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Depending on future exploration and development plans, the Company may require additional financing, which may not be available or, if available, may not be available on favourable terms. Failure to obtain such financing on a timely basis could cause the Company to forfeit or forego various opportunities that would otherwise be beneficial to the Company and its shareholders.

International Operations

International operations are subject to political, economic and other uncertainties, including but not limited to, risk of terrorist activities, import, export and transportation regulations and tariffs, taxation policies, including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes and other uncertainties arising out of foreign government sovereignty over the Company's international operations. The Company's operations may also be adversely affected by applicable laws and policies of Portugal, the effect of which could have a negative impact on the Company.

Foreign Currency and Fiscal Matters

The Company's operations and expenditures are to some extent paid in foreign currencies. As a result, the Company is exposed to market risks resulting from fluctuations in foreign currency exchange rates. A material drop in the value of any such foreign currency

could result in a material adverse effect on the Company's cash flow and revenues. Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Portugal to foreign entities. There can be no assurance, however, that restrictions on repatriation of capital or distributions of earnings from Portugal will not be imposed in the future. Amendments to current taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on the Company.

To the extent revenues and expenditures denominated in or strongly linked to the U.S. dollar are not equivalent, the Company is exposed to exchange rate risk. The Company is exposed to the extent U.S. dollar revenues do not equal U.S. dollar expenditures. The Company is not currently using exchange rate derivatives to manage exchange rate risks. The Company's results will be reported in US dollars and foreign currency denominated monetary balances in Canadian dollars or Euros could result in gains and losses that may increase the variability of earnings.

The Company could be subject to U.S. corporate "inversion" rules

U.S. federal income tax legislation enacted in 2004 dealing with corporate "inversions" (e.g., certain transactions in which a non-U.S. corporation acquires substantially all of the assets held directly or indirectly by a U.S. corporation or partnership, if, after the transaction, former equity owners of the U.S. corporation or partnership own a specified level of stock in the non-U.S. corporation and provided that the affiliated group which includes the U.S. corporation does not have substantial business activities in the foreign country in which the foreign corporation is created or organized) provides in certain cases that a non-U.S. corporation may be treated as a U.S. corporation for U.S. federal income tax purposes or limits the use of certain tax attributes against taxable income. The inversions rules, if applicable to the Company, would result in U.S. withholding taxes being imposed on dividends paid on the Common Shares to non-U.S. shareholders and require the Company to file U.S. tax returns and subject the Company to U.S. federal income taxes. The Company intends to take the position that the inversion rules do not apply to the Company as a result of its acquisition of PEC. However, there can be no assurances provided that the U.S. Internal Revenue Service will not assert that the acquisition of PEC was an inversion transaction and that the inversion rules apply to the Company.

Political and Regulatory

The oil and gas industry in general is subject to extensive government policies and regulations, which result in additional cost and risk for industry participants. Environmental concerns relating to the oil and gas industry's operating practices are expected to increasingly influence government regulation and consumption patterns which favour cleaner burning fuels such as natural gas. The Company is uncertain as to the amount of operating and capital expenses that will be required to comply with enhanced environmental regulation in the future. The Company is also subject to changing and extensive tax laws, the effects of which cannot be predicted. Among other things, the Company is subject to regulatory filings with respect to the repatriation of funds to its shareholders which must be complied with to avoid sanctions. Legal requirements are frequently changed and subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations may change in the future and materially adversely affect the Company's results of operations and financial condition.

The Company is conducting exploration and development activities in Portugal, and is dependent on receipt of government approvals or permits to develop its properties. Based on past performance, the Company believes that the government of Portugal supports the exploration and development of its oil and gas properties by foreign companies. Nevertheless, there is no assurance that future political conditions in Portugal will not result in the government adopting different policies respecting foreign development and ownership of oil, environmental protection and labour relations. This may affect the Company's ability to undertake exploration and development activities in respect of present and future properties, as well as its ability to raise funds to further such activities. Any delays in receiving government approvals or permits or no objection certificates may delay the Company's operations or may affect the status of the Company's contractual arrangements or its ability to meet its contractual obligations.

The Company's Oil Production Could Vary Significantly From Reported Resources

The Company currently has no reserves. The Company's resource evaluations have been prepared in accordance with NI 51-101. There are numerous uncertainties inherent in estimating quantities of resources derived therefrom, including many factors that are beyond the control of the Company. The resources information set forth in this Prospectus represent estimates only. The resources from the Company's properties have been independently evaluated by NSAI in the NSAI Report. The NSAI Report includes a number of assumptions relating to factors such as the ultimate recovery of resources, royalties and other government levies that may be imposed over the producing life of the resources. Many of these assumptions are subject to change and are beyond the control of the Company. Actual resources derived therefrom will vary from these evaluations, and such variations could be material. These

evaluations are based, in part, on the assumed success of exploitation activities intended to be undertaken in future years. The resources derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

Availability of Equipment and Access Restrictions

Oil exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay the Company's proposed exploration, development and sales activities, and could have a material adverse effect on the Company's financial condition. If the demand for, and wage rates of, qualified rig crews rise in the drilling industry then the oil and gas industry may experience shortages of qualified personnel to operate drilling rigs. This could delay the Company's drilling operations and adversely affect the Company's financial condition and results of operations. To the extent the Company is not the operator of its oil and gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Operating Hazards

Oil exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and oil spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Environmental

All phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur significant costs to remedy such discharge. No assurance can be given that changes in environmental laws or their application to the Company's operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects. See "*Risk Factors - Political and Regulatory*".

Reliance on Third Party Operators and Key Personnel

To the extent that the Company is not the operator of its properties, the Company will be dependent upon other guarantors or third parties' operations for the timing of activities and will be largely unable to control the activities of such operators. In addition, the Company's success depends, to a significant extent, upon management and key employees. The loss of key employees could have a negative effect on the Company. Attracting and retaining additional key personnel will assist in the expansion of the Company's business. The Company faces significant competition for skilled personnel. There is no assurance that the Company will successfully attract and retain personnel required to continue to expand its business and to successfully execute its business strategy.

Termination or Non-Renewal of the Company's Concessions

The Company's five Concessions contracts were executed on August 3, 2007 with the Ministry of the Industry and Innovation for petroleum exploration, development and productions rights in Portugal (the "**Ministry**"). The Concession contracts provide for an initial eight year term with two one-year extensions and a twenty five year production period based on an approved development and

production plan with five three-year production period extensions. For each of the Concessions, the Company is committed to drill either six or seven wells with an estimated expenditure of €500,000 for well work. The minimum total contract commitment is €18.5 million starting in 2008 and expiring in 2015.

The Company is obliged to relinquish fifty percent (50%) of the Concession area by August 3, 2012. The Company will choose the area so it does not materially affect the Company's core prospects. In the event a Concession converts to a 25 year production lease, the designated perimeter surrounding the production lease could be extended into the area previously relinquished if it can be technically justified.

Each of the Concessions may be renewed provided that a default under the agreements related to the Concessions has not occurred. Even if all of the Company's obligations have been fulfilled under the Concession agreements, there are no guarantees that the Company's concessions will be renewed since renewal is subject to the discretion of the Portuguese Government. In addition, if the Company fails to comply with its technical and/or financial commitments under the Concession agreements by specific dates as defined thereunder, the Company may be forced to return the Company's exploration blocks to the Ministry causing the forfeiture of amounts the Company has posted as a guaranty for the performance of such activities, which would likely result in a significant loss to it. Furthermore, the Concession agreements may be terminated by the Ministry for a number of reasons including, but not limited to the Company's inability to comply with its obligations as a result of the bankruptcy or insolvency of the Company.

Early termination or non-renewal of any of the Concession contracts, for any reason, would have a material adverse effect on the Company's business, results of operations and financial condition, as well as on the market price of the Common Shares. See "*Management's Discussion and Analysis*" - *Commitments*" and "*The Concessions and Prospects*".

Cost of New Technologies

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Company does. There can be no assurance that the Company will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Company or implemented in the future may become obsolete. In such case, the Company's business, financial condition and results of operations could be materially adversely affected. If the Company is unable to utilize the most advanced commercially available technology, the Company's business, financial condition and results of operations could be materially adversely affected.

Conflicts of Interest

Certain of the directors of the Company may have associations with other oil and gas companies or with other industry participants with whom the Company does business. The directors of the Company are required by applicable corporate law to act honestly and in good faith with a view to the Company's best interests and to disclose any interest which they may have in any project or opportunity to the Company. However, their interests in the other companies may affect their judgment and cause such directors to act in a manner that is not necessarily in the best interests of the Company.

Risks Related to the Offering

Absence of a Liquid, Public Market

Prior to the completion of the Offering, there has been no public market for the Common Shares and there can be no assurance that a liquid, public market will develop for the Common Shares. The price at which the Offered Shares are being offered hereunder is determined through negotiations between the Company and the Agents. Among the factors to be considered in determining the price are the Company's future prospects and the prospects of the industry in general, sales, the Company's financial and operating information in recent periods and the market prices of securities and certain financial and other operating information of companies engaged in activities similar to ours. The Offering Price may not be indicative of the market price for the Company's Common Shares after the Offering, which price may decline below the Offering Price. See "*Plan of Distribution*".

Exchange Rate

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Canadian dollar and Euro. The Company's Offering is based in Canadian dollars however, many of the operating expenses will be

denominated in US Dollars and in Euros. Foreign exchange risk arises from future commercial transactions. Currently, the Company uses no derivative financial instruments to hedge the above mentioned risk exposures.

Share Price Volatility

A number of factors could influence the volatility in the trading price of the Common Shares, including changes in the economy or in the financial markets, industry related developments and the impact of changes in the Company's daily operations. Each of these factors could lead to increased volatility in the market price of the Common Shares. In addition, variations in earnings estimates by securities analysts and the market prices of the securities of the Company's competitors may also lead to fluctuations in the trading price of the Common Shares.

Discretion in the Use of Proceeds

The Company's management will have broad discretion concerning the use of the proceeds of the Offering as well as the timing of their expenditure. As a result, you will be relying on the judgment of management for the application of the proceeds of the Offering. The Company's management may use the net proceeds of the Offering in ways that you may not consider desirable. The results and the effectiveness of the application of the proceeds are uncertain. If the proceeds are not applied effectively, the results of the Company's operations may suffer.

Dividends

The Company has not declared or paid any cash dividends on the Common Shares to date. The payment of dividends in the future will be dependent on the Company's earnings and financial condition and on such other factors as the Board of Directors considers appropriate. Unless and until the Company pays dividends, shareholders may not receive a return on their Common Shares.

Dilution

The Offering Price of the Common Shares significantly exceeds the net tangible book value per share of the Common Shares. Accordingly, purchasers of Offered Shares will experience immediate and substantial dilution of their investment. Investors may be subject to further dilution if the Company sells additional Common Shares or issues additional Common Shares in connection with future acquisitions. In addition, Common Shares issued upon the exercise of outstanding stock options will lead to further dilution for purchasers in the Offering.

DIVIDEND POLICY

The Company has not declared or paid any dividends on the Common Shares to date, nor does it have any present intention to pay any dividends in the near term. The payment of dividends in the future will be dependent on the Company's earnings, financial condition and such other factors as the Board of Directors considers appropriate.

LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings nor to the Company's knowledge are any such proceedings contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this Prospectus, there are no material interests, direct or indirect, of directors, senior officers, any shareholders who beneficially own, directly or indirectly, more than 10 % of the Company's outstanding Common Shares, or any known associates or affiliates of such persons, in any transaction within the last three years or in any proposed transaction which has materially affected or would materially affect the Company.

PROMOTERS

The following table sets out the names of the promoters of the Company and their respective shareholdings in the Company after giving effect to the Minimum Offering and the Maximum Offering:

Name of Promoter	Common Shares Held Directly or Indirectly After Completion of the Offering⁽¹⁾⁽³⁾	Percentage of Outstanding Common Shares After Giving Effect to the Minimum Offering⁽¹⁾⁽³⁾	Percentage of Outstanding Common Shares After Giving Effect to the Maximum Offering⁽¹⁾⁽³⁾
Christopher D. Wright	6,000,000	3.18%	3.02%
Patric Monteleone ⁽²⁾	9,540,092	5.06%	4.81%
Joseph P. Ash ⁽²⁾	5,000,000	2.65%	2.52%
TOTAL	20,540,092	10.89%⁽⁴⁾	10.35%⁽⁴⁾

Notes:

- (1) Not including any Common Shares that may be purchased by the promoters pursuant to the Offering.
- (2) Joseph Ash and Patric Monteleone reside outside of Canada. It may not be possible for investors to collect, from Mr. Ash and Mr. Monteleone, judgments obtained in courts in the provinces in which this Prospectus has been filed predicated on the civil liability provisions of securities legislation.
- (3) Without giving effect to the exercise of the Over Allotment Option.
- (4) Totals may not add due to rounding.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts the Company has entered into prior to the date of this Prospectus which can reasonably be regarded as presently material are the following:

- (a) the Agency Agreement dated ●, 2011 among the Company and the Agents referred to under “*Plan of Distribution*”;
- (b) the concession contracts between the Government of Portugal and the Company in respect of each of the Concessions;
- (c) the permitting agreement between Checklane Unipessoal LDA and the Company dated June 15, 2010 for the Aljubarrota and Torres Vedras Concessions;
- (d) the seismic agreement between Prospectiuni S.A. and the Company dated August 25, 2010 for the Aljubarrota and Torres Vedras Concessions; and
- (e) the Escrow Agreement.

Copies of the foregoing, or drafts thereof, will be available for inspection at the Company’s offices at Suite 350, 24 Waterway, The Woodlands, Texas, USA 77380, at the offices of McCarthy Tétrault LLP in Calgary at 3300, 421 - 7th Avenue S.W., Calgary, Alberta, T2P 4K9, and at the offices of the Alberta Securities Commission, during normal business hours while the securities qualified by this Prospectus are in distribution and for a period of 30 days thereafter at any time during normal business hours. Electronic copies will also be available on SEDAR.

EXPERTS

No person or company whose profession or business gives authority to a statement made by such person or company and who is named in this Prospectus as having prepared or certified a part of this Prospectus, or a report or valuation described in this Prospectus has received or shall receive a direct or indirect interest in the property of the Company or any associate or affiliate of the Company.

Information relating to oil and gas resources in this Prospectus was calculated by NSAI as an independent qualified reserves evaluator. The principals of NSAI, individually or as a group, neither own nor expect to receive any of the securities of the Company, directly or indirectly.

Certain legal matters in connection with the Offering are being reviewed, on behalf of the Company, by McCarthy Tétrault LLP, and on behalf of the Agents, by Heenan Blaikie LLP. As at the date hereof, the partners and associates of McCarthy Tétrault LLP, as a

group and the partners and associates of Heenan Blaikie LLP, as a group, beneficially own, directly or indirectly, less than 2% of the outstanding Common Shares. McCarthy Tétrault LLP owns 1,000,000 Common Shares and 500,000 warrants of the Company. Each warrant entitles the holder thereof to acquire one Common Share at a price of US\$0.50 at any time until twelve months following closing of the Offering.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The Company's auditors are Deloitte & Touche LLP, Chartered Accountants, at its offices located at 3000 Scotia Centre, 700 - 2nd Street S.W. Calgary, Alberta, T2P 0S7. Deloitte & Touche LLP is independent in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

The Company's transfer agent and registrar in Canada for the Common Shares is Olympia Trust Company located at Suite 2300, 125 - 9th Avenue S.W., Calgary, Alberta, T2G 0P6.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a Prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the Prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the applicable province. The purchaser should refer to any applicable provisions of the securities legislation of the province in which the purchaser resides for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Prospectus dated ●, 2011 qualifying the distribution of common shares of Porto Energy Corp. (the “**Company**”). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned Prospectus of our report to the Board of Directors of the Company on the consolidated balance sheets of the Company as at August 31, 2010 and 2009 and the consolidated statements of operations, comprehensive income (loss) and deficit and cash flows for each of the years in the three-year period ended August 31, 2010. Our report is dated December 10, 2010 (except as to notes 15(d) and 15(e) which are as of ●, 2011).

“●”

Chartered Accountants

Calgary, Alberta

●, 2011

GEOLOGISTS' CONSENT

We have complied with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* in our preparation of the NSAI Report dated January 28, 2011. Our report was prepared for the Board of Directors of the Company in connection with the preparation of the Prospectus of the Company dated February 1, 2011, qualifying the distribution of Common Shares of the Company. We consent to the use of the NSAI Report in the above mentioned Prospectus.

“●”

Professional Geologists

Houston, Texas, USA

February 1, 2011

APPENDIX A - FINANCIAL STATEMENTS OF THE COMPANY

Porto Energy Corp.
Consolidated Financial Statements

For the Years Ended August 31, 2010, 2009 and 2008

(Stated in United States Dollars)

Deloitte & Touche LLP
3000 Scotia Centre
700 Second Street S.W.
Calgary AB T2P 0S7
Canada

Tel: (403) 267-1700
Fax: (403) 264-2871
www.deloitte.ca

Auditors' Report

To the Board of Directors of Porto Energy Corp.:

We have audited the consolidated balance sheets of **Porto Energy Corp.** (the "Company") as at August 31, 2010 and 2009 and the consolidated statements of operations, comprehensive income (loss), and deficit, and cash flows for each of the years in the three year period ended August 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2010 and 2009 and the results of its operations and its cash flows for each of the years in the three year period ended August 31, 2010 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
December 10, 2010
(except as to Notes 15(d) and 15(e) which are as of ●, 2011)

Chartered Accountants

Porto Energy Corp.
Consolidated Balance Sheets
(Stated in United States dollars)

	<u>August 31,</u> <u>2010</u>	<u>August 31,</u> <u>2009</u>
ASSETS		
Current assets:		
Cash	\$ 3,315,591	\$ 45,510
Accounts receivable	134,528	91,738
Due from joint venture partners	-	717,462
Prepaid expenses	210,392	6,327
Total current assets	<u>3,660,511</u>	<u>861,037</u>
Property and equipment (Note 6)	35,948,178	31,938,493
Restricted cash deposit (Note 8)	135,000	75,000
Total assets	<u><u>\$ 39,743,689</u></u>	<u><u>\$ 32,874,530</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,686,357	\$ 13,286,129
Related party payables (Note 11)	107,312	908,909
Notes payable (Note 10)	-	82,743
Related party notes payable (Note 11)	-	760,278
Total current liabilities	<u>1,793,669</u>	<u>15,038,059</u>
Asset retirement obligation (Note 7)	98,065	92,184
Future income tax liability (Note 13)	5,551,255	4,518,446
Total long-term liabilities	<u>7,442,989</u>	<u>19,648,689</u>
Basis of presentation (Note 2)		
Commitments and contingencies (Notes 12 and 14)		
Subsequent events (Note 15)		
Shareholders' equity:		
Share capital (Note 9 (b))	29,557,450	12,778,572
Warrants (Note 9 (c))	822,566	3,608,768
Share subscriptions received (Note 9 (b))	-	543,779
Contributed surplus (Note 9 (g))	4,880,226	1,271,549
Deficit	<u>(2,959,542)</u>	<u>(4,976,827)</u>
Total shareholders' equity	<u>32,300,700</u>	<u>13,225,841</u>
Total liabilities and shareholders' equity	<u><u>\$ 39,743,689</u></u>	<u><u>\$ 32,874,530</u></u>

Approved by the Directors:

 ●
 Director

 ●
 Director

The accompanying notes are an integral part of these financial statements.

Porto Energy Corp.
Consolidated Statement of Operations,
Comprehensive Income (Loss), and
Deficit
(Stated in United States dollars)

	Years Ended August 31,		
	2010	2009	2008
Revenues			
Other revenues	\$ 4,243	\$ 2,566	\$ 94,118
Expenses			
General and administrative	2,250,528	1,053,359	1,890,603
Professional fees	706,228	163,583	1,205,534
Interest expense	102,739	83,385	68,926
Stock based compensation (Note 9 (d))	-	821,098	-
Fair value of warrants extended (Note 9 (b))	-	2,138,210	-
Depletion, depreciation and accretion	16,450	16,990	24,170
Foreign exchange loss (gain)	77,073	(213)	(452,439)
Total Expenses	<u>3,153,018</u>	<u>4,276,412</u>	<u>2,736,794</u>
Net loss before income taxes and gain on settlement of debt	<u>(3,148,775)</u>	<u>(4,273,846)</u>	<u>(2,642,676)</u>
Provision on income taxes (Note 13)	1,032,809	1,389,354	1,771,580
Net loss before gain on settlement of debt	<u>(4,181,584)</u>	<u>(5,663,200)</u>	<u>(4,414,256)</u>
Gain on settlement of debt (Note 9 (b))	6,198,869	903,300	-
Net income (loss) and comprehensive income (loss)	<u>2,017,285</u>	<u>(4,759,900)</u>	<u>(4,414,256)</u>
Retained earnings (deficit), beginning of year	(4,976,827)	(216,927)	4,197,329
Deficit, end of year	<u>\$ (2,959,542)</u>	<u>\$ (4,976,827)</u>	<u>\$ (216,927)</u>
Basic and diluted income (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.16)</u>	<u>\$ (0.16)</u>
Weighted average number of shares outstanding - basic and diluted (Note 9 (f))	<u>67,914,393</u>	<u>30,365,131</u>	<u>27,180,887</u>

The accompanying notes are an integral part of these financial statements.

Porto Energy Corp.
Consolidated Statement of Cash Flows
(Stated in United States dollars)

	Years Ended August 31,		
	2010	2009	2008
Cash flows from operating activities			
Net income (loss)	\$ 2,017,285	\$ (4,759,900)	\$ (4,414,256)
Items not affecting cash:			
Depletion, depreciation and accretion	16,450	16,990	24,170
Provision for future income taxes	1,032,809	1,389,354	1,771,580
Fair value of warrants issued for loans	-	92	52,477
Stock-based compensation	-	821,098	-
Fair value of warrant extension	-	2,138,210	-
Gain on settlement of debt	(6,198,869)	(903,300)	-
Unrealized foreign exchange loss (gain)	77,073	(213)	(452,439)
	(3,055,252)	(1,297,669)	(3,018,468)
Net change in non-cash working capital items:			
Accounts receivable	(29,940)	243,933	149,713
Prepaid expenses	(204,065)	5,688	(5,354)
Related party payables	(275,977)	477,105	402,631
Due from joint venture partners	-	367,323	(870,862)
Accounts payable and accrued liabilities	(445,041)	816,095	807,629
Net cash provided by/(used by) operating activities	(4,010,275)	612,475	(2,534,711)
Cash Flows from Financing Activities			
Shares and warrants issued for cash	7,790,000	-	4,708,222
Shares issue costs paid in cash	(472,280)	-	(643,718)
Proceeds from notes payable	-	-	82,988
Proceeds from related party notes payable	-	136,751	838,527
Repayments of notes payable	(73,700)	-	-
Repayments of related party notes payable	(165,251)	-	(340,000)
Net cash provided by financing activities	7,078,769	136,751	4,646,019
Cash Flows from Investing Activities			
Acquisition of property and equipment	(2,417,557)	(5,931,792)	(17,014,229)
Loan from Porto pre-amalgamation (Note 5)	3,583,435	-	-
Cash received on amalgamation (Note 5)	412,834	-	-
Accounts payable and accrued liabilities	(1,325,116)	5,117,580	7,199,919
Restricted cash deposits	(60,000)	-	(10,000)
Net cash provided by/(used by) investing activities	193,596	(814,212)	(9,824,310)
Foreign exchange gain (loss) on cash held in a foreign currency	7,991	(167)	312,079
	7,991	(167)	312,079
Net increase/(decrease) in cash	3,270,081	(65,153)	(7,400,923)
Cash at beginning of year	45,510	110,663	7,511,586
Cash at end of year	\$ 3,315,591	\$ 45,510	\$ 110,663

The accompanying notes are an integral part of these financial statements

Porto Energy Corp.
Consolidated Statement of Cash Flows (continued)
(Stated in United States dollars)

	Years Ended August 31,		
	2010	2009	2008
Supplemental disclosure of cash flow information			
Interest Paid	\$ 102,739	\$ -	\$ -
Interest Received	4,195	2,340	67,059
Non-cash financing activities			
Fair value of agents warrants issued	\$ -	\$ -	\$ 112,940
Shares Issued for Accounts Payable	3,852,290	-	375,000
Shares issued for related Party Notes	564,413	-	-
Shares issued for related Party Payables	525,621	-	-
Shares issued for Net Profit Interest ("NPI")	885,235	-	359,744
Shares issued as fees	16,750	-	-

The accompanying notes are an integral part of these financial statements.

Porto Energy Corp.
Notes to the Consolidated Financial Statements
For the years ended August 31, 2010, 2009, and 2008
(Stated in United States dollars)

1. DESCRIPTION OF BUSINESS

Porto Energy Corp., a development stage company (the ‘Company’), was formed through the amalgamation (the ‘Amalgamation’) of Porto Energy Corp. (‘Porto’) and Mohave Exploration & Production Inc. (‘MEPI’) pursuant to the provisions of the *Business Corporations Act* (British Columbia) on January 30, 2010. Under the Amalgamation, each MEPI Class A common shareholder received 0.57425 of a Company common share for each MEPI Class A common share held, each MEPI Class B common shareholder received one Company common share for each MEPI Class B common share held, and each Porto common shareholder received one Company common share for each Porto common share held. The MEPI and Porto options and warrants were exchanged for options or warrants of the Company using the same exchange ratios. All share and per share amounts in these financial statements have been adjusted to give retroactive effect to the exchange ratio of the Amalgamation.

The Company, through the amalgamation of MEPI, owns 100% of the common shares of Mohave Oil and Gas Corporation (‘Mohave’) and Mohave’s wholly owned subsidiary Mohave Portugal Corporation (‘Portco’), both Texas incorporated entities.

The Company’s primary operating activities are carried out through Mohave which owns ownership positions in the Aljubarrota-3, Torres Vedras-3, Sao Pedro de Muel-2, Cabo Mondego-2, and Rio Maior-2 oil and gas concessions in Portugal (the ‘Portugal Assets’). The Company is undertaking exploration and development operations in respect of these concessions.

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations. These financial statements do not include adjustments or disclosures that may result from the Company’s inability to continue as a going concern. If the Company is unable to continue as a going concern, adjustments would be necessary in the carrying value of assets and liabilities, the reported net losses and balance sheet classifications used, and such adjustments could be material.

The Company has not yet realized profitable operations, has relied on non-operational sources of financing to fund operations, and has incurred ongoing annual deficits. These conditions cast significant doubt on the validity of the going concern assumption. The Company’s ability to continue as a going concern is dependent on its ability to obtain the necessary financing and to ultimately generate profitable operations. The Company must secure additional financing to fund its operations.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (‘GAAP’) and include the accounts of the Company and its wholly owned subsidiaries and branches. All intercompany balances and transactions have been eliminated. All amounts are stated in United States dollars, unless otherwise noted by C\$ for Canadian dollars or € for Euros.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses in the consolidated financial statements and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Measurement uncertainty

Estimates and assumptions include the carrying amounts of property and equipment, including impairment, depletion and depreciation and asset retirement obligation, as well as future income taxes are, in part, based on estimates of reserves and future costs. Management evaluates estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic and commodity price environment. The Company's reserve estimates are reviewed annually by an independent engineering firm. Unproven properties and potential impairment indicators are reviewed and assessed for impairment based on historical experience and other available information. The amounts disclosed relating to fair values of stock options issued are based on estimates of future volatility of the Company's share price, expected lives of options, and other relevant assumptions.

The amounts disclosed relating to the value of common shares exchanged for settlement of debt and buyouts of certain Net Profit Interests ("NPIs") are measured at the fair value of the common shares issued which approximated the fair value of the settled debt. Concurrent with the exchange of common shares for settlement of debt and buyout of certain NPIs, the Company also completed private placements for cash with arms length parties at the similar fair value in which there was a limited and illiquid market for the Company's common shares at the time of the exchange.

The valuation of the petroleum and natural gas properties is based on management's best estimate of the future recoverability of these assets. Various estimates are required in assessing the potential impairment of costs capitalized. Consideration of impairment includes estimates relating to overall costs, future cash flows, regulatory approval, timing, commodity prices, the general economic environment and the ability to finance future activities.

As a result, current credit market conditions combined with volatile commodity prices have resulted in increased uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined accurately, actual results could differ significantly from management's estimates. Additionally, by their nature, these estimates are subject to measurement uncertainty.

Foreign exchange and reporting currency

The Company's reporting currency is the US dollar. Transactions denominated in foreign currencies are translated using the temporal method as all of the Company's operations are considered to be financially and operationally integrated operations. Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the average exchange rate for the year. Exchange gains and losses on translation of foreign subsidiaries are included in income in the current period.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents is fair value. Certain of the Company's cash balances are maintained in banks which are not covered by deposit insurance or may exceed federally insured limits.

Restricted Cash

The Company has secured various performance bonds to guarantee its obligations and commitments in connection with its exploratory properties in Portugal. All of the performance bonds have been issued by a U.S. bank and their terms are dictated by the corresponding Concession Agreements.

Joint operations

Substantially all of the Company's oil and gas activities are conducted jointly with others and accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Property and equipment

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs associated with the exploration for, and development of, petroleum and natural gas reserves, whether productive or unproductive are capitalized in cost centers on a country by country basis. The Company has one cost center, Portugal. Costs capitalized include land acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties and drilling and overhead expenses related to exploration activities. Proceeds from sales of oil and natural gas properties are recorded as reductions of capitalized costs unless the reduction of capitalized costs results in a change of 20% or more in the depletion rate. In this case, a gain or loss would be recognized into income.

The Company follows the full cost accounting method for the annual ceiling test calculation pertaining to the recognition and measurement of impairment of petroleum and natural gas properties. In applying the full cost method, the Company evaluates petroleum and natural gas assets to determine that the carrying amount in each cost centre is recoverable and does not exceed the fair value of the properties in the cost centre. The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost (less any impairment) of unproved properties exceeds the carrying amount of the cost centre. When the carrying amount is not recoverable, an impairment loss is recognized to the extent the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost (less any impairment) of unproved properties of the cost centre.

The cost of unproved properties is included in the impairment test described above but subject to a separate impairment test. In the case of impairment, the book value of the impaired properties is moved to the petroleum and natural gas depletable base.

Depletion and depreciation

Costs related to petroleum and natural gas properties are depleted on a unit-of-production method based on the Company's share of total proved petroleum and natural gas reserves before royalties as determined by independent reserve engineers. Costs eligible for depletion include total capitalized costs, less the cost of unproved properties, plus estimated future development and abandonment costs of proved undeveloped reserves. Future development costs include costs incurred to obtain access to proved reserves, such as drilling costs and the installation of production equipment, and such costs are included in the depletion expense calculation. Future abandonment costs include costs to dismantle and relocate or dispose of production platforms, gathering systems and related structures and restoration costs of land and seabed. Estimates of these costs for each of our properties is based upon their geographic location, type of production structure, well depth, currently available procedures and ongoing consultations with construction and engineering consultants. Because these costs typically extend many years into the future, estimating these future costs is difficult and requires management to make judgments that are subject to future revisions based upon numerous factors, including changing technology and the political and regulatory environment. These assumptions and estimates of future development and future abandonment costs are reviewed annually. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion until it is determined whether proved reserves have been established or impairment occurs. For purposes of the depletion calculation, proved petroleum and natural gas reserves are converted to a common unit of measure on the basis of the relative energy content of 6,000 standard cubic feet of natural gas per barrel of oil.

Capital assets are recorded at cost. Amortization is provided using a straight-line basis over the estimated useful lives of the assets at annual amortization rates of 10% to 30%.

Asset retirement obligations

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated using the unit-of-production method over estimated gross proved reserves. Subsequent to the initial measurement of the assets retirement obligations, the obligations are adjusted at the end of each period to reflect the passage of time (accretion) and changes in the estimated future cash flows underlying the obligation. Actual restoration expenditures are charged to the accumulated obligation as incurred.

Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized when they are realized or realizable and earned. Revenues are considered realized or realizable and earned when: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable and (iv) collectability is reasonably assured. Specifically, revenues are based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

Other revenue is recorded in the period earned and includes management fees and other miscellaneous revenues related to the management of oil and gas activities in Portugal.

Future income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future taxes and liabilities are measured using substantively enacted tax rates and laws that will be in effect when differences are expected to reverse. Future tax assets and unused tax losses are recognized to the extent that they are more likely than not to be realized. A valuation allowance is recorded against any future income tax asset if the Company is not "more likely than not" to be able to utilize the tax deductions associated with the future income tax asset.

Per share amounts

The income (loss) per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury method is used to determine the dilutive effect of stock options and other dilutive instruments. Diluted earnings per share equals basic earnings per share for the periods presented because the effects of potentially dilutive securities are antidilutive.

Stock-based compensation

The Company accounts for stock-based compensation using the fair value method. Under this method, cost is measured at the date of grant, based on the calculated fair value of the award, and is recognized as compensation expense in the Consolidated Statements of Operations ratably over the employees or non-employee's requisite service period, which is generally the vesting period of the equity grant. The fair value of stock option awards is determined using the Black-Scholes option-pricing model. The corresponding offset against compensation expense is an increase to contributed surplus. Upon exercise of the stock options, consideration paid, together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Impact of New Accounting Pronouncements and Standards

During August 2009, the CICA issued amendments to Section 3855, Financial Instruments – Recognition and Measurement. The amendments included the definitions of a financial asset or financial liability held for trading and loans and receivables, provided guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category and requires that Section 3025, Impaired Loans, be applied to assess whether held-to-maturity investments are impaired and to account for any such impairment. The amendment concerning the embedded derivatives was adopted for any reclassification made on or after July 1, 2009 and did not have any impact on the Company's consolidated financial statements. The remaining amendments to Section 3855 apply to the Company's annual consolidated financial statements for the year ended August 31, 2009. The adoption of the amendments to Section 3855 did not have an impact on the Company's consolidated financial statements.

During June, 2009, the CICA issued amendments to Section 3855, Financial Instruments – Recognition and Measurement, and Section 3862, Financial Instruments – Disclosures. The amendment to Section 3855 clarifies when an embedded prepayment option is separated from its host debt instrument for accounting purposes. The Company prospectively adopted the CICA amendment to Section 3855 which did not have an impact on the Company's consolidated financial statements. The amendments to Section 3862 enhance financial instrument disclosure requirements about liquidity risk and provide new disclosure requirements for fair value measurements. The amendments to Section 3862 apply to the Company's annual consolidated financial statements for the year ended August 31, 2010. Upon adoption of the Section 3862 amendments, the Company need not provide comparative information for the disclosures required by the amendments.

Effective September 1, 2009 the Company adopted CICA Handbook section 3064, Goodwill and Intangible Assets, which replaced section 3062, Goodwill and Other Intangible Assets and section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes new standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous section 3062. As the Company does not carry goodwill or intangible assets, as defined by section 3064, this new standard had no impact on the presentation and disclosures of the Company.

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is effective for the Company's interim and annual Consolidated Financial Statements for periods ending on or after March 31, 2009 with retrospective application without reinstatement of prior periods. The application of this abstract did not have a material effect on the Company's consolidated financial statements.

In December 2008, the CICA issued Section 1582, Business Combinations, which will replace CICA Section 1581 of the same name. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company is currently evaluating the impact of this changeover on its consolidated financial statements.

In December 2008, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests, which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011, with earlier application permitted. Section 1602 currently does not impact the Company as it has full controlling interest of all of its subsidiaries. The Company is currently evaluating the impact of Section 1601 on its consolidated financial statements.

International Financial Reporting Standards

In October 2009, the Canadian Accounting Standards Board issued a third and final International Financial Reporting Standards (“IFRS”) Omnibus Exposure Draft confirming that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting IFRS on its consolidated financial statements.

4. FINANCIAL INSTRUMENTS

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The following outlines the Company’s risk exposures, quantifies these risks, and explains how these risks and its capital structure are managed.

The Company categorized its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. At August 31, 2010, the Company valued cash using Level 1 inputs. At August 31, 2010, the Company did not have any assets and liabilities measured at fair value using Level 2 and 3 inputs.

The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Capital management

The Company’s objective is to maintain a strong capital position in order to execute its business plans and maximize value to shareholders. The Company defines its capital as shareholders’ equity and working capital deficit. Changes to the capital structure are driven by the Company’s business plans, changes in economic conditions and risks inherent in the global oil and gas industry. During the year ended August 31, 2010, there were material changes to the capital structure due to the settlement of the Company’s working capital deficiencies accumulated during the years ended August 31, 2009 and 2008. Methods to adjust the Company’s capital structure could include issue of new shares through a public offering or private placement (Note 9(b)), restructuring or repaying existing accounts payable, notes payable and related party notes payable (Notes 10 and 11) and amalgamation with industry partners (Note 5).

The shareholders' equity and working capital deficit for the respective periods were as follows:

	August 31,	
	2010	2009
Working capital deficit	N/A	14,177,022
Shareholders' equity	32,300,700	13,225,841

The Company periodically reviews certain quantitative measures of its capital structure, in order to understand its position relative to industry peers. These measures include calculations such as return on equity and return on capital employed. The Company does not set certain limits or ranges with respect to these quantitative measures.

Financial instruments are recognized initially at fair value on the balance sheet, and include cash and cash equivalents, accounts receivable, due from joint venture partners, restricted cash, accounts payable and accrued liabilities, related party payables, notes payable and related party notes payable. The Company has classified its cash and cash equivalents as held for trading; accounts receivable and due from joint ventures are classified as loans and receivables; and accounts payable and accrued liabilities and due from related parties is classified as other liabilities. Held for trading instruments are measured at fair value, while loans and receivables and other liabilities are measured at amortized cost.

Credit risk

The Company is exposed to credit risk in relation to its cash, accounts receivable, due from joint venture partners, and restricted cash deposits. The cash and restricted cash are held with highly rated Canadian and United States banks. Therefore the Company considers these assets to have negligible credit risk.

The Company's accounts receivable are primarily with local and federal government agencies pertaining to the refund of excise taxes paid on certain expenditures. The Company's due from joint venture partners was amounts due from its joint venture partners which are primarily junior oil and gas partners. Its overall exposure to credit risk from joint venture partners is considered to be low given during the year ended August 31, 2010, the Company acquired the interests in the properties held by two of its three joint venture partners including any related outstanding receivables (Note 6).

The carrying amounts of cash, accounts receivable, due from joint venture partners, and restricted cash represent the Company's maximum credit exposure. The Company does not have an allowance for doubtful accounts during years ended August 31, 2010 and 2009.

Liquidity risk

The Company manages the risk of not meeting its financial obligations through management of its capital, annual budgeting of its expenditures and cash flows and cash flow forecasting.

Accounts payable and accrued payables, notes payable, related party notes payable and related party payables as disclosed on the consolidated balance sheet, fall due within the next year and are anticipated to be funded through future issuances of the Company's shares by private placement or public offering. The Company has no access to any further debt or debt facility.

Market risk

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net income (loss) and in the fair value of its financial assets and liabilities.

Commodity price risk

Price fluctuations for crude oil, natural gas liquids and natural gas are a risk to the Company over which the Company has little influence. The Company is in the development stage and does not have any production. As a result, the commodity price risk is low.

Interest rate risk

The Company had notes payable and related party notes payable at a fixed interest rate. As a result the interest rate risk is low.

Foreign currency exchange rate risk

Substantially all of the Company's operations are conducted in a foreign jurisdiction, so the Company is exposed to foreign currency exchange rate risk. Most of its contractors and activities are denominated and reported in United States dollars. Operating and capital expenditures are incurred in United States dollars, Canadian dollars (C\$) and in Euro's (€). The notes payable and related party notes payables were predominantly denominated in United States dollars. In addition, cash and cash equivalents are primarily in bank accounts denominated in United States dollars. As of August 31, 2010 and 2009, the Company considers its foreign currency exchange risk to be low.

5. AMALGAMATION

The Company was formed through the Amalgamation of Porto and MEPI pursuant to the provisions of the *Business Corporations Act* (British Columbia) on January 30, 2010. Under the Amalgamation, each MEPI Class A common shareholder received 0.57425 of a Company common share for each MEPI Class A common share held, each MEPI Class B common shareholder received one Company common share for each MEPI Class B common share held and each Porto common shareholder received one Company common share for each Porto common share held. The MEPI and Porto options and warrants were exchanged for options or warrants of the Company using the same exchange ratios. All share and per share amounts in these financial statements have been adjusted to give retroactive effect to the exchange ratio of the Amalgamation.

The Amalgamation is treated as a capital transaction in substance, rather than a business combination pursuant to EIC-10, "*Reverse Takeover Accounting*". That is, the transaction is equivalent to the issuance of shares by MEPI for the net monetary assets of Porto, accompanied by a recapitalization of MEPI. The Company issued 32,800,000 common shares to the former Porto shareholders for net monetary assets of \$3,881,682 at the date of Amalgamation and these are included in the consolidated balance sheet at their previously recorded amounts. Accordingly, the assets, liabilities and results of operations presented are those of MEPI since incorporation on November 14, 2006, together with the assets, liabilities and results of operations of Porto since January 31, 2010.

The calculation of net monetary assets of Porto as at January 30, 2010 was as follows:

Cash	\$	412,834
Accounts receivable		12,850
Loan to MEPI		3,583,435
Accounts payable and accrued liabilities		(127,437)
Net monetary assets	\$	<u>3,881,682</u>

6. PROPERTY AND EQUIPMENT

As of August 31, 2010			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas assets	\$ 35,914,823	\$ -	\$ 35,914,823
Furniture and equipment	100,934	67,579	33,355
Property and equipment	<u>\$ 36,015,757</u>	<u>\$ 67,579</u>	<u>\$ 35,948,178</u>

As of August 31, 2009			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas assets	\$ 31,910,914	\$ -	\$ 31,910,914
Furniture and equipment	105,980	78,401	27,579
Property and equipment	<u>\$ 32,016,894</u>	<u>\$ 78,401</u>	<u>\$ 31,938,493</u>

The Company is in the development stage and as a result all oil and gas property expenditures are considered to be unproven and all costs are in one cost center, Portugal. Management has assessed that the carrying value of these properties is not impaired as at August 31, 2010 and 2009. As at August 31, 2010, included in property and equipment is the acquisition of certain net profit interests of \$1,244,653 (2009 - \$359,744), (see Note 9(b)). No amounts have been capitalized from general and administrative or interest expenses as at August 31, 2010, 2009 and 2008.

During the year ended August 31, 2010, the Company acquired the interests in the properties held by two of its three joint venture partners on its oil and gas properties in Portugal. The purchase price and assumption of all related outstanding joint venture receivable were recorded as part of the acquisition of oil and gas assets in property and equipment.

The Company's ability to realize the balance of the capitalized value of its oil and gas properties is dependent on the Company obtaining additional financing sufficient to develop the oil and gas projects and the successful development of those projects.

7. ASSET RETIREMENT OBLIGATION

The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties ("ARO") as at August 31, 2010 and 2009:

ARO as of August 31, 2008	\$ 86,302
Liabilities incurred during the period	-
Accretion expense	5,882
Revisions in estimates during the period	-
ARO as of August 31, 2009	<u>\$ 92,184</u>
Liabilities incurred during the period	-
Accretion expense	5,881
Revisions in estimates during the period	-
ARO as of August 31, 2010	<u><u>\$ 98,065</u></u>

The key assumptions, on which the carrying amount of the asset retirement obligation is based, include a credit-adjusted risk-free rate of 7.50% and an inflation rate of 2.50%. The total, undiscounted amount of the estimated cash flow to settle the obligations at August 31, 2010 and 2009 is \$112,000. The expected timing of the cash outflow required to settle the obligations is 6 to 9 years hence.

8. RESTRICTED CASH

As of August 31, 2010, the Company has restricted cash deposits of \$135,000 (2009 - \$75,000) related to standby letters of credit for its properties in Portugal to insure certain performance obligations and commitments under the concession agreements for Aljubarrota-3, Torres Vedras -3, Sao Pedro De Muel-2, Rio Major-2 and Cabo Mondego-2, each maturing on December 31, 2010 (see Note 12 (a)).

All standby letters of credit are held in U.S. banks and their terms are governed by the corresponding concession agreements and under customary lending practices.

9. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares.

(b) Issued Common Shares

Mohave Exploration and Production Inc.	Number of Shares	Amount
Shares issued for cash	3,699,230	\$ 3,290,234
Shares issued for debt	300,619	375,000
Shares issued for purchase of net profit interests	275,196	359,744
Share issue costs		
Brokers fees paid in cash	-	(643,718)
Fair value of agent options issued	-	(112,940)
Balance, August 31, 2009 and 2008	30,365,128	\$ 12,778,572
Shares issued for debt	8,503,816	2,296,761
Shares issued for purchase of net profit interests	4,426,173	885,235
Balance, January 30, 2010	<u>43,295,117</u>	<u>\$ 15,960,568</u>
Porto Energy Corp.		
Shares issued on Amalgamation with MEPI	43,295,117	\$ 15,960,568
Shares issued to acquire Porto Energy Corp. (Note 5)	32,800,000	3,881,682
Shares issued for cash	15,580,000	6,967,524
Shares issued for debt	7,343,103	3,219,956
Share issue costs		
Brokers fees paid in cash	-	(472,280)
Broker fees paid in shares	33,500	-
Balance, August 31, 2010	<u>99,051,720</u>	<u>\$ 29,557,450</u>

The Company was formed through the Amalgamation of Porto and MEPI pursuant to the provisions of the Business Corporations Act (British Columbia) on January 30, 2010. Pursuant to the Amalgamation, each MEPI Class A common shareholder received 0.57425 of a Company common share for each MEPI Class A common share held, each MEPI Class B common shareholder received one Company common share for each MEPI Class B common share held and each Porto common shareholder received one Company common share for each Porto common share held. The MEPI and Porto options and warrants were exchanged for options or warrants of the Company using the same exchange ratios. All share and per share amounts in these financial statements have been adjusted to give retroactive effect to the exchange ratio of the Amalgamation.

On November 8, 2007, the board of directors of MEPI approved a reduction in common shares by way of a reverse stock split of 3 old shares for 1 new share. All share, warrant, employee option and per share amounts have been restated to account for the 1-for-3 stock consolidation as if it had occurred at the inception of MEPI.

For the year ended August 31, 2008:

On November 8, 2007, the Board of Directors resolved to acquire certain NPIs in exchange for common shares and performance warrants. A majority of the NPIs were acquired in exchange for 275,196 common shares valued at C\$1.31 per common share and 1,444,780 performance warrants, which are convertible into an equivalent number of common shares upon the Company reaching specific, independently evaluated proved plus probable reserve targets. 722,390 performance warrants will become exercisable should this evaluation achieve at least 10 million boe within a five year term, and an additional 722,390 performance warrants will become exercisable should the evaluation result in at least 20 million boe. Of the 275,196 common shares and 1,444,780 performance warrants issued, directors, officers and employees received 250,566 common shares and 1,315,474 performance warrants. The acquisitions of these NPIs by the Company were completed and the related common shares and performance warrants were issued on January 4, 2008. During the year ended August 31, 2009, the Company granted 4% of its NPIs in exchange for all outstanding performance warrants. As at August 31, 2009, there were no outstanding performance warrants.

During the year ended August 31, 2008, the Company completed private placements of 3,699,230 units at a price of C\$1.31 per unit for proceeds of \$4,708,223. A fair value of \$1,417,989 was calculated for the warrants issued in connection with the private placement based on the Black-Scholes option-pricing model and recorded as share purchase warrants and credited to common shares in shareholders' equity. In conjunction with this placement, \$643,718 was paid in finder's fees and charged to share issue costs.

During the year ended August 31, 2008, the Company issued 300,619 shares at C\$1.30 to vendors in exchange for debt in the amount of \$375,000.

For the year ended August 31, 2009:

During the year ended August 31, 2009, the Company entered into debt settlement agreement with a vendor to issue 624,530 shares at \$0.87 per share as settlement of all outstanding debts to the vendor. As at August 31, 2009, these shares had not yet been issued and are reflected on the balance sheet in share subscriptions received. As a net result of the debt settlement, \$903,300 has been recorded as a gain on settlement of debt due the year ended August 31, 2009. The shares were issued during the year ended August 31, 2010.

On June 1, 2007, the Company completed a private placement of 8,230,913 units at a price of C\$1.31 per unit for proceeds of \$10,137,250 less share issue costs of \$898,079. Each unit consisted of one Series A quarter warrant and one Series B quarter warrant. During the year ended August 31, 2009, the Company extended the expiry dates of the Series A and Series B warrants by one year. A fair value of \$2,138,210 was calculated for the warrants extension based on the Black-Scholes option-pricing model and the Company recorded fair value warrant extension expense in the statement of operations and credited share purchase warrants in shareholders' equity. The warrants expired during the quarter ended May 31, 2010 and the fair value was transferred to contributed surplus.

For the year ended August 31, 2010:

During the year ended August 31, 2010, the Company entered into debt settlement agreements for conversion of \$5,516,717 debt in exchange for issuing 15,846,919 common shares, including 5,686,255 common shares issued to related parties. These transactions were settled by the issuance of 8,503,816 common shares for settlement of \$2,296,761 debt prior to the Amalgamation and issuance of 7,343,103

common shares for settlement of \$3,219,956 debt subsequent to the Amalgamation. As a net result of the debt settlement in shares and cash, \$6,198,869 has been recorded as a gain on settlement of debt in the statement of operations for the year ended August 31, 2010, including the issuance of additional common shares to a creditor with anti-dilution rights until the closing of an Initial Public Offering, ("IPO").

During the year ended August 31, 2010, the Company entered into agreements to buyout certain NPIs representing approximately 4% net profit interest that were granted during the year ended August 31, 2009 in exchange for issuing 4,426,173 shares, including 1,525,789 shares issued to related parties.

During the year ended August 31, 2010, the Company issued 32,800,000 common shares to the former Porto shareholders pursuant to the Amalgamation for net monetary assets of \$3,881,682 and issued 43,295,117 to the former MEPI shareholders.

During the year ended August 31, 2010, the Company completed private placements of 15,580,000 units at a price of \$0.50 per units for proceeds of \$7,790,000. A fair value of \$822,476 was calculated for the warrants issued in connection with the private placement based on the Black-Scholes option-pricing model and recorded as share purchase warrants and credited to common shares in shareholders' equity. In conjunction with this placement, \$472,280 was paid in finders' fees and charged to share issue costs, including \$16,750 settled by the issuance of 33,500 shares.

(c) Warrants

The fair value of share purchase warrants issued as part of private placements has been estimated using the Black-Scholes option-pricing model and recorded as a reduction of the gross proceeds on placement and credited to share purchase warrants.

	Number of Warrants	Amount	Average Exercise price
Balance, August 31, 2007	4,679,675	-	C\$ 1.31
Value of warrants issued with private placements	3,277,391	1,417,989	C\$ 1.31
Value of agent warrants issued with private placements	248,688	-	C\$ 1.31
Value of warrants issued for notes payable	120,500	52,477	C\$ 1.31
Balance, August 31, 2008	8,326,254	1,470,466	C\$ 1.31
Revaluation of extended warrants	-	2,138,210	C\$ 1.31
Value of warrants issued for notes payable	172	92	C\$ 1.31
Balance, August 31, 2009	8,326,426	3,608,768	C\$ 1.31
Warrants assumed on amalgamation	9,750,000	-	\$0.50
Value of warrants issued with private placement	7,790,000	822,476	\$1.00
Expired warrants	(8,326,254)	(3,608,678)	C\$ 1.31
Balance, August 31, 2010	<u>17,540,172</u>	<u>\$ 822,566</u>	<u>C\$ 0.72</u>

During the year ended August 31, 2008, the Company granted agent options to acquire 248,688 common shares at an exercise price of C\$1.31 per share as finders' fees in connection with the private placements. A fair value of \$112,940 was calculated based on the Black-Scholes option-pricing model and recorded as share issue costs and credited to contributed surplus.

The outstanding Warrants as at August 31, 2010 are as follows:

Series	Number of Warrants	Exercise Price	Expiry date
Series E Warrants	172	C\$ 1.31	December 5, 2010
December, 2009	9,750,000	\$ 0.50	12 months post IPO
February, 2010	1,985,000	\$ 1.00	12 months post IPO
April, 2010	5,805,000	\$ 1.00	12 months post IPO
	<u>17,540,172</u>		

(d) Employee Options

A summary of employee option activity is as follows:

	Number of Options	Exercise Price
Outstanding, end of year August 31, 2008	-	-
Options Issued	1,105,426	C\$ 1.31
Options exercised	-	-
Options forfeited	-	-
Outstanding, end of year August 31, 2009	<u>1,105,426</u>	<u>C\$ 1.31</u>
Options Issued	-	-
Options exercised	-	-
Options forfeited	(307,218)	C\$ 1.31
Outstanding, end of year August 31, 2010	<u>798,208</u>	<u>C\$ 1.31</u>

On October 30, 2007, the Board of Directors approved a Stock Option Plan. This plan is subject to shareholder approval. It provides for a 5 year term with vesting requirements to be set by the Board of Directors. The aggregate number of common shares subject to options granted under the Stock Option Plan, from time to time, cannot exceed 10% of the common shares outstanding after giving effect to the issuance of the options.

The Board of Directors, on November 8, 2007, granted 1,105,426 options to purchase common shares with the issue price to be equal to C\$1.31 price to officers, directors and employees until November 8, 2012. Vesting of the options is one-third immediately, one-third will vest one year after the grant date and the remaining one-third will occur two years after the grant date. No value was initially assigned to these options during the year ended August 31, 2008 as the exercise price was not set. A fair value of \$821,098 was calculated based on the Black-Scholes option-pricing model and recorded as stock based compensation expense and credited to contributed surplus during the year ended August 31, 2009 when the exercise price was set.

(e) Black-Scholes Assumptions

Assumptions used in the fair value calculation of warrants and employee options, include:

	Years ended August 31,		
	2010	2009	2008
Expected life (a)	1.25 years	1-3.83 years	1.5-2 years
Expected volatility (b)	86-113%	88-115%	66-84%
Average risk-free interest rate (c)	1.14-1.96%	0.5-1.7%	2.7-3.4%
Expected dividends (d)	Nil	Nil	Nil

- (a) The expected life was derived based on the analysis of other companies of a similar size and operational life cycle, taking into consideration the expected vesting period and the contractual term of the option.
- (b) The volatility is based on the average historical volatility of the stock of other peer group companies of a similar size and operational life cycle.
- (c) The risk-free interest rate is based on the observed Canadian Government zero coupon rate in effect at the time the options were measured.
- (d) The dividend yield is based on the fact the Company does not anticipate paying any dividends.

(f) Per Share Amounts

The weighted average number of common shares used in calculating the net income (loss) per share for the year ended August 31, 2010, 2009 and 2008 was 67,914,393 shares, 30,365,131 shares, and 27,180,887 shares, respectively. The weighted average number of shares outstanding was not increased for outstanding warrants or options for purposes of calculating diluted shares outstanding for the years ended August 31, 2010, 2009 and 2008 as the effect would be anti-dilutive.

(g) Contributed Surplus

	Amount
Outstanding, end of year, August 31, 2007	\$ 337,511
Fair value of agent warrants issued	112,940
Outstanding, end of year, August 31, 2008	450,451
Stock based compensation	821,098
Outstanding, end of year, August 31, 2009	1,271,549
Expired warrants	3,608,677
Outstanding, end year August 31, 2010	<u>\$ 4,880,226</u>

10. NOTES PAYABLE

During the year ended August 31, 2009 and 2008 the Company entered into loan agreements with several directors, officers, and shareholders. Shareholders were owed \$nil as at August 31, 2010 (2009 - \$82,743, 2008 - \$82,988) which is included in notes payable. Directors and officers were owed \$nil as at August 31, 2010 (2009 - \$760,278, 2008 - \$623,527) which is included in related party notes payable. During the year ended August 31, 2010, \$30,660 of shareholders loans was settled through the issuance of 153,300 common shares and \$637,758 in related party loans was settled through the issuance of 3,188,790 common shares. The loans were unsecured with the principal and interest repayment due on the Company completing a financing of not less than \$7.5 million, which occurred during the year ended August 31, 2010 and all remaining loans were repaid in full. Interest was accrued annually at various rates from 3% to 10%. As additional consideration for the advancement of the loan

amounts, the Company issued a total of 120,672 common share purchase warrants exercisable for a period of 18 months from the effective date to acquire one common share of the Company at an exercise price of C\$1.31 per common share. A fair value of \$52,569 was calculated for the warrants issued in connection with the loans based on the Black-Scholes option-pricing model and recorded as interest expense and credited to share purchase warrants in shareholders' equity

11. RELATED PARTY TRANSACTIONS

Unless otherwise disclosed elsewhere in these consolidated financial statement, the related party transactions are as follows:

- (a) For the year ended August 31, 2010, the Company incurred \$30,234, (2009 - \$81,446, 2008 - \$108,592) in consulting fees and salary directly or to a private Company controlled by a former director of the Company. Included in related party payables at August 31, 2010 is \$nil, (2009 - \$176,562). During the year ended August 31, 2010, \$171,650 of consulting fees was settled through the issuance of 858,250 common shares.
- (b) For the year ended August 31, 2010 the Company incurred a total of \$165,000 (2009 - \$165,000, 2008 - \$165,000) in salaries to the Executive Vice President (formerly Chief Executive Officer). For the year ended August 31, 2010 the Company incurred a total of \$140,000 (2009 - \$140,000, 2008 - \$140,000) in salaries to the Vice President, Exploration. The Executive Vice President and Vice President, Exploration received only partial cash payment of their salaries during the years ended August 31, 2008 and 2009. During the year ended August 31, 2010, the Executive Vice President settled \$160,000 in outstanding salary through the issuance of 800,000 common shares and the Vice President, Exploration settled \$115,667 in outstanding salary through the issuance of 578,335 common shares. Included in related party payables as at August 31, 2010 is approximately \$107,000, (2009 - \$622,984) in unpaid salaries and out of pocket expenses.
- (c) The Company had retained an accounting firm to provide the Company with taxation services where a former director of the Company is a partner. For the year ended August 31, 2010, fees in the amount of \$nil (2009 - \$2,366, 2008 - \$21,751) were incurred by the Company and recorded as professional fees. Included in accounts payable and accrued liabilities at August 31, 2010 is \$nil (2009 - \$11,388). During the year ended August 31, 2010, \$11,388 of professional fees was settled through the issuance of 13,079 common shares.
- (d) The Company has retained a law firm to provide the Company with legal services where a director and officer of the Company is a partner of this law firm. Legal fees were incurred by the Company to the law firm for the year ended August 31, 2010 in the amount of \$146,318 (2009 - \$47,301, 2008 - \$672,237). Included in accounts payable and accrued liabilities as at August 31, 2010 is \$60,000 (2009 - \$557,407). During the year ended August 31, 2010, the Company settled its outstanding account of approximately \$600,000 by paying \$100,000 in cash and issuing 1,000,000 common shares.
- (e) During the year ended August 31, 2010, the Company recorded \$3,778 (2009 - \$23,837, 2008 - \$19,864) as consulting fees payable to a company owned by the former Chief Financial Officer. Included in related party payables as at August 31, 2010 is \$nil (2009 - \$40,119). During the year ended August 31, 2010, \$49,560 of consulting fees was settled through the issuance of 247,800 common shares.
- (f) During the year ended August 31, 2010, the Company recorded \$33,502 (2009 - \$nil, 2008 - \$26,518) rent for the use of office space and furniture and equipment to corporations with common officers and directors. Included in accounts payable and accrued liabilities at August 31, 2010 is \$514 (2009 - \$3,067).

- (g) During the year ended August 31, 2008, the Company repaid in full a loan to a close family relative of the Executive Vice President (formerly Chief Executive Officer) of the Company in the amount of \$125,000. The loan was unsecured and had no principal repayment schedule. Interest was paid annually at the rate of 8.32%.
- (h) The Company had granted to certain persons including current and former employees, directors, and officers of the Company NPIs on its oil and gas concessions in consideration for various services and expertise in assisting the Company in securing existing concession agreements. The NPI agreements are in the form of participation whereby the employee is not required to fund a proportional share of capital expenditures on the project. On January 4, 2008, the Company issued 250,566 Common Shares and 1,315,474 Performance Warrants for acquisition of the NPIs. During the year ended August 31, 2009, all outstanding performance warrants were surrendered for NPIs. As at August 31, 2009, there are no outstanding performance warrants. During the year ended August 31, 2010, the Company entered into agreement to buyout NPIs representing approximately 4% net profit interest in exchange for issuing 4,426,176 shares. Officers and directors were issued 1,525,789 of these shares.

Transactions (a) through (h), with the exceptions of common shares issued for settlement of debt, are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Transactions (g) and (h) are measured at the exchange amount. The agreed exchange amounts reflect fair value.

12. COMMITMENTS

- (a) On August 3, 2007 the Company executed five concessions contracts with the Ministry of the Industry and Innovation for petroleum exploration, development and productions rights in Portugal (the “Ministry”). The contracts provide for an initial eight year term with 2 one year extensions and a twenty-five year production period based on an approved development and production plan with a 15 year production period extension. For each of the concessions: Torres Vedras-3, Aljubarrota-3, Cabo Mondengo-2, Rio Major-2 and Sao Pedro de Muel-2; the Company is committed to drill either seven or eight wells with an estimated expenditure of €500,000 for well work. The minimum total contract commitment is €18.5 million starting in 2008 and expiring in 2015.

For each concession the Company is required to make revenue-based royalty payments to the Ministry for any natural gas production after the Company has recovered the exploration and development expenses and deducting the operating costs of production. Royalty rates are at:

Onshore Oil Production –

- No royalty for increment of field production that is <6125 bbl/d;
- 6% for increment of field production between 6125 and 10,200 bbl/d;
- 9% for increment of field production that is >10,200 bbl/d.

Offshore Oil Production in water depths <200m –

- No royalty on production for field production of <10,200 bbl/d;
- 10% royalty for increment of field production that is >10,200 bbl/d.

Government is entitled to a royalty on a sliding-scale basis in each individual gas and condensate field, after concessionaire recovers investment and operating cost related to each field, as follows:

Gas and Condensate Production, Onshore and Offshore, all water depths -

- 2% of the value on the first 5 million barrels of oil (“boe”) equivalent produced;
- 5% of the value on the next 5 million boe equivalent produced; and
- 7% of the value of the remainder of production.

Each concession requires the Company to post an initial bond, in favour of Ministério da Economia e da Inovação - Direcção-Geral de Energia e Geologia, (“DGEG”), the regulating agency for petroleum exploration and production in Portugal, to guarantee future performance and commitments under the concession agreement upon the issuance and/or signing of the concession contract. As of August 31, 2010, the Company had approximately, \$135,000 in standby letters of credit that are recorded as restricted cash. These initial bonds are renewed annually. The amount of each bond for future renewals will be for an amount equivalent of up to 50% of the value of the work budgeted for under the annual work program, as defined by the Company, that is periodically submitted to DGEG for approval.

In addition, the Company is committed to pay an aggregate fee on the above concessions of €46,000 for years 1 through 3 and €64,500 for years 4 through 8 on various activities for the benefit of the Ministry.

- (b) In February 2008, a former drilling contractor was awarded a \$338,167 judgement with respect to services provided in 2004. The Company negotiated a settlement with the contractor to pay the judgement in monthly instalments of \$40,000 plus 6% interest. The Company paid the judgement and interest in full during the year ended August 31, 2010.
- (c) In July of 2010, the Company, through its wholly-owned subsidiary, entered into an office lease agreement for a minimum of 38 months with a monthly base rent of approximately \$13,000.
- (d) In August, 2010, the Company, through its wholly-owned subsidiary, entered into an agreement to acquire 3-D seismic in the Torres Vedras-3 and Aljubarrota-3 concessions and was required to make a down payment of \$318,500 subsequent to the year ended August 31, 2010. The seismic acquisition is estimated to take from four to six months at a cost of approximately \$8.5 million.
- (e) In the normal course of operations, the Company provides indemnifications that are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, director/officer contracts and leasing transactions. These indemnification agreements may require the Company to compensate the counterparties for costs incurred as a result of various events, changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that could be required to be paid to counterparties. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

13. INCOME TAXES

(a) Future income tax expense (recovery)

The following is a reconciliation of income taxes, calculated at the combined federal and provincial income tax rates, to the income tax provision included in the consolidated statement of operations. The U.S. statutory corporate tax rates do not significantly differ from the Canadian statutory corporate tax rates.

	For the years ended August 31,		
	2010	2009	2008
Income (loss) before income taxes	\$ 3,050,094	\$ (3,370,546)	\$ (2,642,676)
Combined statutory corporate tax rate	29.00%	30.50%	31.70%
Expected future income tax provision/(recovery)	884,527	(1,028,017)	(837,728)
Increases/(decreases) resulting from:			
Higher statutory tax rate on earnings of foreign subsidiaries	217,845	(6,442)	(19,901)
Non-taxable portion of dividends	-	(19)	(3,590)
Writedown of receivables	-	29,251	-
Non-deductible meals and entertainments	2,732	262	4,040
Asset retirement obligation accretion	2,000	2,000	2,000
Non-deductible life insurance premiums	343	769	966
Stock based compensation	-	255,489	-
Fair value of warrant extension	-	652,154	-
Foreign exchange upon translation	-	(259,971)	(216,189)
Change in valuation allowance	2,926,697	1,628,544	1,818,977
Change in future tax rate	139,928	117,334	133,049
Other	13,909	(2,000)	881
Change in estimates	(3,155,172)	-	889,075
Future income tax provision	<u>\$ 1,032,809</u>	<u>\$ 1,389,354</u>	<u>\$ 1,771,580</u>

(b) Future income tax assets (liability)

The Canadian tax effects of temporary timing differences that give rise to significant components of the future tax assets (liabilities) are as follows:

	As at August 31,	
	2010	2009
Future income tax asset:		
Loss carry forwards	\$ 8,144,218	\$ 5,070,250
Asset retirement obligation	3,874	4,671
Eligible capital expenditures	-	140,432
Share issue costs	182,702	188,744
Future tax asset	8,330,794	5,404,097
Less: valuation allowance	(8,330,794)	(5,404,097)
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>
Future income tax (liability):		
Property and equipment	\$ (5,551,255)	\$ (4,518,446)
Future income tax (liability)	<u>\$ (5,551,255)</u>	<u>\$ (4,518,446)</u>

A full valuation allowance has been taken against the Canadian non-capital loss carry forwards, eligible capital property and share issue costs.

c) Non capital losses

As at August 31, 2010, the Company has approximately \$23,537,720 of non-capital and net operating losses which can be applied to reduce future taxable income, expiring as follows:

Year of expiry	Canada non-capital losses	US operating losses	Total
2026	\$ -	\$ -	\$ -
2027	-	-	-
2028	-	14,445,661	14,445,661
2029	-	3,280,600	3,280,600
2030	1,738,559	-	1,738,559
Totals	<u>\$ 1,738,559</u>	<u>\$ 17,726,261</u>	<u>\$ 19,464,820</u>

During the year ended August 31, 2010, the Canadian non-capital losses were reduced as a result of the Amalgamation.

14. CONTINGENT LIABILITIES

Pursuant to a debt settlement agreement dated December 21, 2009, the Company provided certain anti-dilution rights to the Company's former largest creditor such that the creditor's ownership of the Company cannot be less than 6% just prior to closing of an IPO and whose deemed value shall not be less than \$3 million at the IPO price per share. As at August 31, 2010, the creditor had been issued 5,943,103 of the Company's common shares in order to comply with the requirements in the debt settlement agreement.

Pursuant to a debt settlement agreement dated December 24, 2009, the Company provided certain anti-dilution rights to the Company's former second largest creditor such the deemed value of their 1,400,000 common shares shall not be less than \$700,000 at the IPO price per share. The creditor also has the right to put the 1,400,000 common shares of the Company to the Company for \$450,000 should the IPO not be closed by November 1, 2010. Included in accounts payable and accrued liabilities at August 31, 2010 is \$450,000 for the put right.

15. SUBSEQUENT EVENTS

Subsequent to the year ended August 31, 2010:

- (a) In December 2010, the Company completed a private placement of 29,326,683 units at a price of \$0.60 per unit for gross proceeds of approximately \$17,596,000. In conjunction with this placement, approximately \$1,136,000 was paid in finders' fees and charged to share issue costs.
- (b) In accordance with the Company's Long-Term Incentive Plan, the Board of Directors granted 11,150,000 options to its directors, officers and employees to purchase common shares at a strike price of \$0.60 per share. The options are set to expire on September 1, 2015 and one-third will vest on September 1, 2011, one-third on March 1, 2012 and the remaining one-third on September 1, 2012.
- (c) The Company terminated anti-dilution rights related to a debt settlement agreement dated December 21, 2009 (see Note 14). In conjunction with the termination, the Company bought casing and existing drilling inventory for \$850,000 from the third party.
- (d) The anti-dilution rights related to a debt settlement agreement dated December 24, 2009 (see Note 14), including the right to put 1,400,000 common shares of the Company for \$450,000, were terminated.

- (e) Under the terms of an agency agreement dated ●, 2011, the Company is qualifying the sale and distribution of a minimum of 60,000,000 common shares and a maximum of 70,000,000 common shares at a price of C\$1.00 per common share. Upon closing, the gross proceeds to the Company are estimated to be a minimum of C\$60,000,000 and a maximum of C\$70,000,000, before deducting estimated issue expenses and agents' fees in the aggregate totalling approximately C\$4,100,000 in the event of the minimum offering and C\$4,700,000 in the event of the maximum offering. In addition, the Company has granted the agents an option, exercisable until the closing of the offering to purchase up to a total of 10,500,000 additional common shares at a price of C\$1.00 per common share.

Porto Energy Corp.
Consolidated Financial Statements

For the Three Month Periods Ended November 30, 2010 and 2009
(Unaudited)

(Stated in United States Dollars)

Porto Energy Corp.
Consolidated Balance Sheets
(Stated in United States dollars)
(unaudited)

	<u>November 30,</u>	<u>August 31,</u>
	<u>2010</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash	\$ 471,236	\$ 3,315,591
Accounts receivable	115,428	134,528
Prepaid expenses	83,070	210,392
Total current assets	<u>669,734</u>	<u>3,660,511</u>
Property and equipment (Note 5)	37,955,192	35,948,178
Deferred offering costs	48,058	-
Restricted cash deposit (Note 7)	140,716	135,000
Total assets	<u>\$38,813,700</u>	<u>\$39,743,689</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,683,411	\$ 1,686,357
Related party payables (Note 9)	92,468	107,312
Total current liabilities	<u>1,775,879</u>	<u>1,793,669</u>
Asset retirement obligation (Note 6)	98,599	98,065
Future income tax liability	5,856,748	5,551,255
Total long-term liabilities	<u>7,731,226</u>	<u>7,442,989</u>
Basis of presentation (Note 2)		
Commitments and contractual obligations and contingent liabilities (Notes 10 and 12)		
Subsequent events (Note 13)		
Shareholders' equity:		
Share capital (Note 8 (b))	29,557,450	29,557,450
Warrants (Note 8 (c))	822,566	822,566
Contributed surplus (Note 8 (g))	4,941,202	4,880,226
Deficit	<u>(4,238,744)</u>	<u>(2,959,542)</u>
Total shareholders' equity	<u>31,082,474</u>	<u>32,300,700</u>
Total liabilities and shareholders' equity	<u>\$38,813,700</u>	<u>\$39,743,689</u>

Approved by the Directors:

 ●
 Director

 ●
 Director

The accompanying notes are an integral part of these financial statements.

Porto Energy Corp.
Consolidated Statement of Operations,
Comprehensive Loss and Deficit
(Stated in United States dollars)
(unaudited)

	November 30,	
	2010	2009
Revenues		
Other revenues	\$ 1,221	\$ 209
Expenses		
General and administrative	726,017	213,938
Professional fees	135,774	34,708
Interest expense	101	28,090
Stock based compensation (Note 8 (d))	60,976	-
Depletion, depreciation and accretion	3,462	4,248
Foreign exchange loss (gain)	(11,400)	63,656
Total Expenses	914,930	344,640
Net loss before income taxes and gain on settlement of debt	(913,709)	(344,431)
Future income taxes	365,493	245,081
Net loss before gain on settlement of debt	(1,279,202)	(589,512)
Gain on settlement of debt	-	425,057
Net loss and comprehensive loss	(1,279,202)	(164,455)
Deficit, beginning of period	(2,959,542)	(4,976,827)
Deficit, end of the period	\$ (4,238,744)	\$ (5,141,282)
Basic and diluted loss per share	\$ (0.01)	\$ (0.00)
Weighted average number of shares outstanding - basic and diluted (Note 8 (f))	99,051,720	38,758,954

The accompanying notes are an integral part of these financial statements.

Porto Energy Corp.
Consolidated Statement of Cash Flows
(Stated in United States dollars)
(unaudited)

	Three Months Ended	
	November 30,	
	2010	2009
Cash flows from operating activities		
Net loss	\$ (1,279,202)	\$ (164,455)
Items not affecting cash:		
Depletion, depreciation and accretion	3,462	4,248
Provision for future income taxes	305,493	245,081
Stock-based compensation	60,976	-
Gain on settlement of debt	-	(425,057)
Unrealized foreign exchange loss (gain)	(11,400)	63,656
	<u>(920,671)</u>	<u>(276,527)</u>
Net change in non-cash working capital items:		
Accounts receivable	21,344	11,457
Prepaid expenses	127,322	(4,633)
Related party payables	(14,844)	(19,628)
Accounts payable and accrued liabilities	92,624	(125,194)
Net cash used by operating activities	<u>(694,225)</u>	<u>(414,525)</u>
Cash Flows from Financing Activities		
Shares issue costs paid in cash	(48,058)	-
Net cash used by financing activities	<u>(48,058)</u>	<u>-</u>
Cash Flows from Investing Activities		
Acquisition of property and equipment	(2,009,942)	(1,106,490)
Loan from Porto pre-amalgamation	-	2,032,885
Accounts payable and accrued liabilities	(84,170)	(498,776)
Net cash used by investing activities	<u>(2,094,112)</u>	<u>427,619</u>
Foreign exchange gain (loss) on cash held in a foreign currency	<u>(7,960)</u>	<u>765</u>
	(7,960)	765
Net increase/(decrease) in cash	(2,844,355)	13,859
Cash at beginning of the period	3,315,591	45,510
Cash at end of the period	<u>\$ 471,236</u>	<u>\$ 59,369</u>
Supplemental disclosure of cash flow information		
Interest Paid	\$ 101	\$ 209
Interest Received	1,191	-
Cash Paid for Income Taxes	60,000	-

The accompanying notes are an integral part of these financial statements

Porto Energy Corp.
Notes to the Consolidated Financial Statements
For the Three Months Ended November 30, 2010 and 2009
(Stated in United States dollars)
(unaudited)

1. DESCRIPTION OF BUSINESS

Porto Energy Corp., a development stage company (the ‘Company’), was formed through the amalgamation (the ‘Amalgamation’) of Porto Energy Corp. (‘Porto’) and Mohave Exploration & Production Inc. (‘MEPI’) pursuant to the provisions of the *Business Corporations Act* (British Columbia) on January 30, 2010.

The Company, through the amalgamation of MEPI, owns 100% of the common shares of Mohave Oil and Gas Corporation (‘Mohave’) and Mohave’s wholly owned subsidiary Mohave Portugal Corporation (‘Portco’), both Texas incorporated entities.

The Company’s primary operating activities are carried out through Mohave which owns ownership positions in the Aljubarrota-3, Torres Vedras-3, Sao Pedro de Muel-2, Cabo Mondego-2, and Rio Maior-2 oil and gas concessions in Portugal (the ‘Portugal Assets’). The Company is undertaking exploration and development operations in respect of these concessions.

2. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations. These financial statements do not include adjustments or disclosures that may result from the Company’s inability to continue as a going concern. If the Company is unable to continue as a going concern, adjustments would be necessary in the carrying value of assets and liabilities, the reported net losses and balance sheet classifications used, and such adjustments could be material.

The Company has not yet realized profitable operations, has relied on non-operational sources of financing to fund operations, and has incurred ongoing annual deficits. These conditions cast significant doubt on the validity of the going concern assumption. The Company’s ability to continue as a going concern is dependent on its ability to obtain the necessary financing and to ultimately generate profitable operations. The Company must secure additional financing to fund its operations.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (‘GAAP’) and include the accounts of the Company and its wholly owned subsidiaries and branches. All intercompany balances and transactions have been eliminated. All amounts are stated in United States dollars, unless otherwise noted by C\$ for Canadian dollars or € for Euros.

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and the notes thereto in Porto’s Annual Consolidated Financial Statements for the year ended August 31, 2010. Certain information and disclosures normally required to be included in notes to annual consolidated financial statements have been condensed or omitted from these interim financial statements.

The accounting policies applied by the Company in these unaudited consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the fiscal year ended August 31, 2010.

4. FINANCIAL INSTRUMENTS

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The following outlines the Company's risk exposures, quantifies these risks, and explains how these risks and its capital structure are managed.

The Company categorized its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. At November 30, 2010, the Company valued cash using Level 1 inputs. At November 30, 2010, the Company did not have any assets and liabilities measured at fair value using Level 2 and 3 inputs.

The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Capital management

The Company's objective is to maintain a strong capital position in order to execute its business plans and maximize value to shareholders. The Company defines its capital as shareholders' equity and working capital deficit. Changes to the capital structure are driven by the Company's business plans, changes in economic conditions and risks inherent in the global oil and gas industry. During the year ended August 31, 2010, there were material changes to the capital structure due to the settlement of the Company's working capital deficiencies accumulated during the years ended August 31, 2009 and 2008. Methods to adjust the Company's capital structure could include issue of new shares through a public offering or private placement (Note 8(b)), restructuring or repaying existing accounts payable, notes payable and related party notes payable and amalgamation with industry partners.

The shareholders' equity and working capital deficit for the respective periods were as follows:

	November 30, 2010	August 31, 2010
Working capital deficit	1,106,145	N/A
Shareholders' equity	31,082,474	32,300,700
	<u><u>\$ 32,188,619</u></u>	<u><u>\$ 32,300,700</u></u>

The Company periodically reviews certain quantitative measures of its capital structure, in order to understand its position relative to industry peers. These measures include calculations such as return on equity and return on capital employed. The Company does not set certain limits or ranges with respect to these quantitative measures.

Financial instruments are recognized initially at fair value on the balance sheet, and include cash, accounts receivable, restricted cash, accounts payable and accrued liabilities and related party payables. The Company has classified its cash as held for trading; accounts receivable is classified as loans and receivables; and accounts payable and accrued liabilities and due from related parties is classified as other liabilities. Held for trading instruments are measured at fair value, while loans and receivables and other liabilities are measured at amortized cost.

Credit risk

The Company is exposed to credit risk in relation to its cash, accounts receivable and restricted cash deposits. The cash and restricted cash are held with highly rated Canadian and United States banks. Therefore the Company considers these assets to have negligible credit risk.

The Company's accounts receivable are primarily with local and federal government agencies pertaining to the refund of excise taxes paid on certain expenditures. The Company's due from joint venture partners was amounts due from its joint venture partners which are primarily junior oil and gas partners. Its overall exposure to credit risk from joint venture partners is considered to be low given during the three months ended November 30, 2010, the Company acquired the interests in the properties held by two of its three joint venture partners including any related outstanding receivables.

The carrying amounts of cash, accounts receivable, due from joint venture partners, and restricted cash represent the Company's maximum credit exposure. The Company does not have an allowance for doubtful accounts at November 30, 2010 or August 31, 2010.

Liquidity risk

The Company manages the risk of not meeting its financial obligations through management of its capital, annual budgeting of its expenditures and cash flows and cash flow forecasting.

Accounts payable and accrued liabilities and related party payables as disclosed on the consolidated balance sheet, fall due within the next year and are anticipated to be funded through future issuances of the Company's shares by private placement or public offering. The Company has no access to any further debt or debt facility.

Market risk

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net loss and in the fair value of its financial assets and liabilities.

Commodity price risk

Price fluctuations for crude oil, natural gas liquids and natural gas are a risk to the Company over which the Company has little influence. The Company is in the development stage and does not have any production. As a result, the commodity price risk is low.

Interest rate risk

The Company had no debt instruments outstanding at November 30, 2010. As a result the interest rate risk is low.

Foreign currency exchange rate risk

Substantially all of the Company's operations are conducted in a foreign jurisdiction, so the Company is exposed to foreign currency exchange rate risk. Most of its contractors and activities are denominated and reported in United States dollars. Operating and capital expenditures are incurred in United States dollars, Canadian dollars (C\$) and in Euro's (€). In addition, cash is primarily in bank accounts denominated in United States dollars. As of November 30, 2010 and August 31, 2010, the Company considers its foreign currency exchange risk to be low.

5. PROPERTY AND EQUIPMENT

As of November 30, 2010			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas assets	\$ 37,919,816	\$ -	\$ 37,919,816
Furniture and equipment	105,883	70,507	35,376
Property and equipment	<u>\$ 38,025,699</u>	<u>\$ 70,507</u>	<u>\$ 37,955,192</u>

As of August 31, 2010			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas assets	\$ 35,914,823	\$ -	\$ 35,914,823
Furniture and equipment	100,934	67,579	33,355
Property and equipment	<u>\$ 36,015,757</u>	<u>\$ 67,579</u>	<u>\$ 35,948,178</u>

The Company is in the development stage and as a result all oil and gas property expenditures are considered to be unproven and all costs are in one cost center, Portugal. Management has assessed that the carrying value of these properties is not impaired as at November 30, 2010 and August 31, 2010. Approximately \$41,400 was capitalized from general and administrative expense and no interest expense was capitalized as at November 30, 2010. No amounts were capitalized from general and administrative expense and no interest expenses were capitalized as at August, 31, 2010.

In August, 2010, the Company, through its wholly-owned subsidiary, entered into an agreement to acquire 3-D seismic in the Torres Vedras-3 and Aljubarrota-3 concessions. During the three months ended November 30, 2010, the Company incurred \$1.7 million in associated cost to obtain permits to conduct the seismic work and to survey and record the 80 sq km Torres Vedras 2010 survey, which began in November 2010.

The Company incurred an additional \$0.3 million in capital costs associated with leaseholds, furniture and fixtures and plug and abandonment charges related to the Torres Vedras – 3 concession.

The Company's ability to realize the balance of the capitalized value of its oil and gas properties is dependent on the Company obtaining additional financing sufficient to develop the oil and gas projects and the successful development of those projects.

6. ASSET RETIREMENT OBLIGATION

The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties (“ARO”) as at November 30, 2010 and August 31, 2010:

ARO as of August 31, 2009	\$	92,184
Liabilities incurred during the year		-
Accretion expense		5,881
Revisions in estimates during the year		-
ARO as of August 31, 2010	\$	98,065
Liabilities incurred during the period		-
Accretion expense		534
Revisions in estimates during the period		-
ARO as of November 30, 2010	\$	98,599

The key assumptions, on which the carrying amount of the asset retirement obligation is based, include a credit-adjusted risk-free rate of 7.50% and an inflation rate of 2.50%. The total, undiscounted amount of the estimated cash flow to settle the obligations at November 31, 2010 and August 31, 2010 is \$112,000. The expected timing of the cash outflow required to settle the obligations is 6 to 9 years hence.

7. RESTRICTED CASH

As of November 30, 2010, the Company has restricted cash deposits of \$140,716 and at August 31, 2010 \$135,000 primarily related to standby letters of credit for its properties in Portugal to insure certain performance obligations and commitments under the concession, each maturing on December 31, 2010 (see Note 10 (a)).

All standby letters of credit are held in U.S. banks and their terms are governed by the corresponding concession agreements and under customary lending practices.

8. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares.

**(b) Issued
Common Shares**

Mohave Exploration and Production Inc.	Number of Shares	Amount
Balance, August 31, 2009	30,365,128	\$ 12,778,572
Shares issued for debt	8,503,816	2,296,761
Shares issued for purchase of net profit interests	4,426,173	885,235
Balance, January 30, 2010	43,295,117	\$ 15,960,568
Porto Energy Corp.		
Shares issued on Amalgamation with MEPI	43,295,117	\$ 15,960,568
Shares issued to acquire Porto Energy Corp. (Note 5)	32,800,000	3,881,682
Shares issued for cash	15,580,000	6,967,524
Shares issued for debt	7,343,103	3,219,956
Share issue costs		
Brokers fees paid in cash	-	(472,280)
Broker fees paid in shares	33,500	-
Balance, August 31, 2010	99,051,720	\$ 29,557,450
Share issue costs	-	-
Balance, November 30, 2010	99,051,720	\$ 29,557,450

For the three-months ended November 30, 2010:

During the three months ended November 30, 2010, the Company was in the process of completing a private placement of its common shares. Approximately \$48,000 in issuance costs was incurred as part of the Company's marketing efforts and was recorded as Deferred Offering Cost.

(c) Warrants

The fair value of share purchase warrants issued as part of private placements has been estimated using the Black-Scholes option-pricing model and recorded as a reduction of the gross proceeds on placement and credited to share purchase warrants.

	Number of Warrants	Amount	Average Exercise price
Balance, August 31, 2009	8,326,426	\$ 3,608,768	C\$ 1.31
Warrants assumed on amalgamation	9,750,000	-	\$0.50
Value of warrants issued with private placement	7,790,000	822,476	\$1.00
Expired warrants	(8,326,254)	(3,608,678)	C\$ 1.31
Balance, August 31, 2010 and November 30, 2010	17,540,172	\$ 822,566	\$0.72

The outstanding Warrants as at November 30, 2010 are as follows:

Series	Number of Warrants	Exercise Price	Expiry date
Series E Warrants	172	C\$ 1.31	December 5, 2010
December, 2009	9,750,000	\$ 0.50	12 months post IPO
February, 2010	1,985,000	\$ 1.00	12 months post IPO
April, 2010	5,805,000	\$ 1.00	12 months post IPO
	<u>17,540,172</u>		

(d) Employee Options

A summary of employee option activity is as follows:

	Number of Options	Exercise Price
Outstanding, end of year August 31, 2009	1,105,426	C\$ 1.31
Options Issued	-	-
Options exercised	-	-
Options forfeited	(307,218)	C\$ 1.31
Outstanding, end of year August 31, 2010	<u>798,208</u>	<u>C\$ 1.31</u>
Options Issued	11,150,000	\$ 0.60
Options exercised	-	-
Options forfeited	(798,208)	C\$ 1.31
Outstanding, at November 30, 2010	<u>11,150,000</u>	<u>\$ 0.60</u>

On November 23, 2010, in accordance with the Company's Long-Term Incentive Plan, the Board of Directors granted 11,150,000 options to its directors, officers, employees and consultants to purchase common shares at a strike price of \$0.60 per share. The options are set to expire on September 1, 2015 and one-third will vest on September 1, 2011, one-third on March 1, 2012 and the remaining one-third on September 1, 2012. As part of that grant, previously issued stock options were required to be surrendered and cancelled. A fair value of approximately \$0.397 per share was assigned to the options based on the Black-Scholes model with assumptions as outlined below.

On October 30, 2007, the Board of Directors approved a Stock Option Plan. The plan was subsequently amended in December 2010 to better conform to industry standards and practices such as, but not limited to, repricing guidelines, employee qualifications and other jurisdictional participation issues. This plan is subject to shareholder approval. It provides for a 5 year term with vesting requirements to be set by the Board of Directors. The aggregate number of common shares subject to options granted under the Stock Option Plan, from time to time, cannot exceed 10% of the common shares outstanding after giving effect to the issuance of the options.

(e) Black-Scholes Assumptions

Assumptions used in the fair value calculation of warrants and employee options, include:

	Three Months Ended November 30, 2010	Year ended August 31, 2010
Expected life (a)	3 years	1.25 years
Expected volatility (b)	109%	86-113%
Average risk-free interest rate (c)	1.67%	1.14-1.96%
Expected dividends (d)	Nil	Nil

-
- (a) The expected life was derived based on the analysis of other companies of a similar size and operational life cycle, taking into consideration the expected vesting period and the contractual term of the option.
- (b) The volatility is based on the average historical volatility of the stock of other peer group companies of a similar size and operational life cycle.
- (c) The risk-free interest rate is based on the observed Canadian Government zero coupon rate in effect at the time the options were measured.
- (d) The dividend yield is based on the fact the Company does not anticipate paying any dividends.

(f) Per Share Amounts

For the three months ended November 30, 2010 there were 99,051,720 weighted shares outstanding (2009 – 38,758,954). The weighted average number of shares outstanding was not increased for outstanding warrants or options for purposes of calculating diluted shares outstanding for the three months period ended November 30, 2010 and 2009 as the effect would be anti-dilutive.

(g) Contributed Surplus

	Amount
Outstanding, year-ended August 31, 2009	\$ 1,271,549
Expired warrants	3,608,677
Outstanding, year-ended August 31, 2010	4,880,226
Stock based compensation	60,976
Outstanding, at November 30, 2010	<u>\$ 4,941,202</u>

9. RELATED PARTY TRANSACTIONS

Unless otherwise disclosed elsewhere in these consolidated financial statement, the related party transactions are as follows:

- (a) Included in related party payables as at November 30, 2010 is approximately \$83,000 (August 31, 2010 - \$107,000) in unpaid out of pocket expenses to the Company's Executive Vice President. Subsequent to November 30, 2010, all outstanding amounts owed to the Executive Vice President were paid in full.

- (b) The Company has retained a law firm to provide it with legal services where a director and officer of the Company is a partner of this law firm. Legal fees were incurred by the Company to the law firm for the three months ended November 30, 2010 of approximately \$20,000 (2009 - \$nil). Included in accounts payable and accrued liabilities as at November 30, 2010 is \$80,000 (August 31, 2010 - \$60,000).
- (c) During the three month period ended November 30, 2010, the Company recorded \$16,444 (2009 - \$23,000) rent expense for the use of office space and furniture and equipment to corporations with common officers and directors. Included in accounts payable and accrued liabilities at November 30, 2010 is \$nil (August 31, 2010 - \$514).
- (d) For the three months ended November 30, 2010, the Company incurred \$nil (2009 - \$30,234) in consulting fees and salary directly or to a private Company controlled by a former director of the Company. There are no outstanding balances related to these service fees and salary at November 30, 2010 or at August 31, 2010.
- (e) During the three month period ended November 30, 2010, the Company recorded \$nil (2009 - \$5,700) as consulting fees payable to a company owned by the former Chief Financial Officer. There were no outstanding balances related to these consulting fees included in related party payables as at November 30, 2010 or August 31, 2010.

Transactions (a) through (e) are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

- (a) On August 3, 2007 the Company executed five concessions contracts with the Ministry of the Industry and Innovation for petroleum exploration, development and productions rights in Portugal (the “Ministry”). The contracts provide for an initial eight year term with 2 one year extensions and a twenty-five year production period based on an approved development and production plan with a 15 year production period extension. For each of the concessions: Torres Vedras-3, Aljubarrota-3, Cabo Mondego-2, Rio Major-2 and Sao Pedro de Muel-2; the Company is committed to drill either six or seven wells with an estimated expenditure of €500,000 for well work. The minimum total contract commitment is €18.5 million starting in 2008 and expiring in 2015.

For each concession the Company is required to make revenue-based royalty payments to the Ministry for any natural gas production after the Company has recovered the exploration and development expenses and deducting the operating costs of production.

Each concession requires the Company to post an initial bond, in favour of Ministério da Economia e da Inovação - Direcção-Geral de Energia e Geologia, (“DGEG”), the regulating agency for petroleum exploration and production in Portugal, to guarantee future performance and commitments under the concession agreement upon the issuance and/or signing of the concession contract. As of November 30, 2010 and August 31, 2010, the Company had approximately, \$135,000 in standby letters of credit that are recorded as restricted cash. These initial bonds are renewed annually. The amount of each bond for future renewals will be for an amount equivalent of up to 50% of the value of the work budgeted for under the annual work program, as defined by the Company, that is periodically submitted to DGEG for approval.

In addition, the Company is committed to pay an aggregate fee on the above concessions of €46,000 for years 1 through 3 and €64,500 for years 4 through 8 on various activities for the benefit of the Ministry. Additionally, the Company is responsible for annual surface rentals of approximately \$200,000.

- (b) In July of 2010, the Company, through its wholly-owned subsidiary, entered into an office lease agreement for a minimum of 38 months with a monthly base rent of approximately \$13,000.
- (c) In August, 2010, the Company, through its wholly-owned subsidiary, entered into an agreement to acquire 3-D seismic in the Torres Vedras-3 and Aljubarrota-3 concessions and was required to make a down payment of \$318,500 in September 2010. The Company expects the seismic acquisition in both areas will be complete within three to four months and is estimated to cost approximately \$8.5 million. This contract cost does not include permitting, operational quality control, damage claims, and data processing which are expected to add an additional \$2.0 million to the base cost.
- (d) In the normal course of operations, the Company provides indemnifications that are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, director/officer contracts and leasing transactions. These indemnification agreements may require the Company to compensate the counterparties for costs incurred as a result of various events, changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that could be required to be paid to counterparties. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

11. INCOME TAXES

For the three months ended November 30, 2010, the Company recognized a future income taxes of \$365,493 on a net loss before income tax of \$913,709 (2009 - \$245,081 future income tax on a net loss before income tax of \$344,431). The difference between the effective tax rate recognized and the blended statutory rates of its various taxing jurisdictions in which the Company operates is primarily due to it applying a valuation allowance for the full amount of its future tax asset as it believes, based on the weight of available evidence, that it is more likely than not that the future tax asset will not be realized prior to the expiration of net operating loss carryforwards in various amounts at 2028 through 2031. Net operating loss carryforwards as of November 30, 2010 were approximately \$17.8 million.

12. CONTINGENT LIABILITIES

Pursuant to a debt settlement agreement dated December 21, 2009, the Company provided certain anti-dilution rights to the Company's former largest creditor such that the creditor's ownership of the Company cannot be less than 6% just prior to closing of an IPO and whose deemed value shall not be less than \$3 million at the IPO price per share. As at August 31, 2010, the creditor had been issued 5,943,103 of the Company's common shares in order to comply with the requirements in the debt settlement agreement (see Note 13(b)).

Pursuant to a debt settlement agreement dated December 24, 2009, the Company provided certain anti-dilution rights to the Company's former second largest creditor such the deemed value of their 1,400,000 common shares shall not be less than \$700,000 at the IPO price per share. The creditor also has the right to put the 1,400,000 common shares of the Company to the Company for \$450,000 should the IPO not be closed by November 1, 2010. Included in accounts payable and accrued liabilities at August 31, 2010 is \$450,000 for the put right (see Note 13(c)).

13. SUBSEQUENT EVENTS

Subsequent to the period ended November 30, 2010:

- (a) In December 2010, the Company completed a private placement of 29,326,683 units at a price of \$0.60 per unit for gross proceeds of approximately \$17,596,000. In conjunction with this placement, approximately \$1,136,000 was paid in finders' fees and charged to share issue costs.
- (b) The anti-dilution rights related to a debt settlement agreement dated December 24, 2009 (see Note 12), including the right to put 1,400,000 common shares of the Company for \$450,000, were terminated.
- (c) The Company terminated anti-dilution rights related to a debt settlement agreement dated December 21, 2009 (see Note 12). In conjunction with the termination, the Company bought casing and existing drilling inventory for \$850,000 from the third party.
- (d) Under the terms of an agent agreement dated •, 2011, the Company is qualifying the sale and distribution of a minimum 60,000,000 common shares and a maximum of 70,000,000 common shares at a price of C\$1.00 per common share. Upon closing, the gross proceeds to the Company are estimated to be a minimum of C\$60,000,000 and a maximum of C\$70,000,000, before deducting estimated issue expenses and agency fees in the aggregate totalling approximately C\$4,100,000 in the event of the minimum offering and C\$4,700,000 in the event of the maximum offering. In addition, the Company has granted the agent an option, exercisable until the closing of the offering to purchase up to a total of 10,500,000 additional common shares at a price of C\$1.00 per common share.

**APPENDIX B - FORM 51-101F3 REPORT
OF MANAGEMENT AND DIRECTORS ON RESERVES
DATA AND OTHER INFORMATION**

Management of Porto Energy Corp. (the “**Company**”) are responsible for the preparation and disclosure of information with respect to the Company’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at August 31, 2010, estimated using forecast prices and costs.

The reserves committee of the board of directors of the Company (the “**Reserves Committee**”) has reviewed the assets, data and position of the Company as of August 31, 2010 and has determined that, as of the last day of the Company’s most recently completed financial year, the Company had no reserves.

An independent qualified reserves evaluator has not been retained to evaluate the Company’s reserves data as the Company has no reserves as of the last day of the Company’s most recently completed financial year and no report of an independent qualified reserves evaluator will be disclosed by the Company for the period from September 1, 2009 to August 31, 2010.

The Reserves Committee of the Board, has reviewed the Company’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with the securities regulatory authorities of Form 51-101F1 containing information data and other oil and gas information;
- (b) the Company not filing form 51-101F2, which is the report of the independent qualified reserves evaluator on reserves data because the Company has no reserves; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. Based on information available at August 31, 2010, the Reserves Committee has determined that the Company had no reserves at that time.

DATED February 1, 2011.

(signed) Joseph P. Ash

President and Chief Executive Officer

(signed) Heath Cleaver

Chief Financial Officer

(signed) William Roach

Director

(signed) Gregory G. Turnbull

Director

APPENDIX C - AUDIT COMMITTEE CHARTER

PORTO ENERGY CORP. AUDIT COMMITTEE CHARTER

1.01 The Board of Directors' Mandate for the Audit Committee

The Board of Directors

The Board of Directors (the “**Board**”) has responsibility for the stewardship of Porto Energy Corp. (the “**Corporation**”). To discharge this responsibility, the Board is obligated by the *Business Corporations Act* (British Columbia) to supervise the management of the business and affairs of the Corporation.

Public financial reporting and disclosure by the Corporation are fundamental to the Corporation’s business and affairs. The objective of the Board’s monitoring of the Corporation’s financial reporting and disclosure is to gain reasonable assurance of the following:

- (a) that the Corporation complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure;
- (b) that the Corporation’s quarterly and annual financial statements are accurate within a reasonable level of materiality and fairly presents the Corporation’s financial position and performance in accordance with, for so long as required by applicable regulation, generally accepted accounting principles (“**GAAP**”), and thereafter in accordance with International Financial Reporting Standards (“**IFRS**”);
- (c) that the accounting principles, significant judgments and disclosures which underlie or are incorporated in the Corporation’s financial statements are appropriate in the prevailing circumstances; and
- (d) that appropriate information concerning the financial position and performance of the Corporation is disseminated to the public in a timely manner in accordance with corporate and securities law and with stock exchange regulations.

The Board is of the view that monitoring of the Corporation’s financial reporting and disclosure policies and procedures cannot be reliably met unless the following activities are, in all material respects, conducted effectively:

- (a) the Corporation’s accounting functions are performed in accordance with a system of internal financial controls designed to record accurately all of the Corporation’s financial transactions;
- (b) the internal financial controls are regularly assessed for effectiveness and efficiency;
- (c) the Corporation’s quarterly and annual financial statements are properly prepared by management to comply with GAAP, for so long as required by applicable regulation, and thereafter in accordance with IFRS; and
- (d) the Corporation’s quarterly and annual financial statements are reported on by an external auditor appointed by the shareholders of the Corporation.

To assist the Board in its monitoring of the Corporation’s financial reporting and disclosure and to conform to applicable corporate and securities law, the Board has established the Audit Committee (the “**Committee**”) of the Board.

Composition of Committee

- (a) The Committee shall be appointed annually by the Board and consist of at least three members from among the directors of the Corporation.
- (b) Until such date falling on the one-year anniversary of the Corporation receiving a receipt for a final prospectus pursuant to which the Corporation assumes the status of reporting issuer (an “**IPO**”), a majority of the directors comprising the Committee shall be “independent” as such term is defined by National Instrument 52-110-*Audit Committees*. Following the one-year anniversary of an IPO, all of the directors comprising the Committee shall be independent.

- (c) The Board shall designate the Chairman of the Committee.
- (d) In the event of a vacancy arising in the Committee or a loss of independence of any member, the Committee will fill the vacancy within the sooner of six months or the following annual shareholders' meeting.

Reliance on Experts

In contributing to the Committee's discharging of its duties under this mandate, each member of the Committee shall be entitled to rely in good faith upon:

- (a) financial statements of the Corporation represented to such Committee member by an officer of the Corporation or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with GAAP, for so long as required by applicable regulation, and thereafter in accordance with IFRS; and
- (b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

Limitations on Committee's Duties

In contributing to the Committee's discharging of its duties under the Terms of Reference, each member of the Corporation shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in the Terms of Reference is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject.

1.02 Audit Committee Terms of Reference

The Committee's Terms of Reference outline how the Committee will satisfy the requirements set forth by the Board in its Mandate. Terms of Reference reflect the following:

- Operating Principles;
- Operating Procedures; and
- Specific Responsibilities and Duties.

A. Operating Principles

The Committee shall fulfill its responsibilities within the context of the following principles:

(1) *Committee Values*

The Committee expects the management of the Corporation to operate in compliance with corporate policies, reflecting laws and regulations governing the Corporation and to maintain strong financial reporting and control processes.

(2) *Communications*

The Committee and members of the Committee expect to have direct, open and frank communications throughout the year with management, other Committee Chairmen, the external auditors, and other Committee advisors or Corporation staff members as applicable.

(3) *Financial Literacy*

All members of the Committee should be sufficiently versed in financial matters to read and understand the Corporation's financial statements and also to understand the Corporation's accounting practices and policies and the major judgments involved in preparing the financial statements.

(4) *Annual Committee Work Plan*

The Committee, in consultation with management and the external auditors, shall develop an annual Committee work plan responsive to the Committee's responsibilities as set out in these Terms of Reference. In addition, the Committee, in consultation with

management and the external auditors, shall participate in a process for review of important financial topics that have the potential to impact the Corporation's financial disclosure.

The work plan will be focused primarily on the annual and interim financial statements of the Corporation; however, the Committee may at its sole discretion, or the discretion of the Board, review such other matters as may be necessary to satisfy the Committee's Terms of Reference.

(5) ***Meeting Agenda***

Committee meeting agendas shall be the responsibility of the Chairman of the Committee in consultation with Committee members, senior management and the external auditors and shall be circulated on a timely basis prior to the Committee meetings.

(6) ***Committee Expectations and Information Needs***

The Committee shall communicate its expectations to management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management and the external auditors at a reasonable time in advance of meeting dates.

(7) ***External Resources***

To assist the Committee in discharging its responsibilities, the Committee may at its discretion, in addition to the external auditors, at the expense of the Corporation, retain one or more persons having special expertise, including independent counsel.

(8) ***In Camera Meetings***

At the discretion of the Committee, the members of the Committee shall meet in private session with the external auditors.

(9) ***Reporting to the Board***

The Committee, through its Chairman, shall report to the Board at the Board's next regular meeting after each Committee meeting.

(10) ***Committee Self Assessment***

The Committee shall annually review, discuss and assess its own performance. In addition, the Committee shall periodically review its role and responsibilities.

(11) ***The External Auditors***

The Committee expects that, in discharging their responsibilities to the shareholders, the external auditors shall report directly and be accountable to the Board through the Committee. The external auditors shall report all material issues or potentially material issues, either specific to the Corporation or to the financial reporting environment in general, to the Committee.

B. Operating Procedures

(1) The Committee shall meet at least four times annually, or more frequently as circumstances dictate.

(2) Meetings shall be held at the call of the Chairman, upon the request of two members of the Committee or at the request of the external auditors.

(3) Quorum shall be a majority of the members and the rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing the Board unless otherwise determined by the Committee or the Board.

(4) The Chair shall preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee present shall designate from among the members the Chair for the purposes of the meeting.

(5) Members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.

(6) A member of the Committee or an officer of the Corporation, or any other person selected by the Committee, shall be appointed at each meeting to act as secretary for the purposes of recording the minutes of each meeting.

(7) Minutes of the Committee will be maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.

C. Specific Responsibilities and Duties

To fulfill its responsibilities and duties, the Committee shall:

Financial Reporting

(1) Review, prior to public release, the Corporation's annual and quarterly financial statements with management and the external auditors with a view to gaining reasonable assurance that the statements (i) are accurate within reasonable levels of materiality, (ii) are complete, (iii) fairly represent the Corporation's financial position and performance in accordance with GAAP, consistently applied. The Committee shall report on their review of the annual and quarterly financial statements to the Board before such financial statements are approved by the Board;

(2) Receive from the external auditors reports of their review of the annual and quarterly financial statements;

(3) Review, prior to public release, and, if appropriate, recommend approval to the Board, of news releases and reports to shareholders issued by the Corporation with respect to the Corporation's annual and quarterly financial statements;

(4) Review and, if appropriate, recommend approval to the Board of prospectuses, material change disclosures of a financial nature, management discussion and analysis, annual information forms and similar disclosure documents to be issued by the Corporation;

(5) Assess whether the Corporation's accounting policies are being adequately disclosed in the Corporation's financial reporting; and

(6) Review and validate procedures for the receipt, retention and resolution of complaints received by the Corporation from any party regarding accounting, auditing or internal controls. For greater certainty, the Committee's responsibilities in this area will not include complaints about minor operational issues. (Examples of minor operational issues include late payment of invoices, minor disputes over accounts owing or receivable, revenue and expense allocations and other similar items characteristic of the normal daily operations of the accounting department of an oil and gas corporation.)

Accounting Policies

(1) Review with management and the external auditors the appropriateness of the Corporation's accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto;

(2) Obtain reasonable assurance that the Corporation's accounting policies are in compliance with GAAP consistently applied from management and external auditors and report results to the Board;

(3) Review with management and the external auditors the apparent degree of conservatism of the Corporation's underlying accounting policies, key estimates and judgments and provisions along with quality of financial reporting; and

(4) Participate, if requested, in the resolution of disagreements, between management and the external auditors.

Risk and Uncertainty

(1) Acknowledging that it is the responsibility of the Board, in consultation with management, to identify the principal business risks facing the Corporation, determine the Corporation's tolerance for risk and approve risk management policies, the Committee shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled by:

(a) reviewing with management the Corporation's tolerance for financial risks;

(b) reviewing with management its assessment of the significant financial risks facing the Corporation;

- (c) reviewing with management the Corporation's policies and any proposed changes for managing significant financial risks; and
- (d) reviewing with management its plans, processes and programs to manage and control such risks;
- (2) Review policies and compliance with policies that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;
- (3) Review foreign currency, interest rate and commodity price risk mitigation strategies, including the use of derivative financial instruments;
- (4) Review the adequacy of insurance coverages maintained by the Corporation; and
- (5) Review regularly with management, the external auditors and the Corporation's legal counsel, any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these matters have been disclosed in the financial statements.

Financial Controls and Control Deviations

- (1) Review the plans of the external auditors to gain reasonable assurance that the evaluation and testing of applicable internal financial controls is comprehensive, coordinated and cost-effective;
- (2) Receive regular reports from management and the external auditors on all significant deviations, indications or detection of fraud and any corrective activity undertaken;
- (3) Institute a procedure that will permit any employee, including management employees, to bring to the attention of the Board, under conditions of confidentiality, concerns relating to financial controls and reporting which are material in scope and which cannot be addressed, in the employee's judgment, through existing reporting structures in the Corporation; and
- (4) Review, and periodically assess the adequacy of controls over financial information disclosed to the public, which is extracted or derived from the Corporation's financial statements.

Compliance with Laws and Regulations

- (1) Review regular reports from management and others (e.g. external auditors) with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including:
 - (a) tax and financial reporting laws and regulations;
 - (b) legal withholding requirements;
 - (c) other laws and regulations which expose directors to liability; and
- (2) Review the filing status of the Corporation's tax returns.

Relationship with External Auditors

- (1) Recommend to the Board the nomination of the external auditors;
- (2) Approve the remuneration and the terms of engagement of the external auditors as set forth in the engagement letter and receive a copy of the engagement letter once finalized;
- (3) Review the performance of the external auditors annually or more frequently as required;
- (4) Receive annually from the external auditors an acknowledgement in writing that the shareholders, as represented by the Board and the Committee, are their primary client;
- (5) Receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and related fees) for non-audit services by the Corporation;

(6) Review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, and the materiality levels which the external auditors propose to employ;

(7) Meet with the external auditors in the absence of management to determine, *inter alia*, that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the Committee;

(8) Establish effective communication processes with management and the external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee;

(9) Establish a reporting relationship between the external auditors and the Committee such that the external auditors can bring directly to the Committee matters that, in the judgment of the external auditors, merit the Committee's attention. In particular, the external auditors will advise the Committee as to disagreements between management and the external auditors regarding financial reporting and how such disagreements were resolved;

(10) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present auditor and any former external auditors of the Corporation; and

(11) Review, when there is to be a change of external auditors, all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors, the documentation called for under applicable securities legislation and the planned steps for an orderly transition period.

Other Responsibilities

(1) Approve annually the reasonableness of the expenses of the Chairman of the Board and the Chief Executive Officer;

(2) After consulting with the Chief Financial Officer and the external auditors, to consider at least annually the quality and sufficiency of the Corporation's accounting and financial personnel and other resources;

(3) Approve in advance non-audit services, including tax advisory and compliance services provided by the external auditors. However, the Committee can establish a threshold amount for fees for non-audit services to be provided by the external auditors without advance approval of the Committee. The nature of such services and the associated cost will be provided to the Committee prior to the next following Committee meeting;

(4) Investigate any matters that, in the Committee's discretion, fall within the Committee's duties;

(5) Perform such other functions as may from time to time be assigned to the Committee by the Board;

(6) Review and update the Terms of Reference on a regular basis for approval by the Board; and

(7) Review disclosures regarding the organization and duties of the Committee to be included in any public document, including quarterly and annual reports to shareholders, information circulars and annual information forms.

May 2010

CERTIFICATES OF THE COMPANY

Dated: February 1, 2011

This Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

Porto Energy Corp.

(signed) "Joseph P. Ash"

Joseph P. Ash
President and Chief Executive Officer

(signed) "Heath Cleaver"

Heath Cleaver
Chief Financial Officer

On behalf of the Board of Directors

(signed) "Patric Monteleone"

Patric Monteleone
Director

(signed) "Gregory G. Turnbull"

Gregory G. Turnbull
Director

The Promoters

(signed) "Christopher D. Wright"

Christopher D. Wright

(signed) "Joseph P. Ash"

Joseph P. Ash

(signed) "Patric Monteleone"

Patric Monteleone

CERTIFICATE OF THE AGENTS

Dated: February 1, 2011

To the best of our knowledge, information and belief, this Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

Raymond James Ltd.

(signed) "Gregg Delcourt"

Gregg Delcourt
Managing Director

TD Securities Inc.

(signed) "Robi Contrada"

Robi Contrada
Managing Director, Investment Banking

FirstEnergy Capital Corp.

(signed) "Erik B. Bakke"

Erik B. Bakke
Vice President & Director, Corporate Finance

Haywood Securities Inc.

(signed) "Mark Reynolds"

Mark Reynolds
Managing Director, Investment Banking