



**PORTO ENERGY CORP.**

**Annual Information Form  
Fiscal Year Ended August 31, 2013**

**Dated November 27, 2013**

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## CONVENTIONS

Unless otherwise indicated, references herein to “\$” or “dollars” are to Canadian dollars. All financial information with respect to the Company has been presented in Canadian dollars in accordance with IFRS. The information in this annual information form (“**Annual Information Form**”) is stated as at August 31, 2013, unless otherwise indicated. For an explanation of the capitalized terms and expressions and certain defined terms, please refer to the section of this Annual Information Form titled “*Definitions*”.

Certain terms used herein are NI 51-101 the COGE Handbook and, unless the context otherwise requires, shall have the same meanings in this Annual Information Form as in NI 51-101 or the COGE Handbook.

## ABBREVIATIONS

2D	two dimensional	km <sup>2</sup>	square kilometres
3D	three dimensional	mbbls	thousand barrels of oil
ac	acres	mcf	thousand cubic feet of gas
bb/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 <sup>3</sup> m <sup>3</sup> ”)	0.0282
thousand cubic metres	mcf	35.494
bbls	cubic metres (“m <sup>3</sup> ”)	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

## DEFINITIONS

Wherever used in this Annual Information Form, unless the context otherwise requires, the following words and phrases shall have the meanings set forth below:

“**AIPN**” means the Association of International Petroleum Negotiators;

“**ALC-1**” means the Alcobaça #1 well, located in the Company’s Aljubarrota-3 Concession;

“**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;

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

“**BSMC**” means Black Spruce Merchant Capital, the Company’s investment advisor;

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

“**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 Annual Information Form 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;

“**Concessions**” means the seven 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, Rio Maior-2, Zambujal and Peniche 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;

“**Deutag**” means KCA Deutag, the Company’s drilling contractor;

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

“**DPEP**” means Divisão para a Pesquisa e Exploração de Petróleo, the Portuguese oil and gas authority;

“**EU**” means European Union;

“**JOA**” means joint operating agreement;

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

“**IFRS**” means International Financial Reporting Standards, applied on a consistent basis;

“**Lias Interval**” means the lower Jurassic stratigraphic interval;

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

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

“**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.;

“**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;

**“NI 51-101F1 Report”** means the contingent and prospective petroleum resources report prepared by the Company in accordance with NI 51-101 dated September 27, 2013 with an effective date of August 31, 2013;

**“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;

**“OPEC”** means the organization of the petroleum exporting companies;

**“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;

**“Partex”** means Partex Oil and Gas (Holdings) Company;

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

**“Petrobras”** means Braspetro Petrobras Internacional, S.A.;

**“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;

**“Porto”** means the Company;

**“RAG”** means Rohöl-Aufsuchungs Aktiengesellschaft, Austria;

**“REN”** means Redes Energeticas Nacionais Gasodutos;

**“Repsol”** means Repsol Exploration, S.A.;

**“SEDAR”** means the system for electronic document analysis and retrieval maintained by CDS Inc. under the website address [www.sedar.com](http://www.sedar.com);

**“Sorgenia”** means Sorgenia International B.V., Netherlands;

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

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

### **SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

Certain information included in this Annual Information Form and the documents incorporated by reference constitute forward looking information under applicable securities legislation. Forward looking information typically contains statements with words such as “anticipate”, “continue,” “estimate”, “believe”, “expect”, “plan”, “intend”, “may”, “will”, “should”, “propose” and similar words suggesting future outcomes or an outlook. Forward looking information in this Annual Information Form and the documents incorporated by reference herein includes, but is not limited to: expected production volumes; planned exploration and development expenditures and the timing thereof; exploration and development plans and strategies; budget allocations and capital spending flexibility; the outcome of any audits, assessments or other regulatory matters or proceedings; estimated reserves and resources and the undiscounted and discounted present value of future net revenues from such reserves and resources (including the forecast prices and costs and the timing of expected production volumes and future development capital); undeveloped land lease expiries; the timing and cost of future abandonment and reclamation; business strategies and objectives; financing plans; acquisition and disposition plans; and operating and other costs and royalty rates.

Such forward looking information and statements are only predictions based on current information, knowledge, assumptions, expectations, estimates and projections which may prove to be incorrect. Actual future events or results may differ materially. Although Porto believes that the expectations reflected in such forward looking information are

reasonable, undue reliance should not be placed on such forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

In particular, this Annual Information Form and the documents incorporated by reference herein contain forward-looking information pertaining to the following:

- the use of proceeds from any future public offering or private placement;
- the results of the Company's strategic alternatives review process;
- the impact and anticipated benefits of acquisitions on the Company's operations, financial condition, access to capital and overall strategy;
- expectations regarding the ability to raise capital and to add to resources and acquire reserves through acquisitions, exploration and development;
- assessments of the value of acquisitions and exploration and development programs;
- development and drilling plans for the assets of the Company and transportation and infrastructure availability;
- sale, farming-in, farming-out or development of certain exploration properties using third party resources;
- plans for, and results of, exploration and development activities;
- the future development potential of the Company's exploration blocks;
- the Company's capital program for the ensuing year;
- the ability of the Company to achieve drilling success consistent with management's expectations;
- estimates of resources of the Company;
- timing of and bringing on production;
- future production rates;
- expected plans and costs of drilling;
- drilling inventory and presence of crude oil, natural gas or natural gas liquids;
- commodity prices;
- supply and demand for crude oil, natural gas and natural gas liquids;
- expected levels of operating costs, including general and administrative costs, costs of services and royalty rates; and
- treatment under governmental regulatory regimes and tax laws.

With respect to forward-looking statements and forward-looking information contained in this Annual Information Form and the documents incorporated herein, assumptions have been made regarding, among other things:

- the ability of the Company to secure financing to fund exploration and drilling in a timely manner;
- the overall success of the Company's 2013 capital programs including, without limitation, the number and type of wells to be drilled and the intended target zones of such wells;
- 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 and the ability to obtain financing on acceptable terms;
- geological and engineering estimates in respect of the Company's resources;
- the geography of the areas in which the Company is exploring;
- the impact of increasing competition on the Company;
- the intentions of the Company's board with respect to the executive compensation plans and corporate governance programs described in documents incorporated by reference herein; and
- the Company's success in identifying other risks to its business and managing the risks mentioned below.

Statements relating to reserves and resources are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future. Estimated values of future net revenue do not represent fair market value. There is no certainty that it will be commercially viable to produce any portion of the resources. The assumptions relating to the resources of the Company are discussed under "*Statement of Resources Data and Other Oil and Gas Information*" in the AIF and incorporated by reference herein.

The success of the Company's exploration drilling program is a key assumption in its 2013 capital spending forecast. In addition to the risk factors described below and herein, the primary risk factors which could impact the success of the Company's exploration drilling program include failure to obtain the necessary drilling rigs and related equipment on a timely basis and at reasonable prices due to high industry demand, poor weather preventing access to the drill sites, the accuracy of seismic and other data and cost overruns due to unanticipated drilling issues. Any of the foregoing could have a significant impact on the Company's 2013 - 2014 capital spending forecast.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- the Company's ability to operate as a going concern in light of its capital requirements;
- the Company's ability to raise capital to fund exploration and drilling in a timely manner;
- the fact the Company does not have any reserves and has instead only resources;
- the inability to find a farm-out partner for some of the Company's exploration assets;
- the uncertainties of estimates by the Company's independent consultants with respect to the Company's resources;
- the fact that the Company has an ongoing need for raising capital through financing;
- the impact of global financial events on the Company's valuations and access to financings;

- the fact that any further issuance of Common Shares will lead to additional dilution of outstanding shareholdings in the Company;
- potential delays or changes in plans with respect to exploration and development projects or capital expenditures;
- the volatility of crude oil, natural gas and natural gas liquids prices;
- geological, technical, drilling and processing problems;
- changes in the foreign exchange rate;
- current global financial conditions, including inflation, commodity prices, and stock market volatility;
- general economic conditions in the countries in which the Company operates or its products are or will be sold;
- changes to royalty regimes and government regulations regarding royalty payments;
- compliance with and liabilities under environmental laws and regulations;
- the impact of competition and the Company's ability to hire and retain staff;
- imprecision in estimating capital expenditures and operating expenses;
- imprecision in estimating the timing, costs and levels of production and drilling;
- imprecision in estimates of future production capacity;
- inability to acquire assets for prices within the Company's parameters;
- inability to effectively optimize or exploit acquired assets;
- changes to regulations and legislation applicable to the Company;
- general economic and business conditions;
- unavailability of required equipment and services;
- risks associated with developing, producing, processing, storing and transporting oil and natural gas; and
- other risks and uncertainties described elsewhere in this Annual Information Form under the heading "*Risk Factors*" and in the documents incorporated by reference herein.

In addition, information and statements in this Annual Information Form relating to "resources" and "reserves" are deemed to be forward-looking information and statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described exist in the quantities predicted or estimated, and that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing list of risk factors should not be construed as exhaustive.

The forward-looking statements included in this Annual Information Form are expressly qualified by this cautionary statement and are made as of the date of this Annual Information Form. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.

#### **MARKET AND INDUSTRY DATA**

This Annual Information Form contains certain statistical, market, corporate and industry data that is based upon information from the Government of Portugal and certain industry publications and reports (including U.S. Energy

Information Administration Independent Statistics & Analysis, [www.ren.pt](http://www.ren.pt) and [www.galpennergia.com](http://www.galpennergia.com)), published information released by third parties or is based on estimates derived from same and management's knowledge of, and experience 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. While the Company believes this data to be reliable, market and industry data are 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. The Company has not independently verified any of the data from third party sources referred to in this Annual Information Form or ascertained the underlying assumptions relied upon by such sources.

## THE COMPANY

The Company was incorporated pursuant to the laws of British Columbia on November 14, 2006 as MEPI for the purpose of attracting additional capital and eventually becoming a publicly traded entity.

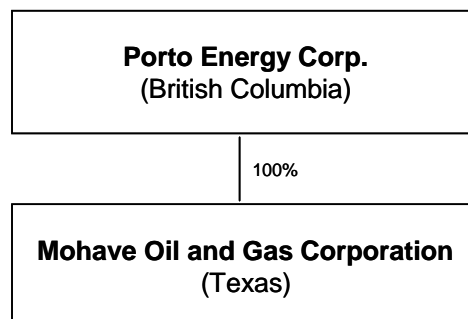
MOGC, the Company's wholly-owned operating subsidiary, was founded in August of 1993 by Patric Monteleone, currently a director and executive vice-president of the company and MOGC. MOGC was incorporated under the laws of Texas. MOGC focused its activities on the Lusitanian Basin of Portugal and acquired its first Concessions in Portugal in 1993.

On January 30, 2010, the Company amalgamated with 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 participating in 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 registered office of the Company is located at Suite 1300, 777 Dunsmuir Street, P.O. Box 10424, Pacific Centre, Vancouver, BC, V7Y 1K2 and its head office is located at Suite 350, 24 Waterway, The Woodlands, Texas, USA, 77380.

The Common Shares trade on the TSX-V under the symbol "**PEC**".



## GENERAL DEVELOPMENT OF THE BUSINESS

### History

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 was re-entered and deepened as part of the Company's 2011 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 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. This well also did not reach the proposed depth due to drilling 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 was the objective of a 120 km<sup>2</sup> 3D seismic acquisition program that consisted of 80 km<sup>2</sup> acquired early in 2011 and 40 km<sup>2</sup> acquired in 2008 including the two reef wells, the SPC-1 and SPC-2 drilled in 2012, which were deemed non-commercial wells.

#### *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.

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

#### *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 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 of their respective shareholders to approve 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.

#### *The Private Placements*

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 entitled 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 initial public offering and the listing on the TSX-V. As a result of the IPO and TSX-V listing referred to immediately below, the anti-dilution and liquidity warrants terminated and the US\$0.85 warrants expired, unexercised, in March, 2013.

#### *The Initial Public Offering*

During March 2011, the Company completed the Offering consisting of 70,000,000 Common Shares raising gross proceeds of \$70,000,000 pursuant to an agency agreement among the Company and Raymond James Ltd., TD Securities Inc., FirstEnergy Capital Corp. and Haywood Securities Inc. dated March 16, 2011.

The Company commenced trading in March 2011 on the TSX-V under the symbol "PEC".

#### *Drilling Contract*

In December of 2011, Porto elected to temporarily suspend drilling activities pending the completion of its ongoing seismic and geophysical analyses and in order to provide additional time to seek out potential joint venture partners. Porto negotiated modifications to its drilling contract with Deutag and stacked Deutag's rig in a Porto storage facility on January 1, 2012. Porto retained the rig at a reduced rate. On May 22, 2012 Porto announced that its one-year drilling rig contract with Deutag had expired and that it would settle all outstanding payables. In July of 2012, the Company finalized negotiations with Deutag to secure the rig stacked at Porto's facilities following the expiration of the initial drilling contract. Under the terms of the new drilling contract, Porto secured the rig on a single well basis, with an option on subsequent wells. The ALC-1 well was subsequently spud in August 2012. See "*Narrative Description of the Business – Overall Performance, Lias Interval*" below for more information.

### *Warrant Extension*

In March of 2012, Porto filed an application with the TSX-V to extend the expiry date of 9,275,000 outstanding warrants issued as part of the amalgamation between MEPI and Old Porto ("**Tranche 1**"), 1,985,000 outstanding warrants issued in connection with the non-brokered private placement of the Company completed on February 26, 2010 ("**Tranche 2**") and 5,805,000 outstanding warrants issued in connection with the non-brokered private placement of the Company completed on April 21, 2010 ("**Tranche 3**"). The expiry date of each of the above warrant tranches was March 28, 2012 and the extended date proposed was March 28, 2013. On March 23, 2012, Porto announced that the TSX-V had approved its application. Each whole warrant was exercisable to purchase one Common Share at an exercise price of \$0.50 per share for Tranche 1 and an exercise price of \$1.00 per share for each of Tranche 2 and Tranche 3. No other terms of the warrants were amended and none of these warrants are held by Porto insiders. On March 28, 2013, these warrants expired unexercised.

### *Galp Farm-out*

In June 2012, the Company entered into a definitive farm-out agreement with Galp whereby Galp agreed to pay the Company \$4.3 million in back costs as well as their portion of the drilling of the ALC-1 well, which cost Galp approximately \$5.4 million to earn 50% of the Company's rights in the Aljubarrota-3 Concession.

In September 2012, the Company received the \$4.3 million payment from Galp associated with the Aljubarrota-3 Concession farm-out.

### *Financial Advisor*

In late August 2012, Porto engaged BSMC to provide financial advisory services with respect to project acquisitions, corporate mergers, acquisitions and business combinations as well as equity and debt financings, all as part of the ongoing development on Porto's Concessions. BSMC is a private independent merchant banking company focused on providing executive level and unbiased financial advisory services to the global oil and gas industry. Upon BSMC's engagement, Porto issued to BSMC 1,000,000 options exercisable at a price of \$0.11 per common share for three years to vest one-third every six months from the date of the engagement. In addition, BSMC's compensation includes a monthly work fee during the term of the engagement, milestone fees in certain circumstances and a financing success fee on the closing of any debt or equity financing provided to Porto.

### *2013 Development and Production Plan Approval*

In September of 2012, Porto Energy Corp. announced that it received approval from the DPEP of its Development and Production Plan for the Company's Concessions onshore Portugal. For further information, please refer to "*Narrative Description of the Business*".

### *ALC-1 Well*

In November 2012, based on the testing results of the ALC-1 well, it was deemed non-commercial. The well penetrated approximately 50 net meters of sand and saw good reservoir properties in several intervals, but much of the sands were near the base of the trapped gas column and as such were deemed non-commercial. The Company has begun best efforts to plug and abandon the well. For further information, refer to "*Narrative Description of the Business – Presalt Prospect*".

### *Joint Operating Agreement with Galp*

In March 2013, the Company entered into a definitive JOA, through MOGC, with Galp in connection with its June 2012 farm-out agreement relating to the Aljubarrota-3 Concession. The assignment of interest was approved by DPEP in September 2012. The terms of the JOA are standard and consistent with the provisions of the 2012 AIPN model.

### *Expiration of Phase Two Option In Joint Venture With Sorgenia and RAG*

In April of 2013, the Company's joint venture partners, Sorgenia and RAG, elected not to proceed into the second phase of the work program as defined under the terms of the original farm-out agreement among the Company, Sorgenia and RAG dated February 29, 2012. As a result, the Sorgenia's and RAG's acreage interest reverted back proportionately to Porto and Galp.

### *2013 Annual General Meeting*

On April 22, 2013, the Company held its annual general meeting of shareholders where shareholders re-elected Joseph Ash, Ian B. McMurtrie, Gerald A. Romanzin, Gregory G. Turnbull, Agustin Llana, William J.F. Roach and Patric Monteleone to serve as directors of the Company. For a description of the background of each of the directors of the Company, see “*Directors and Officers*”.

### *Galp Exercising Option to Become Operator of the Aljubarrota-3 Concession*

In June of 2013, the Company’s joint venture partner in the Aljubarrota-3 Concession, Galp, exercised its option to become the operator of the Concession, pursuant to the terms of the definitive farm-out agreement between the Company and Galp signed in June 2012. The assignment of operators.hip is subject to approval by the DGEG.

### *2013 Work Program Approval*

In June of 2013, the DPEP approved the Company’s 2013 Work Program in Portugal. For further information, please refer to “*Narrative Description of the Business – Drilling Outlook - 2013 Work Program*”.

### *Formation of Special Committee*

In October 2013, the Company announced that, in light of its ongoing capital requirements necessary to advance its oil and gas exploration program in Portugal, it has formed a special committee of independent directors and initiated a strategic review process to identify, examine and consider a range of strategic alternatives available to Porto, with a view to preserving and maximizing shareholder value. The special committee retained BSMC as its financial advisor to assist in the strategic review process.

### *Convertible Debentures Issuance*

On November 12, 2013, the Company announced the launching of a non-brokered private placement of up to 150 units of the Company (“**Units**”) at a price of \$10,000 per Unit (“**Offering Price**”) to raise gross proceeds of up to \$1,500,000 on a reasonable commercial best efforts basis (the “**Offering**”). Each Unit issued under the Offering will consist of one senior secured convertible debenture with a par value of \$10,000 (the “**Debenture**”) and one common share purchase warrant (the “**Warrant**”). Each Warrant will entitle the holder to acquire up to 200,000 Common Shares at a price of \$0.05 per Common Share for a period of up to 36 months from the closing date of the Offering.

Due to overall market conditions, the Company expects marketing to last longer than originally anticipated and closing of the Offering is expected to occur on or about December 31, 2013, and may occur in one or more tranches. The financing is subject to regulatory approval including the satisfaction of customary conditions of the TSX-V. There is no guarantee that the Company will close the Offering or raise any proceeds therefrom.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### **General**

The Company is listed on the TSX-V. The Company, through 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, Rio Maior-2, Zambujal and Peniche oil and gas Concessions in Portugal. The Concessions cover approximately 1.6 million acres on a net basis.

### **Corporate Strategy**

The business objective of the Company is to build an exploration and production company in Portugal. The Company’s strategy for the Lusitanian Basin is a balanced appraisal and exploration approach that targets both oil and gas prospects within the seven major trend types in its Concessions on and offshore Portugal. Particular emphasis will be on: (i) the carbonate reservoirs in the Lias Interval, (ii) the Presalt exploration drilling prospects onshore and (iii) the Presalt exploration drilling prospects offshore.

In light of its ongoing capital requirements necessary to advance these objectives, Porto has formed a special committee of independent directors and initiated a strategic review process to identify, examine and consider a range of strategic alternatives available to the Company, with a view to preserving and maximizing shareholder value. This

process could result in a sale of the Corporation, a sale of a material portion of the Corporation's assets, a merger, business combination or a corporate reorganization, among other alternatives.

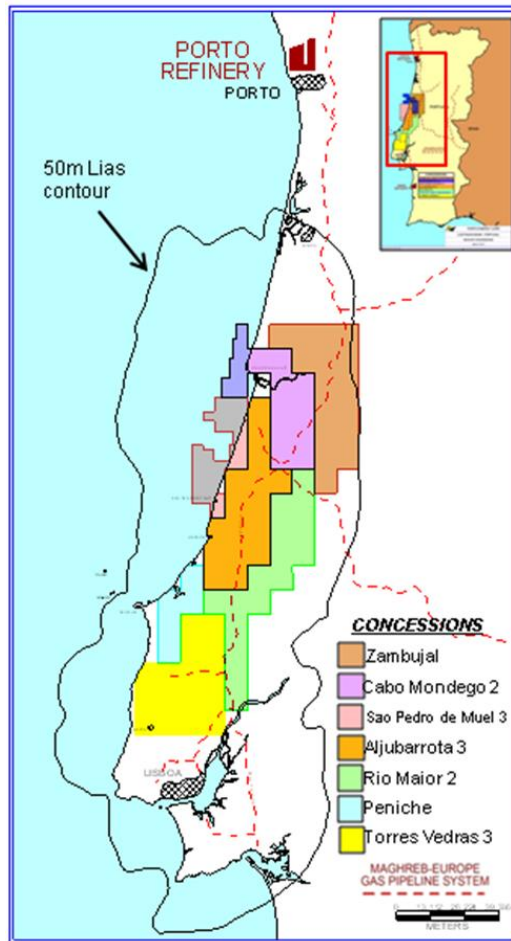
## Properties

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	Gross Acreage		Company Working Interest	Net Acreage		Expiry Date <sup>(5)</sup>	
		Km <sup>2</sup>	Acres		Km <sup>2</sup>	Acres		
Aljubarrota-3	Lusitanian Onshore	1214	= 300,038	50% <sup>(4)</sup>	607	= 150,019	August 3, 2042 <sup>(1)</sup>	
Peniche	Lusitanian Onshore	385	= 95,162	100%	385	= 95,162	March 21, 2042 <sup>(1)</sup>	
Rio Maior-2	Lusitanian Onshore	1274	= 314,897	100%	1274	= 314,897	August 3, 2042 <sup>(1)</sup>	
Torres Vedras-3 <sup>(3)</sup>	Lusitanian Onshore	1269	= 313,549	100%	1269	= 313,549	August 3, 2042 <sup>(1)</sup>	
Zambujal	Lusitanian Onshore	1263	= 312,003	100%	1263	= 312,003	March 21, 2042 <sup>(1)</sup>	
Cabo Mondego-2 <sup>(2)</sup>	Lusitanian Onshore & Offshore	899	= 243,180	100%	899	= 243,180	August 3, 2017	
São Pedro de Muel-2 <sup>(2)</sup>	Lusitanian Onshore & Offshore	552	= 137,297	100%	552	= 137,297	August 3, 2017	
<b>Total</b>		<b>6,856</b>	<b>1,716,126</b>		<b>6,249</b>	<b>1,566,107</b>		

### Notes:

- (1) The DPEP's approval of the Company's production plan provides for 30 years of development without further relinquishment requirements. For further information, please refer to "Narrative Description of the Business".
- (2) These Concessions are subject to two extensions of one year, a 25 year production lease and five extensions of three years for the production lease.
- (3) The Company has taken back 100% of the working interest in the Torres Vedras-3 Concession. The former working interest partner has a right to get back into Torres Vedras-3 if they pay back costs associated with the SPC-1 & 2 wells.
- (4) The Company entered into a farm-out agreement with Galp whereby it relinquished 50% of its working interest in Aljubarrota-3.
- (5) Sorgenia and RAG elected not to proceed into the second phase of the work program as defined under the terms of the original farm-out agreement among the Company, Sorgenia and RAG dated May 31, 2012. As a result, Sorgenia's and RAG's acreage interest reverted back to the Company in all Concessions except for their Lias Interval interest in the Aljubarrota-3 Concession in which case the interests reverted evenly back to both the Company and Galp.



## Overall Performance

The Company has completed its 2012 work program by drilling 23 shallow wells, an increase from its originally planned 19 shallow wells, in the Lias Interval under the former Sorgenia and RAG joint venture as well as one deep well (of the originally planned two deep wells) targeting the Presalt under its joint venture with Galp. In July 2013, the Company received approval of its 2013 work program from DPEP which constitutes the fulfillment of the Company's 2012 work program commitments by the Portuguese government.

## Lias Interval

**(Aljubarrota-3 - 50% Working Interest, Zambujal - 100% Working Interest, Cabo Mondego-2 - 100% Working Interest and São Pedro de Muel-2 - 100% Working Interest)**

### *Sorgenia and RAG Joint Venture Activity*

The Company along with its former joint venture partners, Sorgenia and RAG, concluded a 23 well stratigraphic drilling program in the third calendar quarter of 2012 to jointly evaluate the unconventional resource potential of the Lias Interval. The cores show encouraging results with the completion of rock mechanics and geochemical analysis. In April 2013, Sorgenia and RAG elected not to proceed into the second phase of the work program as defined under the terms of the original farm-out agreement dated May 31, 2012 as they were unable to come to an agreement on financial terms with the Company. As a result, Sorgenia's and RAG's acreage interest reverted back to the Company in all concessions except for their Lias Interval interest in the Aljubarrota-3 concession in which case the interests reverted evenly back to both the Company and Galp.

### *Zambujal and Peniche Concessions*

In May 2012, the Company secured a 100% working interest in two new concessions, onshore Portugal. The Zambujal and Peniche concessions cover approximately 312,000 and 95,000 acres, respectively. The terms of the concessions provide for an initial exploration period of eight years that expires May 21, 2020.

The Zambujal and Peniche concessions each require a three year work program obligation, the specifics for which are negotiable. In each case, the Company has the option to extend the obligations on a yearly basis. For each of the Zambujal and Peniche concessions, the Company is required to relinquish 50% of the concession at the end of the fifth anniversary of the date of the concession agreement, May 21, 2012, and the Company is required to relinquish 50% of the remaining acreage by the end of the eighth anniversary of the concession agreement. Additionally, for each of the Zambujal and Peniche concessions, two one-year extensions are allowed beyond the eighth year. Once the Company has entered into the development phase, the concession agreements allow for the Company to keep any producing areas, with a ring-fence around the production area of approximately one kilometer. The production period for each of the Zambujal and Penich concessions is 25 years, which can, in both cases, be lengthened one or more times in three-year increments up to a maximum of 15 additional years, to allow for a total production period of up to 40 years for each concession agreement.

### **Presalt Prospect**

#### **(Aljuabarrota-3 - 50% Working Interest and Torres Vedras-3 - 100% Working Interest)**

##### *Farmout Agreement*

In June 2012, the Company entered into a definitive farm-out agreement (the "**Agreement**") with Galp. Galp agreed to pay the Company \$4.3 million in back costs in addition to their portion of the drilling of the ALC-1 well, which cost Galp approximately \$5.4 million to earn 50% of the Company's rights on the Aljuabarrota-3 concession, comprising approximately 300,000 acres, onshore Portugal. The payment of the \$4.3 million was subject to conditions precedent, which required that the assignment of interest be approved by the Portuguese oil and gas authority, DPEP. Additionally, upon reaching total depth in the ALC-1 well and within six months thereafter, Galp was given the option to acquire a 25% working interest in each of the Company's other concessions in exchange for payments totaling no more than 25% of the Company's sunk costs in each concession. Galp was also given the option to become operator of the Aljuabarrota concession once the ALC-1 well had been completed.

The approval of the assignment of interest to Galp and the receipt of the \$4.3 million occurred in September 2012 and was offset against the Company's exploration and evaluation asset basis. The six month option to acquire a 25% interest in each of the Company's other concessions was allowed to expire on April 30, 2013. Galp, however, exercised its option to become operator in June 2013 and both Galp and the Company are currently working through the transfer process with the Portuguese government.

##### *Drilling Results*

The Company commenced the drilling of the ALC-1, its first Presalt well in its Aljuabarrota-3 concession onshore Portugal under its joint venture with Galp in late August 2012. Using interpreted 3-D seismic data acquired from the 160 km<sup>2</sup> Aljuabarrota 3-D seismic survey completed in 2011, the ALC-1 well targeted a large mapped Triassic four-way closure within the Presalt sandstones beneath the gas charged Lias Interval and is approximately 800 meters high to the ALJ-2 well. Additional shallower targets had also been identified within the mapped four-way closure. The ALC-1 well was drilled to a total depth of approximately 3,000 meters and drilling and testing took approximately 60 days to complete following the setting of a liner per regulatory requirements. The well penetrated approximately 50 net meters of sand and revealed promising reservoir properties in several intervals, but much of the sands were near the base of the trapped gas column and as such, were deemed non-commercial. The well was plugged and abandoned and the rig was released in December 2012. The total gross well cost was approximately \$10.7 million, of which half, or approximately \$5.4 million, is the responsibility of Galp.

The salt sealing mechanism was shown to be in place and the Presalt charge and migration was confirmed as the sands were found to be gas bearing. Reservoir containment was also demonstrated since there was no breach. All of these factors demonstrated to the Company and Galp that further exploration drilling is necessary in the basin. The Company is continuing technical discussions with Galp regarding the best path forward. As a result, the Company has turned its near term focus to its Lias unconventional resource oil play while the Company and Galp evaluate other parts of the basin within the Aljuabarrota-3 concession where the Presalt is potentially productive.

## **Drilling Outlook – 2013 Work Program**

The 2013 well program approved in July 2013, consists of drilling one deep well (terminal depth greater than 3,000 metres) and possibly one horizontal well, contingent upon the results of the deep well, both within the Lias Interval; drilling up to seven stratigraphic wells to advance the exploration and development of the Lias Interval; the acquisition of 150 km of 2-D seismic data on-shore that may also partially benefit the offshore prospects; and further acquisition and analysis of geologic data to expand the Company's understanding of the basin in general, was approved by DPEP in June 2013. Based on the working interests of the Company and the obligations of its joint venture partner as set out in the farmout agreement and governed by the joint operating agreement, the Company anticipates its portion of the costs to be between \$7.1 million and \$11.2 million depending on the results of the initial Presalt well and whether or not the drilling of a horizontal well is warranted. Approval of the 2013 program by DPEP successfully concludes the Company's 2012 drilling program requirements. Given the timing of the approval the Company is in the process of renegotiating its 2013 work program commitments with DPEP to allow for more time for completion. The Company, with the full support of its joint venture partner Galp, believes it will bring these discussions to a successful conclusion.

The Company is currently in negotiations with DPEP which may significantly impact the timing and completion requirements of the 2013 well program. As a result, it is unclear when the required completion date for such work will be and how much, if any, funds will be required to bond such work. At the time of this filing, the Company believes such bonding requirements will be nominal and such completion deadlines will be extended to reasonably allow the Company to fulfill its work program commitments while continuing to keep its Concessions in good standing.

### **Personnel**

As of August 31, 2013 the Company had 10 full time employees in Portugal, the United States and Canada. From time to time, the Company utilizes consultants to act in various capacities over the short or longer terms.

### **Industry Conditions**

#### **Portugal Overview**

Portugal has been a member of the EU since 1986 (source: [www.europa.eu](http://www.europa.eu)). 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 (source: [www.cia.gov](http://www.cia.gov)). 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. Even though the economy grew 1.4% in 2010, GDP fell again in 2011 and 2012, as the government began implementing spending cuts and tax increases to comply with condition of a European Union International Monetary Fund financial rescue package agreed to in May 2011. The government has enacted several measures to introduce more flexibility into the labor market and this, along with steps to reduce high levels of public debt, is an attempt at attracting foreign investors. The government reduced the budget deficit from 10.1% of GDP in 2009 to 4.5% in 2011, partially as a result of extraordinary revenues obtained from the one-time transfer of bank pension funds to the social security system. The budget deficit worsened in 2012 as a sharp reduction in domestic consumption reduced value-added tax revenues while rising unemployment benefits increased expenditure more than anticipated. 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 (source: [www.cia.gov](http://www.cia.gov)).

#### **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](http://www.cia.gov).

Total Area <sup>(1)</sup>	92,090 km <sup>2</sup> (22,737,000 ac)
Population <sup>(1)</sup>	10.8 Million (July 2013 estimate)
GDP <sup>(1)</sup>	US\$ 250.6 billion (2012 estimate, nominal basis)
Currency	Euro

Oil and Gas Exploratory Area <sup>(2)</sup>	
Onshore	~ 26,000 km <sup>2</sup> (6,425,000 ac)
Offshore	~ 93,000 km <sup>2</sup> (22,982,000 ac)
Overall	~ 119,000 km <sup>2</sup> (29,407,000 ac)
Area Under Concession	~ 48,300 km <sup>2</sup> (11,935,000 ac)
Concession as % of Total	~ 40.6%

Total Consumption <sup>(3)</sup>	
Oil	234 mbbbls/d (2012) versus 260 mbbbls/d(2011)
Gas	447 mmcf/d (2012 versus 504 mmcf/d(2011))

**Notes: Sources:**

- (1) CIA Work Handbook ([www.cia.gov](http://www.cia.gov)).
- (2) The Company's estimate.
- (3) [www.eia.gov/countries/country-data.cfm?fips=PO&trk=p1#ng](http://www.eia.gov/countries/country-data.cfm?fips=PO&trk=p1#ng).

### Portugal's Oil and Gas Industry

Portugal has approximately 119,000 km<sup>2</sup> of sedimentary areas of which roughly 93,000 km<sup>2</sup> 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 48,300 km<sup>2</sup>, or approximately 40.6% of these areas. To date, 180 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 504 mmcf/d of gas in 2011, the country's consumption has grown rapidly since 2000 (7.8% compound annual growth rate from 2000 to 2010). Natural gas was largely unavailable as a fuel source until the late 1990s. However, the introduction of the Maghreb 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 2011 (source: [www.galpenergia.com](http://www.galpenergia.com)). Crude oil consumption at 260 mbbbls/d in 2011 has been relatively 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. Located in the town of Sines and near the city of Porto, the facilities have a combined capacity of 330,000 bbl/d. The two refineries are located within 40 to 90 km of the Company's Concessions. Galp 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 (1,298 km long) with present throughput capacity of approximately 450 mmcf/d that runs the length of the Company's Concession holdings (source: [www.ren.pt](http://www.ren.pt)). According to REN, the pipeline capacity could be expanded to as much as 1 Bcf/d through the addition of compressors. 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 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 <200 m)

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 27.5% and may be subject to a municipal surcharge of up to 1.5% for a maximum possible effective tax rate of 29%. Corporate tax rates are expected to decrease by approximately 2% over the next two years. 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 August 31, 2013, the Company has accrued US\$24,941 as a decommissioning 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 OPEC's 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 Repsol, Partex and Galp (Repsol's interest was formerly owned by Petrobras) 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. Repsol is the operator and the concession area is approximately 12,159 km<sup>2</sup>. The consortium is 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 km<sup>2</sup> 3D seismic in 2010 (source: [www.galpennergia.com](http://www.galpennergia.com) and DPEP).

Repsol and Galp (Repsol's interest was formerly owned by Petrobras) have also begun operations on three new offshore concessions in the Alentejana Basin off the southwest coast. Repsol is the operator of the concession area which is approximately 9,099 km<sup>2</sup>. The consortium is targeting opportunities in deep water (greater than 1,000 metres). In 2008, approximately 3,307 km of 2D seismic data was acquired. In 2012, a 3D seismic data survey was concluded in the Santola concession where sampling of subsea sediment was also performed (source: [www.galpennergia.com](http://www.galpennergia.com) and DPEP).

A consortium of Repsol and Partex were awarded concession contracts in 2012 (Partex's interest was formerly owned by RWE Dea AG's) for two deep water concessions in the Algarve Basin off the south coast. The consortium recently acquired 1,506 km<sup>2</sup> of 3D seismic data in the Logosta and Logostim concessions (source: DPEP).

In addition, a preliminary evaluation license was awarded to Charge Oil Ltd. by DPEP for deep water areas #5 and #6 in the Algarve Basin off the south coast and Oracle Energy Co. signed a concession contract with DPEP for the onshore Barreiro concession in the southern Lusitanian Basin (source: DPEP).

### **Farm-in, Farm-out 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 farm-in and farm-out agreements, or participation agreements, subject to obtaining the required consent from the Portuguese 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.

## **STATEMENT OF RESOURCES DATA AND OTHER OIL AND GAS INFORMATION**

### **Relevant Dates**

The date of this statement is August 31, 2013. The effective date of information provided in this statement is as of the Company's most recently completed fiscal year ended August 31, 2013 and the date of preparation of information provided herein is September 27, 2013.

### **Disclosure of Reserves Data**

The Company does not have any reserves (as such term is defined in NI 51-101), and, as such, no related future net revenues from reserves.

## Other Oil and Gas Information

### Oil and Gas Properties

As at August 31, 2013, the Company's oil and gas properties were located in the Lusitanian Basin on and offshore Portugal. Through its wholly owned subsidiary, the Company holds working interests in the Concessions, all of which are located in 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. For a description of the Company's principal properties and the relinquishments and changes in ownership applicable to the Company's Concession Contracts, see "*Narrative Description of the Business*" and "*Industry Conditions*".

As of the date of this report, the Company had no producing and no non-producing oil or gas wells on any of these properties.

### Properties With No Attributable Reserves

For a description of the Company's land base in Portugal through its interests in the Concessions, please see "*Narrative Description of the Business – Properties*". The Company acquired its various Concessions pursuant to concession agreements and at August 31, 2013, the effective date of this statement, acts as Operator on all Concessions.

For a description of the principal work commitments, timing of completion and minimum expenditures to be incurred during the current exploration period of each of the respective Concessions, see "*Narrative Description of the Business*".

The following table summarizes the current and anticipated capital projects, their budget and their costs as at August 31, 2013:

Concession Areas	Project	Preliminary Project Estimate	Approximate Cost to Date
Exploration Wells:			
Aljubarrota-3 <sup>(1)</sup>	Drill 1 deep and 1 horizontal Lias Interval wells	\$ 18,000,000	\$ -
Aljubarrota-3, Torres Vedras-3, Sao Pedro de Muel-2, Cabo Mondego-2, Rio Maior-2, Zambujal and Peniche	150 km <sup>2</sup> 2-D seismic acquisition	4,050,000	-
<b>Sub total</b>		22,050,000	-
Appraisal and Development Well:			
Aljubarrota-3, Sao Pedro de Muel-2, Cabo Mondego-2, Rio Maior-2, Zambujal and Peniche	Drill up to 7 stratigraphic wells in the Lias Interval	350,000	-
<b>Sub total</b>		350,000	-
<b>Total</b>		\$ 22,400,000	\$ -

(1) 50% of the costs are expected to be covered by the Company's joint venture partner, Galp. Approximately \$8.0 million dollars related to the horizontal well is contingent cost based on the success of the deep well.

### Production and Marketing

Any commercial production of oil resources by the Company will likely be sold to Galp, the owner and operator of Portugal's two refineries (source: [www.galpennergia](http://www.galpennergia)). An agreement for oil sales between the Company and Galp will have to be negotiated.

The Company also anticipates that any gas production by the Company will be sold to Galp 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 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 (source: [www.galpenergia](http://www.galpenergia)). 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

As at August 31, 2013, the Company has not entered into any forward contracts.

### 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 August 31, 2013, the Company has accrued US\$24,941 as a decommissioning obligation under long term liabilities reflecting the future abandonment costs or reclamation costs of its wells drilled in Portugal.

The abandonment and reclamation costs are associated with 1.5 wells net to the Company and all costs are expected to be incurred within the next twelve months.

### 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 as well as local Portuguese tax on certain items such as company provided vehicles. The Company expects the overall cash impact to be immaterial.

### Costs Incurred

The nets costs incurred by the Company in relation to the various geographic areas in which the Company operated during 2013 were as follows:

Geographic Region	Costs (\$US million)		
	Acquisition	Exploration	Development
Portugal	Nil	4.2	Nil

### Exploration and Development Activities

As at August 31, 2013, the Company has been engaged in exploration activities aimed at fulfilling work commitments as outlined above. During the year ended August 31, 2013, the Company invested a total of \$4.2 million in exploration and evaluation costs. During 2013, the Company's investment primarily related to the drilling of the ALC-1 well.

Between September 1, 2012 and August 31, 2013, the Company drilled the following wells:

Gross			Net		
Exploration Wells	Development Wells	Stratigraphic Wells	Exploration Wells	Development Wells	Stratigraphic Wells
1	Nil	Nil	0.5	Nil	Nil

As discussed earlier, the ALC-1 well was considered non-commercial.

The Company's exploration plans with respect to each of its properties are discussed under the heading "Narrative Description of the Business – Drilling Outlook".

## **Production Estimates**

The Company is unable to estimate production or future net revenue from its oil and gas activities as of August 31, 2013.

## **Production History**

The Company has no oil and gas production history as of August 31, 2013.

## **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.

## **Report of Management and Directors on Reserves Data and Other Information**

Please refer to Appendix "A" to this Annual Information Form for the Company's report on reserves data and other information.

## **RISK FACTORS**

An investment in the Common Shares of the Company is subject to certain risks. Investors should carefully consider the risk factors set out below and consider all other information contained herein as well as the Company's other public filings available on SEDAR at [www.sedar.com](http://www.sedar.com). In an attempt to mitigate these risks, the Company has a number of qualified technical and financial personnel including those with experience in Portugal. Additional risks and uncertainties not known to the Company may also have an adverse effect on the Company's business and the information set out below does not purport to be an exhaustive summary of all of the risks affecting the Company.

### *Going Concern*

While the Company's consolidated financial statements for the years ended August 31, 2013 and 2012 have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations into the foreseeable future, adverse events could cast significant doubt upon the validity of this assumption and hence the appropriateness of the use of accounting principles applicable to a going concern.

If the Company is unable to successfully finance its current and future oil and natural gas properties and projects, it may not be able to realize its assets and discharge its liabilities in the normal course of operations.

For the year ended August 31, 2013, the Company reported an after-tax loss of \$16.6 million and negative operating cash flows of \$4.3 million. As at August 31, 2013, the Company had an accumulated deficit of \$116.5 million.

The Company will require further financing in order to proceed with its oil and gas development projects and its ongoing corporate and administrative activities. To address its financing requirements, it will continue to seek financing through joint venture agreements, leveraging off of the Company's high working interest in its concessions as well as potential asset sales. The Company is also working to identify, examine and consider a range of strategic alternatives available to it, with a view to preserving and maximizing shareholder value. This process could result in a sale of the Corporation, a private or public financing through the issuance of debt, equity or a combination of both, a sale of a material portion of the Corporation's assets, a merger, business combination or a corporate reorganization, among other alternatives. The Company's operating losses, negative operating cash flows and uncertainty regarding its ability to obtain financing in a timely manner raise significant doubt as to the Company's ability to continue as a going concern. If the going concern assumption is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities. The consolidated financial statements do not include any adjustments that may result if the Company is unable to continue as a going concern, and, such adjustments could be material.

### *Financial Resources and Additional Funding Requirements*

The Company currently has limited financial resources and no cash flow from operations and therefore may require additional financing in order to carry out its oil and natural gas exploration, acquisition and development activities.

There can be no assurance that additional funding will be available, or available under terms favorable to the Company. Failure to obtain such financing on a timely basis could cause the Company to have limited ability to expend the capital necessary to undertake or complete future drilling programs, forfeit its interest in certain properties, not be able to participate in certain acquisition opportunities and reduce or terminate its operations. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. Financing by issuing additional securities of the Company may result in a change of control of the Company, dilution to the Company's current holders of Common Shares, or both.

#### *"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 Company's NI 51-101F1 Report have been classified as contingent and prospective resources. The resource estimates in the NI 51-101F1 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.

#### *Early Stage of Development, Limited Operating and Earnings History*

The Company has been actively operating in Portugal under its current structure for the past three years and has no earnings history. Accordingly, the Company has very little operating history in the oil and gas industry in Portugal and has no meaningful, historical financial information or record of performance. The Company's business plan requires significant expenditure, particularly capital expenditure, in its oil and gas exploration phase. Any future profitability from the Company's business will be dependent upon the successful exploration and development of the Company's petroleum properties, and there can be no assurance that the Company will achieve profitability in the future. There are currently no known quantities of oil or natural gas reserves on the Company's properties. Revenues, other than interest on unused funds, may not occur for some time, if at all. The timing and extent of such revenues is variable and uncertain and accordingly the Company is unable to predict when, if at all, profitability will be achieved. An investment in the Common Shares is highly speculative and should only be made by persons who can afford to risk a significant or total loss of their investment.

#### *Ongoing Need for Financing*

Although the Company is expected to generate revenue, its ability to continue exploration, development and acquisition efforts will also be dependent on its continued attractiveness to equity investors. The Company may incur operating losses as it continues to expend funds to explore and develop its properties and possibly other properties in excess of its projected revenues. There is no guarantee that the Company will be able to profitably develop its properties or at all. Additionally, the Company will require additional capital to complete its 2013 capital program as planned and generally to continue exploration, development or acquisition efforts, and the failure to raise such capital could result in the Company having to, entirely or partially, curtail or suspend its 2013 capital program or cease any other exploration or development activities or acquisition efforts or dispose of all or substantially of its assets or cease to carry on business. From time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards.

### *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 a larger number of technical staff 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.

### *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. 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.

#### *Exploration and Development*

The exploration and development of crude oil deposits involves a number of uncertainties that even thorough evaluation, experience and knowledge of the industry cannot eliminate. It is impossible to guarantee that the exploration programs on the Company's properties will generate economically recoverable reserves. The commercial viability of a new hydrocarbon pool is dependent upon a number of factors which are inherent to reserves, such as hydrocarbon composition, associated non-hydrocarbon fluids and proximity of infrastructure, as well as crude oil prices which are subject to considerable volatility, regulatory issues such as price regulation, taxes, royalties, land tax, import and export of crude oil, and environmental protection issues. The individual impact generated by these factors cannot be predicted with any certainty but, once combined, may result in non-economic reserves. The Company will remain subject to normal risks inherent to the crude oil industry such as unusual and unexpected geological changes in the parameters and variables of the petroleum system and operations.

#### *Working Capital Deficits*

To date the Company has had limited revenue and no earnings from operations. In the past, the source of its working capital surplus has generally been equity rather than revenue from operations and the Company may continue to incur working capital deficits in the future. The Company cannot provide any assurance that it will be profitable in the future or that the Company will be able to generate cash from operations or financings to fund working capital deficits.

#### *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. company acquires substantially all of the assets held directly or indirectly by a U.S. company or partnership, if, after the transaction, former equity owners of the U.S. company or partnership own a specified level of stock in the non-U.S. company and provided that the affiliated group which includes the U.S. company does not have substantial business activities in the foreign country in which the foreign company is created or organized) provides in certain cases that a non-U.S. company may be treated as a U.S. company for U.S. federal income tax purposes or limits the use of certain tax attributes against taxable income. The inversion 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 on January 30, 2010. 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 Annual Information Form represent estimates only. The NI 51-101F1 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 including hydraulic fracturing. 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.

#### *Disruptions in Production and Transportation*

Other factors affecting the production and sale of crude oil that could result in decreases in profitability include: (i) expiration or termination of leases, permits or licenses, or sales price redeterminations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labor difficulties; (v) worker vacation schedules and related maintenance activities; (vi) limitations on access to pipeline capacity; and (vii) changes in the market and general economic conditions. Weather conditions, equipment replacement or repair, fires, amounts of rock and other natural materials and other geological conditions can have a significant impact on operating results. There can be no assurance that this or similar issues may cause further disruptions to the Company's ability to produce or sell crude oil in the future.

#### *Global Financial Events May Negatively Impact the Company's Valuations and Access to Financings*

Recent market events and conditions, including disruptions in the international credit markets and other financial systems may cause significant volatility to and reductions in commodity prices. These conditions may culminate in a loss of confidence in European bonds resulting in a tightening of inter-bank lending and may create a financial climate characterized by greater volatility, less liquidity, restricted access to debt or equity financing, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline. These factors have negatively impacted the Company's valuations and will impact the performance of the global economy going forward.

Oil and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, the actions of the OPEC and the ongoing global credit and liquidity concerns.

These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favorable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares could be adversely affected.

#### *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*

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 government of Portugal. 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.

#### *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 members of the Board of Directors may have associations with other oil and gas companies or with other industry participants with whom the Company does business. They 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.

### **DIVIDENDS**

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.

### **DESCRIPTION OF SHARE CAPITAL**

#### **Common Shares and Options to Purchase Common Shares**

The Company is authorized to issue an unlimited number of Common Shares without par value. As at August 31, 2013, there were 198,954,653 Common Shares issued and outstanding. 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 August 31, 2013, there were 15,660,000 Options convertible into common shares outstanding.

As at August 31, 2013, the number of Options, issued pursuant to the Company's Option Plan to certain directors, officers and employees of the Company, is set forth below:

<b>Group (Number in Group)</b>	<b>Number of Options Held as at August 31, 2013</b>	<b>Percentage of Outstanding Options</b>	<b>Exercise Price (US)</b>
Directors and Officers (9)	9,135,000	58.3%	\$0.105 - \$0.60
Employees (12)	4,700,000	30.0%	\$0.105 - \$0.60
Consultants (10)	1,825,000	11.7%	\$0.110 - \$0.60
<b>TOTAL:</b>	<b>15,660,000</b>	<b>100.0%</b>	

During the fiscal year ended August 31, 2011, in accordance with the Company's Long Term Incentive Plan, the Board of Directors granted 11,600,000 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 generally one third vested on September 1, 2011, one third on March 1, 2012 and the remaining one third vested on September 1, 2012. As part of that grant, previously granted Options were required to be surrendered and cancelled.

In October 2011, the Company hired certain contract personnel on a full time basis and as a result, granted 900,000 options to acquire common shares at a strike price of \$0.115 per share as part of their long-term incentive package. Each grant has a five year term expiring on December 14, 2016. The options vest ratably on an annual basis over two years.

In December 2011, the Company granted options to acquire up to 3,110,000 common shares at an exercise price of \$0.105 per share. Of the 3,110,000 options, 2,110,000 were granted to its directors and officers. The options have a five year term, expiring on December 14, 2016, and vest over two years (one-half immediately and one-half on the first anniversary of the grant date).

In August 2012, the Company issued 1,000,000 options to acquire common shares to a consultant of the Company at a strike price of \$0.11 per share. One-third of the options vest every six months from the date of grant and have a five year term, expiring on August 23, 2017.

In the case of directors who are not re elected or employees who are terminated, all unvested Options will be treated in accordance with the terms of the Option Plan. The Options must be exercised within five years from the date of grant and expire on September 1, 2015.

## **MARKET FOR SECURITIES**

### **Trading Price and Volume**

The Common Shares of the Company commenced trading on the TSX-V on March 28, 2011 under the stock symbol "PEC".

The following table sets forth the price range and trading volume of these securities as reported by the TSX-V for the period from September 1, 2012 to August 31, 2013:

<b>Common Shares</b>			
<b>Month</b>	<b>High (CDN\$)</b>	<b>Low(CDN\$)</b>	<b>Volume</b>
September 2012	0.18	0.125	15,878,829
October 2012	0.26	0.145	42,006,869
November 2012	0.21	0.035	34,225,408
December 2012	0.06	0.035	13,235,107
January 2013	0.07	0.045	15,173,045
February 2013	0.06	0.04	14,196,105
March 2013	0.05	0.035	8,121,544
April 2013	0.04	0.03	4,477,864
May 2013	0.035	0.02	2,852,141
June 2013	0.05	0.02	5,994,482
July 2013	0.05	0.03	2,762,744
August 2013	0.04	0.03	3,867,905

There were no issuances of Common Shares and securities convertible into Common Shares within the period from September 1, 2012 to the date hereof.

### **ESCROWED SECURITIES**

Certain directors, senior officers, employees and certain former directors, senior officers and employees of the Company entered into voluntary lock-up agreements (each a "**Lock-Up Agreement**") in connection with the Company's initial public offering in March 2011 (the "**IPO**"). 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 "**Locked Parties**") agreed to a voluntary lock-up of 37,389,432 Common Shares (the "**Locked Securities**").

The Lock-Up Agreements provide that an additional 10% of the Locked Securities will be released upon the first closing of the IPO and the Lock-Up Agreements provide that an additional 15% be released every 6 month interval thereafter, over a period of 36 months.

In the event that the Company becomes an "established issuer", as such term is defined in National Policy 46-201 – *Escrow for Initial Public Offerings*, 18 months following the closing of the IPO, the Company will release all Locked Securities immediately. If the Company becomes an "established issuer" within 18 months after the closing of the IPO, all Locked Securities that would have been released to that time, if the issuer was an established issuer upon the closing of the IPO, will be released immediately. Remaining Locked Securities will be released in equal instalments on the day that is six months, 12 months and 18 months after the closing of the IPO.

The Locked Securities may not be transferred or otherwise dealt with during the term of the respective Lock-Up Agreement unless the transfers or dealings are approved by the Company and relate to the following:

- (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 a Registered Retirement Savings Plan 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 lock-up. Tenders of Locked Securities to a take-over bid are permitted provided that, if the tenderer is a Locked Party of the successor corporation upon completion of the take-over bid, securities received in exchange for tendered Locked Securities are substituted in escrow on the basis of the successor corporation's escrow classification.

In addition to the foregoing, and pursuant to buyouts of NPIs conducted in December 2009 and January 2010 in exchange for Common Shares, arms-length NPI holders agreed to a voluntary lock-up of their Common Shares (the

“NPI Securities”) and resale restrictions over a period of 18 months following the closing of the IPO. The terms of the voluntary lock-ups provide that the NPI Securities will be released at a rate of 15% every three months, with the first release being 10% and occurring on the closing of the IPO.

The following table sets forth details of the Company’s securities subject to escrow and contractual restrictions on transfer, including the Locked Securities and NPI Securities, as of August 31, 2013:

Name	Number of Common Shares	Percentage of Outstanding Common Shares
Patric Monteleone	2,862,028	1.44%
Christopher D. Wright	1,513,500	0.76%
Joseph Ash	1,500,000	0.75%
Michael Stearns	1,070,373	0.54%
Barry Lee	812,700	0.41%
Patrick McGrath	810,000	0.41%
Nasim Tyab	682,650	0.34%
Diane Wayand	402,165	0.20%
Thomas Uphoff	267,666	0.13%
Alexandra Martel	228,028	0.11%
Waymont Energy Inc.	188,586	0.09%
David Fung	186,446	0.09%
Michael Darden	94,967	0.05%
Total	10,619,108	5.34% <sup>(1)</sup>

**Note:**

(1) Totals may not add because of rounding.

**DIRECTORS AND OFFICERS**

The names, municipality of residence and principal occupation during the last five years of each of the directors and senior officers of the Company are as follows:

Name and Municipality of Residence	Current Positions and Offices Held	Principal Occupation in the Past Five Years	Director Since
Joseph Ash <sup>(3)</sup> The Woodlands, Texas U.S.A.	Chief Executive Officer and Director	President and Chief Executive Officer of the Company since May 20, 2010 and, prior thereto, various successive roles with Devon Energy Company, most recently Senior Vice President and VP Exploration, International and Offshore Divisions. Mr. Ash is also currently a member of the Board of Directors of HRT Participações, em Petróleo S.A.	May 20, 2010
Ian B. McMurtrie <sup>(2)(4)</sup> Calgary, AB Canada	Director and Chairman	Member of the Board of Directors of Bankers Petroleum Ltd. since December 2011. Prior thereto, Executive Vice President, Exploration and Development of Bankers Petroleum Ltd. from January 2008 to December 2011 and, prior thereto, Vice President, Exploration of Rally Energy Corp.	September 4, 2007
Gerald A. Romanzin <sup>(1)(2)(3)</sup> Calgary, AB Canada	Director	Independent Calgary businessman who serves as a director of Crescent Point Energy Corp. and Trimac Transportation Services Inc. since 2005 and Petrowest Energy Services Ltd. Since 2006.	May 20, 2010

Name and Municipality of Residence	Current Positions and Offices Held	Principal Occupation in the Past Five Years	Director Since
Gregory G. Turnbull, Q.C. <sup>(2)(3)(4)</sup> Calgary, AB Canada	Director	Partner of McCarthy Tétrault LLP and Regional Managing Partner of McCarthy Tétrault LLP from January 1, 2005 to June 1, 2012.	August 24, 2007
Agustin Llana <sup>(1)</sup> Madrid, Spain	Director	Independent businessman since 2008. Worked for Royal Dutch Shell B.V ("Shell") in various capacities for over 35 years.	August 24, 2010
William J.F. Roach <sup>(4)</sup> Calgary, AB, Canada	Director	Chief Executive Officer of Cavalier Energy Inc. A spin off from Paramount Resources in November 2011, Calera Company since October 2010 to November 2011 and, prior thereto, Chief Executive Officer of UTS Energy Corporation from June 2004 to October 2010.	September 24, 2010
Patric Monteleone <sup>(1)</sup> 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
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, Chief Accounting Officer of BPZ Resources, Inc. from November 2008 until August 2010.	N/A
Richard W. Pawluk Calgary, AB Canada	Corporate Secretary	Partner of the law firm McCarthy Tétrault LLP.	N/A

**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.

**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 18,736,775 Common Shares and 9,135,000 stock options pursuant to the Option Plan which are exercisable into Common Shares to certain directors and officers. As at August 31, 2013, the Common Shares held by the Company's officers and directors represent approximately 9.4% of the issued and outstanding Common Shares and 7.1% of the issued and outstanding Common Shares on a fully diluted basis including options held by the Company's officers and directors.

**Corporate Cease Trade Orders, Bankruptcies and Penalties**

Other than as described below, no director, executive officer or shareholder holding a sufficient number of securities to affect materially the control of Porto is, as of the date of this Annual Information Form, or has been, within the last 10 years, a director or executive officer of any company (including Porto) that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemption for a period of more than 30 consecutive days or was declared a bankrupt or made a voluntary

assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

#### *Cease Trade Orders and Corporate Bankruptcies*

None of the Company's directors, officers or other members of the Company's management are, or have been, within 10 years prior to the date of this Annual Information Form, directors, officers or promoters of company (including Porto) 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; and
- (c) Mr. Turnbull was a director of Action Energy Inc., ("**Action**") a company 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 or officers within the past two years 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.

#### *Personal Bankruptcies*

None of the Company's directors, officers or principal shareholders, or a personal holding company of any such persons, have, within 10 years prior to the date of this Annual Information Form, become bankrupt, made a proposal under any bankruptcy or insolvency legislation, been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

#### **Conflicts of Interest**

Certain officers and directors of the Company are also officers and/or directors of other companies engaged in the oil and gas business generally. As a result, situations may arise where the interests of such directors and officers conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the Company.

#### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

To the knowledge of the Company, there are no legal proceedings or regulatory actions material to the Company to which the Company is a party, or was a party to in the Company's last financial year, or of which any of its properties is the subject matter, or was the subject matter of in the Company's last financial year, nor are there any such proceedings known to the Company to be contemplated. There have been no penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority and the Company has not entered to any settlement agreements with a court or securities regulatory authority.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There are no material interests, direct or indirect, of directors, executive officers of the Company or any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares or any known associate or affiliate of such persons, in any transaction within the last three years.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares of the Company is Olympia Trust Company at its office in Calgary, Alberta.

## **MATERIAL CONTRACTS**

Other than the JOA the Company signed with Galp and other than those contracts entered into in the normal course of business, Porto did not enter into any material contracts during the most recently completed financial year.

Copies of the JOA the Company signed with Galp, as well as additional information relating to the Company contained in documents filed by the Company with the Canadian securities regulatory authorities may also be accessed through the Company's SEDAR profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Additionally, copies of the JOA the Company signed with Galp may be inspected at the head office of Porto at Suite 350, 24 Waterway, The Woodlands, Texas, USA 77380 and at the offices of McCarthy Tétraut LLP at 3300, 421 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 4K9.

## **INTERESTS OF EXPERTS**

Deloitte LLP, the auditors of the Company, has confirmed that it is independent with respect to the Company within the meaning of the rules of the Institute of Chartered Accountants of Alberta.

NSAI prepared the independent resource evaluation of the Company. To the knowledge of the Company, the principals of NSAI did not have any registered or beneficial interests, direct or indirect, in any securities or other property of the Company or of the Company's associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them.

## **AUDIT COMMITTEE**

The purpose of Porto's Audit Committee is to provide assistance to the Board of Directors of Porto in fulfilling its legal fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Company. 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.

The full text of the Audit Committee's Charter is included as Appendix "B" to this Annual Information Form.

### **Composition of the Audit Committee**

The Audit Committee is comprised of Gerald Romanzin, Agustin Llana and Patric Monteleone. The Chair of the Audit Committee is Gerald Romanzin. Each of the members of the Audit Committee is financially literate as such term is described under Section 1.6 of National Instrument 52-110 ("**NI 52-110**"). Mr. Romanzin and Mr. Llana are independent as such term is described under Section 1.4 of NI 52-110.

## 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-V 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-V 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-V in November 1999. Mr. Romanzin obtained a Bachelor of Commerce degree from the University of Calgary.

**Agustin Llana.** Mr. Llana spent 35 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 a M.Sc. 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.

## Audit Committee Oversight

At no time since the commencement of the year ended August 31, 2013 was a recommendation of the audit committee to nominate or compensate an external auditor not adopted by the Company's Board.

## Reliance on Certain Exemptions

At no time since the commencement of the year ended August 31, 2013 has the Company relied on the exemption in Section 2.4 (*De Minimus Non-audit Services*) or an exemption granted under Part 8 (*Exemptions*) from NI 52-110.

## Pre-Approval Policies and Procedures

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 years ended August 31, 2013 and 2012 are as follows:

Fiscal Year	Audit Fees (\$)	Audit Related Fees (\$)	Tax Fees (\$)	All Other Fees (\$)
2013	\$162,405	\$18,646	\$10,843	\$Nil
2012	\$96,150	\$81,213	\$10,700	\$Nil

## Exemption

The Company is relying on the exemption in Section 6.1 of NI 52-110 for venture issuers from the requirements of Parts 3 (*Composition of the Audit Committee*) and 5 (*Reporting Obligations*) of NI 52-110.

### **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Common Shares and securities authorized for issuance under equity compensation plans, is contained in the Company's Management Information Circular dated March 22 2013, a copy of which may be found on the Company's SEDAR profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Additional financial information is provided in the Company's financial statements and management's discussion and analysis for its most recently completed financial year ended August 31, 2013, also available on the Company's SEDAR profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

**APPENDIX "A"**

**FORM 51-101F3**

**REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE**

This is the form referred to in Item 3 of Section 2.1 of National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"). Terms to which a meaning is ascribed in NI 51-101 have the same meaning in this form.<sup>1</sup>

**Report of Management and Directors on Reserves Data and Other Information**

Management of Porto Energy Corp (the "**Company**") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. The Company is a reporting issuer involved in oil and gas activities pursuant to NI 51-101.

The Reserves Committee of the Board of Directors of the Company has reviewed the assets, data and position of the Company as of August 31, 2013 and has determined that, as of the last day of the Company's most recently completed financial year, the Company had no reserves or related future net revenue from reserves. As a result, no reserves data for the Company has been disclosed as of August 31, 2013.

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, 2012 to August 31, 2013.

The Reserves Committee of the Board of Directors 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 of the Company. The Board of Directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing information detailing the Company's oil and gas activities;
- (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 reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

/s/ Joseph Ash  
Joseph Ash, President and Chief Executive Officer

/s/ Ian McMurtrie  
Ian McMurtrie, Director

/s/ Heath Cleaver  
Heath Cleaver, Chief Financial Officer

/s/ Greg Turnbull  
Greg Turnbull, Director

**Date:** November 27, 2013

<sup>1</sup> For the convenience of readers, CSA Staff Notice 51-324 *Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities* sets out the meanings of terms that are printed in italics in sections 1 and 2 of this Form or in *NI 51-101, Form 51-101F1, Form 51-101F2 or Companion Policy 51-101CP*.

## APPENDIX "B"

## 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 "**Company**"). 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 Company.

Public financial reporting and disclosure by the Company are fundamental to the Company's business and affairs. The objective of the Board's monitoring of the Company's financial reporting and disclosure is to gain reasonable assurance of the following:

- (a) that the Company 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 Company's quarterly and annual financial statements are accurate within a reasonable level of materiality and fairly presents the Company'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 Company's financial statements are appropriate in the prevailing circumstances; and
- (d) that appropriate information concerning the financial position and performance of the Company 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 Company'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 Company's accounting functions are performed in accordance with a system of internal financial controls designed to record accurately all of the Company's financial transactions;
- (b) the internal financial controls are regularly assessed for effectiveness and efficiency;
- (c) the Company'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 Company's quarterly and annual financial statements are reported on by an external auditor appointed by the shareholders of the Company.

To assist the Board in its monitoring of the Company'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 Company.
- (b) Until such date falling on the one year anniversary of the Company receiving a receipt for a final prospectus pursuant to which the Company 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 Company represented to such Committee member by an officer of the Company or in a written report of the external auditors to present fairly the financial position of the Company 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 Company 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 Company to operate in compliance with corporate policies, reflecting laws and regulations governing the Company 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 Company staff members as applicable.

(3) ***Financial Literacy***

All members of the Committee should be sufficiently versed in financial matters to read and understand the Company's financial statements and also to understand the Company'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 Company's financial disclosure.

The work plan will be focused primarily on the annual and interim financial statements of the Company; 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 Company, 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 Company 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 Company, 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 Company'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 Company'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 Company with respect to the Company'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 Company.
- (5) Assess whether the Company's accounting policies are being adequately disclosed in the Company's financial reporting.
- (6) Review and validate procedures for the receipt, retention and resolution of complaints received by the Company 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 Company.)

**Accounting Policies**

- (1) Review with management and the external auditors the appropriateness of the Company's accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto.
- (2) Obtain reasonable assurance that the Company'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 Company's underlying accounting policies, key estimates and judgments and provisions along with quality of financial reporting.
- (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 Company, determine the Company'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 Company's tolerance for financial risks;
  - (b) reviewing with management its assessment of the significant financial risks facing the Company;
  - (c) reviewing with management the Company'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 Company.
- (5) Review regularly with management, the external auditors and the Company'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 Company 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 Company.

- (4) Review, and periodically assess the adequacy of controls over financial information disclosed to the public, which is extracted or derived from the Company's financial statements.

**Compliance with Laws and Regulations**

- (1) Review regular reports from management and others (e.g., external auditors) with respect to the Company'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; and
  - (c) other laws and regulations which expose directors to liability.
- (2) Review the filing status of the Company'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 Company.
- (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 Company's hiring policies regarding partners, employees and former partners and employees of the present auditor and any former external auditors of the Company.
- (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 Company'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.
- (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.