



**PORTO ENERGY CORP.**

**Notice of Annual General and Special Meeting of Shareholders  
to be held on January 26, 2012**

**and**

**Management Information Circular**

**December 22, 2011**



PORTO ENERGY CORP.

NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING  
OF THE HOLDERS OF COMMON SHARES  
TO BE HELD ON JANUARY 26, 2012

**NOTICE IS HEREBY GIVEN** that the Annual General and Special Meeting (the “**Meeting**”) of the holders (the “**Shareholders**”) of common shares (the “**Common Shares**”) in the capital of Porto Energy Corp. (the “**Corporation**”) will be held in the Cardium Room at the Calgary Petroleum Club, 319 – 5<sup>th</sup> Avenue S.W. Calgary, Alberta T2P 0L6, on January 26, 2012 at 10:00 a.m. (Calgary time), for the following purposes:

1. receive the financial statements for the financial year ended August 31, 2011 and the report of the auditors thereon;
2. fix the number of directors to be elected at seven;
3. elect directors for the ensuing year;
4. appoint the auditors of the Corporation to hold office until the next annual meeting of the Shareholders and authorize the directors to fix their remuneration;
5. approve the shareholder’s rights plan dated as of September 23, 2011 between the Corporation and Olympia Trust Company as rights agent;
6. approve the Corporation’s stock option plan;
7. amend the articles of the Corporation to permit the holding of Shareholder meetings outside of the Province of British Columbia; and
8. transact such other business as may properly come before the meeting or any adjournments thereof.

Only Shareholders of record at the close of business on December 27, 2011 (the “**Record Date**”) are entitled to notice of and to attend the Meeting or any adjournment or adjournments thereof and to vote thereat unless after the Record Date a holder of record transfers his or her Common Shares and the transferee upon producing properly endorsed share certificates, or otherwise establishing that he or she owns such Common Shares requests, not later than 10 days before the Meeting, that the transferee’s name be included in the list of shareholders entitled to vote such Common Shares, in which case such transferee shall be entitled to vote such Common Shares, as the case may be, at the Meeting.

Shareholders may vote in person at the Meeting or any adjournment or adjournments thereof, or they may appoint another person (who need not be a Shareholder) as their proxy to attend and vote in their place.

**Shareholders unable to be present at the Meeting are requested to date and sign the enclosed form of proxy and return it to the Corporation’s agent, Olympia Trust Company, Suite 2300, 125 – 9<sup>th</sup> Avenue S.E., Calgary, Alberta, T2G 0P6, in the enclosed envelope provided for that purpose. In order to be valid, proxies must be received by 4:00 p.m. on or prior to the second last business day preceding the day of the Meeting or any adjournment thereof or deposited with the Chairman of the Meeting on the day of the Meeting prior to the commencement of the Meeting.**

A Management Proxy Circular relating to the business to be conducted at the Meeting accompanies this Notice.

The Woodlands, Texas  
December 22, 2011

**BY ORDER OF THE BOARD OF DIRECTORS**

(signed) “*Joseph Ash*”

Joseph Ash  
President and Chief Executive Officer



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**PORTO ENERGY CORP.**  
Suite 350, 24 Waterway  
The Woodlands, Texas, USA, 77380

**MANAGEMENT INFORMATION CIRCULAR**

**FOR THE ANNUAL GENERAL AND SPECIAL MEETING OF THE HOLDERS OF COMMON SHARES  
OF PORTO ENERGY CORP. TO BE HELD ON JANUARY 26, 2012**

Dated: December 22, 2011

This Management Information Circular (the "Circular") is furnished in connection with the solicitation of proxies by or on behalf of the management of Porto Energy Corp. (the "Corporation" or "Porto") for use at the Annual General and Special Meeting of the holders (the "Shareholders") of the common shares (the "Common Shares") in the capital of the Corporation to be held in the Cardium Room at the Calgary Petroleum Club, 319 – 5<sup>th</sup> Avenue S.W. Calgary, Alberta T2P 0L6, on January 26, 2012 at 10:00 a.m. (Calgary time), and any adjournment or adjournments thereof (the "Meeting") for the purposes set forth in the Notice of Annual General and Special Meeting accompanying this Circular.

**SOLICITATION OF PROXIES**

The solicitation of proxies is made on behalf of the management of the Corporation. The costs incurred in the preparation of the Form of Proxy, Notice of Annual General and Special Meeting and this Circular and the solicitation of proxies will be borne by the Corporation. Solicitation of proxies will be primarily by mail, but may also be in person, by telephone or by electronic means. All currency amounts expressed herein, unless otherwise indicated, are expressed in Canadian dollars.

**RECORD DATE**

The Shareholders of record on December 27, 2011 (the "Record Date") are entitled to notice of, and to vote at, the Meeting except to the extent that:

1. such person transfers his or her Common Shares after the Record Date; and
2. the transferee of those Common Shares produces properly endorsed share certificates or otherwise establishes his or her ownership to the Common Shares and makes a demand to the Registrar and Transfer Agent of the Corporation, not later than 10 days before the Meeting, that his or her name be included on the shareholders' list for the Meeting.

Any registered Shareholder of the Corporation at the close of business on the Record Date who either personally attends the Meeting or who completes and delivers a proxy will be entitled to vote or have his or her Common Shares voted at the Meeting. However, a person appointed under the Form of Proxy will be entitled to vote the Common Shares represented by that form only if it is effectively delivered in the manner set out under the heading "*Appointment and Revocation of Proxies*".

**APPOINTMENT AND REVOCATION OF PROXIES**

A Shareholder or intermediary who has submitted a proxy may revoke it by instrument in writing executed by the Shareholder or intermediary or his or her attorney authorized in writing, or, if the Shareholder is a corporation, under its corporate seal and executed by a director, officer or attorney thereof duly authorized, and deposited either with the Corporation at its offices as aforesaid at any time prior to the close of business on the second last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting, and upon such deposit the previous proxy is revoked.

## COMPLETION OF PROXIES

The form of proxy affords Shareholders or intermediaries an opportunity to specify that the Common Shares registered in their name shall be voted for or against or withheld from voting in respect of the elections of directors, the appointment of auditors, including a resolution authorizing the directors to fix the remuneration of the auditors and on certain other matters as specified in the accompanying Notice of Annual General and Special Meeting.

The persons named in the enclosed form of proxy are the President and Chief Executive Officer and the Chief Financial Officer, respectively, of the Corporation.

**A REGISTERED SHAREHOLDER OR AN INTERMEDIARY HOLDING COMMON SHARES ON BEHALF OF AN UNREGISTERED SHAREHOLDER HAS THE RIGHT TO APPOINT A PERSON, WHO NEED NOT BE THE SHAREHOLDER, TO ATTEND AND ACT ON THEIR BEHALF AT THE MEETING, IN THE PLACE OF THE PERSONS DESIGNATED IN THE FORM OF PROXY FURNISHED BY THE CORPORATION. TO EXERCISE THIS RIGHT, THE SHAREHOLDER OR INTERMEDIARY SHOULD STRIKE OUT THE NAMES OF THE PERSONS NAMED IN THE FORM OF PROXY AND INSERT THE NAME OF THEIR NOMINEE IN THE BLANK SPACE PROVIDED, OR SUBMIT ANOTHER APPROPRIATE PROXY.**

A proxy must be dated and signed by the registered Shareholder or by his attorney authorized in writing or by the intermediary. In the case of a Shareholder that is a corporation, the proxy must be executed under its corporate seal or signed by a duly authorized officer or attorney for the corporation with proof of authority accompanying the proxy.

In order to be effective, the proxy, together with the power of attorney or other authority, if any, under which it was signed or a notarially certified copy thereof, must be mailed so as to be deposited at the office of the Corporation's agent, Olympia Trust Company, Suite 2300, 125 - 9th Avenue S.W., Calgary, Alberta, T2G 0P6, not later than 4:00 p.m. (Calgary time) on the second last business day preceding the day of the Meeting or any adjournment thereof or deposited with the Chairman of the Meeting on the day of the Meeting prior to the commencement of the Meeting. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution. If a proxy is not dated, it will be deemed to bear the date on which it was mailed by management of the Corporation.

## EXERCISE OF DISCRETION BY PROXIES

A Shareholder or intermediary may indicate the manner in which the persons named in the enclosed form of proxy are to vote with respect to any matter by checking the appropriate space. On any poll, those persons will vote or withhold from voting the shares in respect of which they are appointed in accordance with the directions, if any, given in the form of proxy. If the Shareholder or intermediary wishes to confer a discretionary authority with respect to any matter, the space should be left blank. **IN SUCH INSTANCE, THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY INTEND TO VOTE THE COMMON SHARES REPRESENTED BY THE PROXY IN FAVOUR OF THE MOTION.**

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Annual General and Special Meeting and with respect to other matters which may properly come before the Meeting. At the time of printing of the Circular, management of the Corporation knows of no such amendment, variation or other matter. However, if any other matters which are not now known to management should properly come before the Meeting, the proxies in favour of management nominees will be voted on such matters in accordance with the best judgment of the management nominees.

## ADVICE TO BENEFICIAL HOLDERS OF SECURITIES

**The information set forth in this section is provided to beneficial holders of Common Shares of the Corporation who do not hold their Common Shares in their own name (“Beneficial Shareholders”).** Beneficial Shareholders should note that only proxies deposited by shareholders whose names appear on the records of the Corporation as the registered holders of Common Shares can be recognized and acted upon at the Meeting. If Common Shares are listed in an account statement provided to a Beneficial Shareholder by a broker, then in almost all cases those Common Shares will not be registered in the Beneficial Shareholder’s name on the records of the Corporation. Such Common Shares will more likely be registered under the name of the Beneficial Shareholder’s broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities Limited, which acts as nominees for many Canadian brokerage firms). Common Shares held by brokers or their nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Shareholder. Without specific instructions, the broker/nominees are prohibited from voting Common Shares for their clients. The Corporation does not know for whose benefit the Common Shares registered in the name of CDS & Co. are held. Therefore, Beneficial Shareholders cannot be recognized at the Meeting for the purposes of voting the Common Shares in person or by way of proxy except as set forth below.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of shareholders’ meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. Often, the form of proxy supplied to a Beneficial Shareholder by its broker is identical to the form of proxy provided to registered Shareholders. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. (“BFS”). BFS typically provides a scannable voting request form or applies a special sticker to the proxy forms, mails those forms to the Beneficial Shareholders and asks Beneficial Shareholders to return the voting request forms or proxy forms to BFS. Often Beneficial Shareholders are alternatively provided with a toll-free telephone number to vote their shares. BFS then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting. **A Beneficial Shareholder receiving a voting instruction or proxy from BFS cannot use that proxy to vote Common Shares directly at the Meeting as the completed instruction or proxy must be returned as directed by BFS well in advance of the Meeting in order to have the Common Shares voted.**

Although a Beneficial Shareholder may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of his broker (or agent of the broker), a Beneficial Shareholder may attend at the Meeting as proxyholder for the registered shareholder and vote Common Shares in that capacity. Beneficial Shareholders who wish to attend the Meeting and indirectly vote their Common Shares as proxyholder for the registered Shareholder should enter their own names in the blank space on the form of proxy provided to them and return the same to their broker (or the broker’s agent) in accordance with the instructions provided by such broker (or agent), well in advance of the Meeting.

**IF YOU ARE A BENEFICIAL SHAREHOLDER AND WISH TO VOTE IN PERSON AT THE MEETING, PLEASE CONTACT YOUR BROKER OR AGENT WELL IN ADVANCE OF THE MEETING TO DETERMINE HOW YOU CAN DO SO.**

## INFORMATION CONCERNING THE CORPORATION

The Corporation was incorporated pursuant to the laws of British Columbia on November 14, 2006, as Mohave Exploration and Production Inc. (“MEPI”) for the purpose of attracting additional capital and to pursue its strategy to become a publically traded company.

Mohave Oil and Gas Company (“**MOGC**”), the Corporation’s operating subsidiary, was incorporated under the laws of Texas in 1993. MOGC focused its activities on the Lusitanian Basin of Portugal and acquired its first oil and gas concessions in Portugal in 1993.

On January 30, 2010, the Corporation amalgamated with Porto Energy Corp. (“**Original PEC**”) pursuant to the *Business Corporations Act* (British Columbia), and such amalgamated entity changed its name to “Porto Energy Corp”. Original 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 Corporation.

For the purposes of this Information Circular and unless the context requires otherwise, the “**Corporation**” means Porto Energy Corp., the entity resulting from the amalgamation of MEPI and Original PEC and where the context so requires includes all of the Corporation’s subsidiaries.

The registered office of the Corporation is located at P.O. Box 10424 Pacific Centre, 1300 – 777 Dunsmuir Street, Vancouver, British Columbia V7Y 1K2 and its head office is located at Suite 350, 24 Waterway, The Woodlands, Texas, USA, 77380.

The Corporation has one wholly-owned subsidiary, MOGC. The Common Shares trade on the TSX Venture Exchange (“**TSXV**”) under the symbol “PEC”.

### **VOTING OF COMMON SHARES AND PRINCIPAL HOLDERS THEREOF**

The Corporation is authorized to issue an unlimited number of Common Shares without par value. As at the date hereof, there are 198,954,653 Common Shares issued and outstanding. 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 articles of the Corporation provide that, if two persons holding not less than five percent (5%) of the issued Common Shares entitled to vote are present in person or are represented by proxy, a quorum for the purposes of conducting a shareholders meeting is constituted.

Any registered Shareholder at the close of business on December 27, 2011 who either personally attends the Meeting or who completes and delivers a proxy will be entitled to vote or have his or her Common Shares voted at the Meeting. However, a person appointed under the form of proxy will be entitled to vote the Common Shares represented by that form only if it is effectively delivered in the manner set out in the heading “*Completion of Proxies*”.

To the best of the knowledge of the directors and officers of the Corporation, as of the date of this Information Circular, no person beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of the issued and outstanding Common Shares of the Corporation.

### **MATTERS TO BE ACTED UPON**

The Shareholders of the Corporation will be asked to consider and, if deemed appropriate:

- (a) by ordinary resolution, approve the financial statements of the Corporation for the financial year ended August 31, 2011;
- (b) by ordinary resolution, fix the board of directors of the Corporation (the “**Board**”) at seven members;
- (c) by ordinary resolution, elect the directors of the Corporation;

- (d) by ordinary resolution, appoint auditors for the ensuing year and to authorize the directors of the Corporation to fix their remuneration;
- (e) by ordinary resolution, approve the shareholder rights plan dated as of September 23, 2011 between the Corporation and Olympia Trust Company as rights agent;
- (f) by ordinary resolution, approve the Corporation's stock option plan;
- (g) by special resolution, amend the articles of the Corporation to permit the Corporation to hold meetings of the Shareholders outside of the Province of British Columbia; and
- (h) to transact such other business as may properly come before the meeting or any adjournments thereof.

Additional detail regarding each of the matters to be acted on at the Meeting is contained below.

### FINANCIAL STATEMENTS

At the Meeting, the audited financial statements of the Corporation as at and for the year ended August 31, 2011, the management discussion and analysis, and the report of the auditor thereon will be placed before the Shareholders.

### FIXING NUMBER OF DIRECTORS

At the Meeting it is proposed that the number of directors to be elected at the Meeting to hold office until the next annual meeting or until their successors are elected or appointed, subject to the articles of the Corporation, be set at seven. **Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favour of setting the number of directors to be elected at the Meeting at seven.**

### ELECTION OF DIRECTORS

Action is to be taken at the Meeting with respect to the election of directors. The Shareholders will be asked to pass an ordinary resolution at the Meeting to elect, as directors, the nominees whose names are set forth in the table below. Voting for the election of nominees will be conducted on an individual, and not on a slate, basis. Each nominee elected will hold office until the next annual meeting of the Shareholders, or until his successor is duly elected or appointed, unless his office is vacated earlier in accordance with the Corporation's articles. The Corporation is required by applicable corporate legislation to have an Audit Committee comprised of members of the Board that are considered "financially literate" and a majority of which are considered "independent", as such terms are defined in National Instrument 52-110 – *Audit Committees* ("NI 52-110"). The Corporation has also established a Compensation Committee, Corporate Governance Committee, and a Reserves Committee, each comprised of members of the Board. Please see discussion under "*Corporate Governance Practices*." The present members of the Audit Committee, Compensation Committee, Corporate Governance Committee and Reserves Committee of the Board are identified in the table below.

The following information relating to the nominees as directors is based partly on the records of the Corporation and partly on information received by the Corporation from said nominees, and sets forth the name and municipality of residence of the persons proposed to be nominated for election as directors, all other positions and offices within the Corporation now held by them, their principal occupations or employments, the periods during which they have served as directors of the Corporation and the approximate number of Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them as at December 22, 2011.

**Number and Percentage of Common Shares Beneficially Owned or Over Which Control or Direction, Directly or Indirectly, is Exercised**

<b>Name and Municipality of Residence</b>	<b>Position(s) Presently Held</b>	<b>Director Since</b>	<b>Current Term Ends</b>	<b>Principal Occupation During the Past 5 Years</b>	<b>Number and Percentage of Common Shares Beneficially Owned or Over Which Control or Direction, Directly or Indirectly, is Exercised</b>
Joseph Ash <sup>(3)</sup> The Woodlands, TX, U.S.A.	President and Chief Executive Officer and Director	May 20, 2010	On the date of the Meeting.	President and Chief Executive Officer of the Corporation 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.	5,260,238 (2.64%)
Ian B. McMurtrie <sup>(2)(4)</sup> Calgary, AB, Canada	Director and Chairman	September 4, 2007	On the date of the Meeting.	Executive Vice President, Exploration and Development of Bankers Petroleum Ltd. since January 2008 and, prior thereto, Vice President, Exploration of Rally Energy Corp.	95,709 (0.05%)
Gerald A. Romanzin <sup>(1)(2)(3)</sup> Calgary, AB, Canada	Director	May 20, 2010	On the date of the Meeting.	Independent Businessman.	50,000 (0.03%)
Gregory G. Turnbull, QC <sup>(2)(3)(4)</sup> Calgary, AB, Canada	Director	August 24, 2007	On the date of the Meeting.	Regional Managing Partner of McCarthy Tétrault LLP.	1,651,251 (0.83%)
Agustin Llana <sup>(1)</sup> Madrid, Spain	Director	August 24, 2010	On the date of the Meeting.	Independent Businessman since October 2008. Prior thereto, chairman of the board of Shell Espana S.A., Country Chair of Spain, Portugal and Gibraltar and General Manager for Gas and Power and Renewables for Shell Energy Europe.	100,000 (0.05%)
William J.F. Roach <sup>(4)</sup> Los Gatos, CA, U.S.A.	Director	September 24, 2010	On the date of the Meeting.	Chief Executive Officer of Calera Company since October 2010 and, prior thereto, Chief Executive Officer of UTS Energy Corporation from June 2004 to October 2010.	312,500 (0.16%)
Patric Monteleone <sup>(1)</sup> The Woodlands, TX, U.S.A.	Director, Executive Vice President and President of MOGC	December 1, 2006	On the date of the Meeting.	Chief Executive Officer of the Corporation from December 1, 2006 to May 20, 2010 and President of the Corporation 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.	9,680,092 (4.87%)

**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.

## **Biographies**

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

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

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

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

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

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

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

### ***Corporate Cease Trade Orders or Bankruptcies***

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

- (a) Mr. McMurtrie was a director of Nickel Petroleum Resources Ltd. (“**Nickel**”) from May 2004 to December 2005. On December 6, 2005, Nickel was subject to a cease trade order in British Columbia and an interim cease trade order in Alberta for failing to file financial statements. On December 16, 2005, the Alberta interim cease trade order became final;
- (b) Mr. McMurtrie was a director of Raptor Capital Corp. (“**Raptor**”) from March 1998 to June 2008. On May 7, 2007, each of the Alberta Securities Commission and the British Columbia Securities Commission issued a cease trade order against Raptor for failure to file annual

audited financial statements for the year ended December 31, 2006. Subsequently, Raptor rectified this matter and the cease trade order was lifted; 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.

### ***Personal Bankruptcies***

None of the above proposed directors, or a personal holding company thereof, have, within 10 years prior to the date of this Circular, 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.

**In the absence of contrary instructions, the persons named in the accompanying form of proxy intend to vote the Common Shares represented thereby in favour of the election to the Board of those persons hereinafter designated as nominees for election as directors. The Board does not contemplate that any of such nominees will be unable to serve as a director. However, if for any reason any of the proposed nominees do not stand for election or are unable to serve as such, proxies in favour of management designees will be voted for another nominee in their discretion unless the Shareholder has specified in his proxy that his Common Shares are to be withheld from voting on the election of directors.**

### **APPOINTMENT OF AUDITORS**

The Shareholders will be asked to pass an ordinary resolution at the Meeting to appoint Deloitte & Touche LLP as auditors of the Corporation, to hold office until the next annual meeting of the Shareholders, at a remuneration to be determined by the Board. Deloitte & Touche LLP has acted as the auditors of the Corporation since September 5, 2007.

**In the absence of contrary instructions, the persons named in the accompanying form of proxy intend to vote the Common Shares represented thereby in favour of the appointment of Deloitte & Touche LLP as auditors of the Corporation.**

### **APPROVAL OF SHAREHOLDER RIGHTS PLAN**

Shareholders will be asked at the Meeting to consider and, if thought advisable, pass a resolution (the “**Rights Plan Resolution**”), the text of which is attached to this Circular as Schedule “A”, to approve, ratify and confirm the adoption of the shareholder rights plan agreement (the “**Rights Plan**”) dated as of September 23, 2011 between the Corporation and Computershare Trust Company of Canada. The full text of the Rights Plan is set forth in Appendix “A” to this Circular.

The Board of Directors of the Corporation has determined that the Rights Plan is in the best interests of the Corporation and recommends that Shareholders vote in favour of the Rights Plan. The Rights Plan was effective immediately upon approval by the Board on September 23, 2011, subject to receipt of all regulatory approvals which have subsequently been obtained conditional on the ratification of the Rights Plan by Shareholders.

The primary objective of the Rights Plan is to provide the Board with sufficient time to explore and develop alternatives for maximizing Shareholder value if a take-over bid is made for the Corporation and to provide every Shareholder with an equal opportunity to participate in such a bid. The Rights Plan encourages a potential acquirer to proceed either by way of a Permitted Bid (as defined in the Rights Plan), which

requires the take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Board.

In considering whether to adopt the Rights Plan, the Board considered the current legislative framework in Canada governing take-over bids. Under provincial securities legislation, a take-over bid generally means an offer to acquire voting or equity shares of a company that, together with shares already owned by the bidder and certain parties related thereto, amount to 20% or more of the outstanding shares.

The existing legislative framework for take-over bids in Canada presents the following concerns for the Shareholders:

1. *Time*

Current legislation permits a take-over bid to expire 35 days after it is initiated. The Board is of the view that this is generally not sufficient time to allow competing transactions to emerge or for other alternatives to be developed or to permit shareholders to consider the take-over bid and make a reasoned and unhurried decision.

2. *Pressure to Tender*

A Shareholder may feel compelled to tender to a take-over bid which the Shareholder considers to be inadequate, out of concern that in failing to do so, the Shareholder may be left with illiquid or minority discounted Common Shares. This is particularly so in the case of a partial take-over bid (a bid for less than all Common Shares), where the bidder wishes to obtain a control position but does not wish to acquire all of the Common Shares. The Rights Plan provides a mechanism which is intended to ensure that a Shareholder can separate the decision to tender from the approval or disapproval of the particular takeover bid on its merits.

3. *Unequal Treatment*

While existing provincial securities legislation has substantially addressed many concerns in this regard, there remains the possibility that control of a public issuer may be acquired pursuant to a private agreement in which one or a small group of Shareholders dispose of their Common Shares at a premium to market price which premium is not shared with the other Shareholders. In addition, a person may slowly accumulate Common Shares through stock exchange acquisitions which may result, over time, in an acquisition of control without payment of fair value for control or a fair sharing of a control premium among all Shareholders.

***Purpose of the Rights Plan***

The purpose of the Rights Plan is to give adequate time for Shareholders to properly assess the merits of a bid without undue pressure and to allow competing bids to emerge. The Rights Plan is designed to give the Board time to consider alternatives to allow Shareholders to receive full and fair value for their Common Shares. The adoption of the Rights Plan does not affect the duty of the Board to act honestly and in good faith with a view to the best interests of the Corporation and its shareholders.

The issuance of the Rights (as defined below) will not in any way alter the financial condition of the Corporation. The issuance is not of itself dilutive, will not affect reported earnings per Common Share and will not change the way in which Shareholders would otherwise trade Common Shares. By permitting holders of Rights other than an Acquiring Person (as defined below) to acquire Common Shares of the Corporation at a discount to market value, the Rights may cause substantial dilution to a person or group that acquires 20% or more of the Common Shares of the Corporation other than by way of a Permitted Bid (as defined below) or other than in circumstances where the Rights are redeemed or the Board waives the application of the Rights Plan.

The Rights Plan should provide adequate time for Shareholders to assess a bid and to permit competing bids to emerge. It also gives the Board sufficient time to explore other options. A potential bidder can avoid the dilutive features of the Rights Plan by making a bid that conforms to the requirements of a Permitted Bid.

To qualify as a Permitted Bid, a take-over bid must be made for all Common Shares and must be open for 60 days after the bid is made. If at least 50% of the Common Shares held by persons independent of the bidder are deposited or tendered pursuant to the bid and not withdrawn, the bidder may take up and pay for such shares. The bid must then remain open for a further period of 10 business days on the same terms.

The requirements of a Permitted Bid enable each Shareholder to make two separate decisions. First, a Shareholder will decide whether the bid or any competing bid is adequate on its own merits. In making this decision the Shareholder need not be influenced by the likelihood that the bid will succeed. If there is sufficient support such that at least 50% of the independently held Common Shares have been tendered, a Shareholder who has not already tendered to that bid will have a further 10 business days to decide whether to tender to the bid.

A large number of publicly-held companies in Canada and the United States have adopted similar shareholder rights plans.

### ***Summary of the Rights Plan***

The following is a summary of the principal terms of the Rights Plan, which summary is qualified by and is subject to the full terms and conditions of the Rights Plan, a copy of which is filed under the Corporation's profile at [www.sedar.com](http://www.sedar.com). Except as otherwise defined herein, capitalized terms used below have the meanings ascribed thereto in the Rights Plan.

#### *Issue of Rights*

Effective September 23, 2011, one right (a "**Right**") was issued and is attached to each outstanding Common Share of the Corporation. One Right will also be issued and attach to each Common Share of the Corporation (and any other share in the capital stock or voting interests of the Corporation entitled to vote generally in the election of directors) (collectively, "**Voting Shares**") issued thereafter, subject to the limitations set forth in the Rights Plan.

#### *Acquiring Person*

An Acquiring Person is a person that beneficially owns 20% or more of the outstanding Voting Shares. An Acquiring Person does not, however, include the Corporation or any Subsidiary of the Corporation, or any person that becomes the Beneficial Owner of 20% or more of the Voting Shares as a result of certain exempt transactions. These exempt transactions include where any person becomes the Beneficial Owner of 20% or more of the Voting Shares as a result of, among other things: (i) acquisitions pursuant to a Permitted Bid or Competing Permitted Bid (as described below), and (ii) transactions to which the application of the Rights Plan has been waived by the Board.

#### *Rights Exercise Privilege*

The Rights will separate from the Voting Shares to which they are attached and will become exercisable at the close of business (the "**Separation Time**") on the eighth trading day after the earliest of: (a) the first date of public announcement that a person and/or others associated, affiliated or otherwise connected to such person, or acting in concert with such person, have become an Acquiring Person; (b) the date of commencement of, or first public announcement of the intent of any person to commence a take-over bid, other than a Permitted Bid or a Competing Permitted Bid, or such later date as the Board may determine in good faith, and (c) the date upon which a Permitted Bid or a Competing Permitted Bid ceases to be such.

Subject to adjustment as provided in the Rights Plan, each Right entitles the holder to purchase one Common Share for an exercise price (the “**Exercise Price**”) equal to \$2.00 per Common Share.

The acquisition by any person (an “**Acquiring Person**”) of 20% or more of the Common Shares, other than by way of a Permitted Bid, is referred to as a “Flip-in Event”. Any Rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event.

At the close of business on the eighth trading day after the first public announcement of the occurrence of a Flip-in Event, the Rights (other than those held by the Acquiring Person) will entitle the holder to purchase Voting Shares having an aggregate market price (based on the prevailing market price at the time of the consummation or occurrence of the Flip-in Event) equal to twice the Exercise Price for an amount in cash equal to the Exercise Price. That is, holders of Rights (other than the Acquiring Person) may acquire Voting Shares of the Corporation at a 50% discount to the then market price.

#### *Impact Once Rights Plan is Triggered*

The issue of Rights is not initially dilutive. Upon a Flip-in Event occurring and the Rights separating from the attached Voting Shares, reported earnings per Voting Share on a fully diluted or non-diluted basis may be affected. Holders of Rights who do not exercise their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

By permitting holders of Rights other than an Acquiring Person to acquire Voting Shares of the Corporation at a discount to market value, the Rights may cause substantial dilution to a person or group that acquires 20% or more of the voting securities of the Corporation other than by way of a Permitted Bid or other than in circumstances where the Rights are redeemed or the Board waives the application of the Rights Plan.

#### *Lock-Up Agreements*

A bidder may enter into lock-up agreements (a “**Lock-Up Agreement**”) with the Shareholders (a “**Locked-Up Person**”) whereby such Shareholders agree to tender their Voting Shares to the take-over bid (the “**Subject Bid**”) without a Flip-in Event (as referred to above) occurring. Any such agreement must permit the Locked-Up Person to withdraw their Voting Shares from the lock-up to tender to another take-over bid or support another transaction that will provide greater value to the Locked-Up Person than the Subject Bid where the greater value offered exceeds by as much or more than a specified amount (the “**Specified Amount**”) the value offered under the Subject Bid, provided the Specified Amount is not greater than 7% of the value offered under the Subject Bid. A Permitted Lock-Up Agreement may contain a right of first refusal or require a period of delay (or other similar limitation) to give an offeror an opportunity to match a higher price in another transaction as long as the Locked-Up Person can accept another bid or tender to another transaction.

The Lock-Up Agreement must be made available to the Corporation and to the public, and under the Lock-Up Agreement no “break up” fees, “top up” fees, penalties, expense reimbursement or other amounts that exceed in aggregate the greater of: (i) 2 ½% of the value payable under the Subject Bid; and (ii) 50% of the amount by which the value received by a Locked-Up Person under another take-over bid or transaction exceeds what such Locked-Up Person would have received under the Subject Bid; can be payable by such Locked-Up Person if the Locked-Up Person fails to deposit or tender their Voting Shares to the Subject Bid or withdraws such shares previously tendered thereto in order to deposit such shares to another take-over bid or to support another transaction.

#### *Certificates and Transferability*

Prior to the Separation Time, certificates for Common Shares will also evidence one Right for each Common Share represented by the certificate. Certificates issued after September 23, 2011 will bear a

legend to this effect. Rights are also attached to Common Shares outstanding on September 23, 2011, although share certificates issued as at that date will not bear such a legend.

Prior to the Separation Time, Rights will not be transferable separately from the attached Common Shares. From and after the Separation Time, the Rights will be evidenced by Rights certificates which will be transferable and traded separately from the Common Shares.

#### *Permitted Bids and Competing Permitted Bids*

The Rights Plan is not triggered if an offer (a “**Permitted Bid**”) would allow sufficient time for the Shareholders to consider and react to the offer and would allow Shareholders to decide to tender or not tender without the concern that they will be left with illiquid Voting Shares should they not tender.

The requirements for a Permitted Bid include the following:

- (a) the take-over bid must be made by way of a take-over bid circular;
- (b) the take-over bid must be made to all Shareholders;
- (c) the take-over bid must be outstanding for a minimum period of 60 days and Voting Shares tendered pursuant to the take-over bid may not be taken up prior to the expiry of the 60 day period and only if at such time more than 50% of the Voting Shares held by Shareholders, other than the bidder, its affiliates and persons acting jointly or in concert and certain other persons (the “**Independent Shareholders**”), have been tendered to the take-over bid and not withdrawn; and
- (d) if more than 50% of the Voting Shares held by Independent Shareholders are tendered to the take-over bid within the 60 day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of Voting Shares for an additional 10 business days from the date of such public announcement.

The Rights Plan allows for a competing Permitted Bid (a “**Competing Permitted Bid**”) to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 35 days.

Neither a Permitted Bid nor a Competing Permitted Bid is required to be approved by the Board and such bids may be made directly to Shareholders. Acquisitions of Voting Shares made pursuant to a Permitted Bid or a Competing Permitted Bid do not give rise to a Flip-in Event.

#### *Waiver and Redemption*

The Board may, prior to the occurrence of a Flip-In Event, waive the application of the Rights Plan to a particular Flip-In Event which would occur as a result of a take-over bid made under a circular prepared in accordance with applicable securities laws to all holders of Voting Shares. In such event, the Board shall be deemed to also have waived the application of the Rights Plan to any other Flip-In Event occurring as a result of any other takeover bid made under a circular prepared in accordance with applicable securities laws to all holders of Voting Shares prior to the expiry of any take-over bid for which the Rights Plan has been waived or deemed to have been waived.

In addition, with the prior consent of the holders of Voting Shares, the Board of Directors may, at any time prior to the occurrence of a Flip-in Event, waive the application of the Rights Plan to such Flip-in Event.

Until the occurrence of a Flip-in Event, the Board of Directors may, with the approval of holders of the Voting Shares (or with the approval of holders of Rights if the Separation Time has occurred), elect to redeem all but not less than all of the then outstanding Rights at \$0.001 per Right. In the event that a person acquires Voting Shares pursuant to a Permitted Bid, a Competing Permitted Bid or pursuant to a transaction for which the Board of Directors has waived the application of the Rights Plan, then the Board shall, immediately upon the consummation of such acquisition, without further formality, be deemed to have elected to redeem the Rights at the redemption price.

#### *Amendment*

The Board may amend the Rights Plan with the approval of a majority vote of the votes cast by Shareholders (or the holders of Rights if the Separation Time has occurred) voting in person and by proxy at a meeting duly called for that purpose. The Board without such approval may correct clerical or typographical errors and, subject to approval as noted above at the next meeting of the Shareholders (or holders of Rights, as the case may be), may make amendments to the Rights Plan to maintain its validity due to changes in applicable legislation.

#### *Board of Directors*

The Rights Plan will not detract from or lessen the duty of the Board to act honestly and in good faith with a view to the best interests of the Corporation. The Board, when a Permitted Bid is made, will continue to have the duty and power to take such actions and make such recommendations to Shareholders as are considered appropriate.

#### *Exemptions for Investment Advisors*

Investment advisors (for fully managed accounts), trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds and administrators of registered pension plans acquiring greater than 20% of the Voting Shares are exempted from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a take-over bid.

#### *Confirmation Every Three Years*

Assuming the Rights Plan is confirmed at the Meeting, the Rights Plan must be reconfirmed by a resolution passed by a majority of the votes cast by all Shareholders who vote in respect of such reconfirmation at the 2015 annual meeting and at every third annual meeting after that.

For the Rights Plan to continue following the Meeting, the Rights Plan Resolution must be approved by a majority of the votes cast by the holders of the Common Shares present or represented by proxy at the Meeting. If the Rights Plan Resolution is not passed, the Rights Plan and all outstanding Rights will terminate and be void and of no further force and effect.

**The Board has determined that the Rights Plan is in the best interest of the Corporation and its Shareholders. The Board recommends that Shareholders vote in favour the resolution set out in Schedule "A" to this Circular. In the absence of contrary instructions, the persons named in the accompanying form of proxy intend to vote the Common Shares represented thereby in favour of the Rights Plan Resolution in the form of Schedule "A" hereto approving, ratifying and confirming the adoption of the Rights Plan.**

### **APPROVAL OF STOCK OPTION PLAN**

The TSXV requires all listed companies with a 10% rolling stock option plan to obtain annual shareholder approval of such plan. Shareholders will be asked at the Meeting to vote on a resolution to approve, for the

ensuing year, the stock option plan adopted by the Board on December 10, 2010 and as amended March 10, 2011, as described below.

### **Stock Option Plan**

The Corporation adopted its current stock option plan (“**Stock Option Plan**”) in 2010 and most recently amended it in March 2011. The purpose of the Stock Option Plan is to allow the Corporation to provide an incentive to the employees, officers, directors and certain consultants (collectively, “**Participants**”) of the Corporation and its subsidiaries to achieve the longer term objectives of the Corporation, to give suitable recognition of the ability and industry of such person who contribute to the success of the Corporation and to attract and retain persons of experience and ability. The granting of such options is intended to align the interests of such persons and those of the Shareholders.

Options will typically be exercisable over periods of up to five years as determined by the Board, but may be exercisable over periods of up to 10 years if applicable approvals are received by the stock exchanges on which the Common Share are listed. Options granted under the Stock Option Plan will have an exercise price no less than the Market Price (as defined below) prevailing on the date the option is granted and shall not be less than as permitted under the rules of any stock exchanges on which the Common Shares are listed. “**Market Price**” means the last closing price per Common Share on the principal stock exchange on which the Common Shares are traded or as determined by the Board, acting reasonably, in their sole discretion.

Pursuant to the Stock Option Plan, the Board may from time to time authorize the issue of options to directors, officers, employees and consultants of the Corporation and its subsidiaries or employees or companies providing management or consulting services to the Corporation or its subsidiaries. The principal features of the Stock Option Plan are as follows:

1. The aggregate number of Common Shares subject to options granted under the Stock Option Plan, from time to time, cannot exceed 10% of the issued and outstanding Common Shares of the Corporation (calculated on a non-diluted basis), unless the Corporation seeks and receives the permission of the stock exchanges on which the Corporation’s Common Shares are trading.
2. The maximum aggregate number of Common Shares under option to the benefit of one Participant under the Stock Option Plan may not exceed 5%, on an annual basis, of the total number of issued and outstanding Common Shares of the Corporation at the time of grant (calculated on a non-diluted basis).
3. The aggregate number of Common Shares under option to the benefit of a Participant who is a director that is not also an employee of, or a person who is an employee of a management company providing management services to, the Corporation or its subsidiaries may not exceed the lesser of: (i) 2% of the of the total number of issued and outstanding Common Shares of the Corporation (calculated on a non-diluted basis) if the Common Shares of the Corporation are listed on a recognized stock exchange; or (ii) 3% of the total number of issued and outstanding Common Shares of the Corporation (calculated on a non-diluted basis).
4. The aggregate number of Common Shares under option to the benefit of a Participant who is a consultant of the Corporation or a person performing investor relation activities (as defined in the Stock Option Plan) may not exceed 2% of the of the total number of issued and outstanding Common Shares of the Corporation (calculated on a non-diluted basis).
5. An option under the Stock Option Plan may be granted subject to vesting requirements, which shall be set out in the option agreement granting the options. In the case of options granted to Participants who are consultants of the Corporation or persons performing investor relations activities, options granted under the Stock Option Plan will vest in stages over 12 months, with no more than one quarter of the options vesting in any three month period.

6. Options granted under the Stock Option Plan will be non-transferable and non-assignable and may only be exercised by a Participant except upon the death or permanent disability of that Participant.
7. If a Participant ceases to be a director, officer, consultant or employee of the Corporation or its subsidiaries, for any reason (other than by death or permanent disability), any unvested options held by such Participant are terminated and the remaining options may be exercised up to the earlier of: (i) the date on which the options will cease under the grant; or (ii) the date that is 90 days after the date that such Participant ceases to be a director, officer, consultant or employee of the Corporation or its subsidiaries.
8. In the event of the death or permanent disability of a Participant, options granted under the Stock Option Plan will be exercisable up to the earlier of: (i) the date on which the options will cease under the grant; or (ii) the expiration of 12 months after the date of such death or permanent disability. In such event, the option may be exercised by the person or persons to whom the Participant's rights under the option shall pass by the Participant's last will and testament or applicable law. In the event of the death or permanent disability of a Participant, options are only exercisable to the extent the Participant was able to exercise options under the grant as at the date of the Participant's death or permanent disability.
9. Upon a change of control of the Corporation, Participants may exercise any previously unexercised options (including options granted that have not vested) up to the earlier of: (i) the date on which the options will cease under the grant; or (ii) the date that is 30 days after the date of the change of control.

The Stock Option Plan requires the yearly approval of the Corporation's Shareholders at the Annual General Meeting of Shareholders. In the event any of the following thresholds are exceeded, the Corporation must obtain disinterested shareholder approval of the grant of options:

1. The number of Common Shares reserved for issuance under options granted to Insiders (as defined below) exceeds 10% of the issued and outstanding Common Shares of the Corporation (calculated on a non-diluted basis);
2. the grant to Insiders, within a 12 month period, of a number of options could exceed 10% of the issued and outstanding Common Shares of the Corporation (calculated on a non-diluted basis);
3. the grant to any one Participant, within a 12 month period, of a number of options could exceed 5% issued Common Shares of the Corporation (calculated on a non-diluted basis);
4. The grant to Directors that are not employees of the Corporation, or employees of a management company providing management services to the Corporation, that would exceed the lesser of: (i) 2% of the of the total number of issued and outstanding Common Shares of the Corporation (calculated on a non-diluted basis) if the Common Shares of the Corporation are listed on a recognized stock exchange; or (ii) 3% of the total number of issued and outstanding Common Shares of the Corporation (calculated on a non-diluted basis).
5. The Corporation proposes to increase the total number of Common Shares reserved for issuance under the Stock Option Plan.

Disinterested shareholder approval means the approval of a majority of the Corporation's shareholders who are not Insiders or Associates of Insiders (as those terms are defined in TSXV Policy 1.1 – *Interpretation*).

The full text of the Stock Option Plan is set forth in Appendix "B" to this Circular.

**The Board has determined that the Stock Option Plan is in the best interest of the Corporation and its Shareholders. The Board recommends that Shareholders vote in favour the resolution set out in Schedule "B" to this Circular. In the absence of contrary instructions, the persons named in the accompanying form of proxy intend to vote the Common Shares represented thereby in favour of the Stock Option Plan resolution in the form of Schedule "B" hereto.**



Name and Principal Positions	Year	Salary (US\$)	Bonus (US\$)	Share-based Awards (US\$)	Option-based Awards (\$)	Non-Equity Incentive Plan Compensation			All Other Compensation (US\$)	Total Compensation (US\$)
						Annual Incentive Plans	Long-Term Incentive Plans	Pension Value (\$)		
Patrick McGrath, Chief Financial Officer <sup>(3)</sup>	2011	57,210	96,250	Nil	53,843	Nil	Nil	Nil	Nil	207,303
	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Patric Monteleone, Executive VP <sup>(1)(4)</sup>	2011	173,333	Nil	Nil	53,843	Nil	Nil	Nil	Nil	227,126
	2010	165,000	Nil	Nil	Nil	Nil	Nil	Nil	Nil	165,000
	2009	165,000	Nil	Nil	72,241	Nil	Nil	Nil	Nil	237,241

**Notes:**

- (1) The compensation of Mr. Ash and Mr. Monteleone was paid by MOGC. Mr. Ash became the President and Chief Executive Officer of the Corporation on May 20, 2010. Mr. Monteleone ceased to be President and Chief Executive Officer on May 20, 2010 but remains an Executive Vice President.
- (2) Mr. Ash was paid a US\$400,000 signing bonus on becoming the Corporation's Chief Executive Officer. The bonus was provided as part of Mr. Ash's simultaneous purchase of five million Common Shares from existing shareholders to offset part of the purchase price.
- (3) Mr. McGrath became the Chief Financial Officer on January 29, 2010 replacing Douglas Urch and resigned as of January 26, 2011. Mr. Heath Cleaver became the Chief Financial Officer on January 26, 2011 replacing Mr. McGrath.
- (4) No portion of the compensation of Mr. Ash or Mr. Monteleone was granted in their capacities as directors of the Corporation.

**Compensation Discussion and Analysis**

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

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

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

**Base Salary**

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

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

## **Annual Incentives**

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

The Corporation has no formal policy regarding the payment of annual cash bonuses and such bonuses are only paid if and when the Compensation Committee deems appropriate based upon the circumstances. Such annual cash bonuses are not tied to the achievement of any specific predetermined performance goals but are based on an executive officer's individual performance, as well as the overall performance of the Corporation, over a given period of time.

## **Stock Option Plan**

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

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

For additional information on the Stock Option Plan, please see discussion under "*Approval of Stock Option Plan.*"

## **Outstanding Option-Based and Share-Based Awards**

The following table sets forth in respect of all option-based and share-based awards outstanding at the end of the most recent financial year ended August 31, 2011, for the Named Executive Officers of the Corporation:

Name	Option-Based Awards			Share-Based Awards		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of Unexercised in-the-Money Options (\$)	Number of Shares or Units of Shares that Have Not Vested (#)	Market or Payout Value of Share-Based Awards That Have Not Vested (\$)
Joseph Ash, President and Chief Executive Officer <sup>(1)</sup>	4,000,000	\$0.60	Sept. 1/15	Nil	n/a	n/a
Heath Cleaver, Chief Financial Officer	750,000	\$0.60	Sept. 1/15	Nil	n/a	n/a

Name	Option-Based Awards			Share-Based Awards		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of Unexercised in-the-Money Options (\$)	Number of Shares or Units of Shares that Have Not Vested (#)	Market or Payout Value of Share-Based Awards That Have Not Vested (\$)
Patrick McGrath, Chief Financial Officer	200,000	\$0.60	Sept. 1/15	Nil	n/a	n/a
Patric Monteleone, Executive Vice President <sup>(1)</sup>	200,000	\$0.60	Sept. 1/15	Nil	n/a	n/a

**Notes:**

(1) None of the above awards were granted to Mr. Ash and Mr. Monteleone as compensation for their roles as directors of the Corporation.

***Incentive Plan Awards - Value Vested or Earned During the Year***

The following table sets forth information in respect of the value vested or earned during the Corporation's most recent financial year ended August 31, 2011, in respect of option-based awards and share-based awards for the Named Executive Officers of the Corporation:

Name	Option-Based Awards - Value Vested During the Year (\$)	Share-Based Awards - Value Vested During the Year <sup>(1)</sup> (\$)	Non-Equity Incentive Plan Compensation - Value Earned During the Year <sup>(1)</sup> (\$)
Joseph Ash, President and Chief Executive Officer <sup>(1)</sup>	Nil	n/a	n/a
Heath Cleaver, Chief Financial Officer	Nil	n/a	n/a
Patrick McGrath, Chief Financial Officer	Nil	n/a	n/a
Patric Monteleone, Executive Vice President <sup>(1)</sup>	Nil	n/a	n/a

**Notes:**

(1) The Corporation currently has no share-based or non-equity incentive plans.

***Pension Plan Benefits***

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

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

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

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

### **Summary of Directors' Compensation**

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

The following table sets forth for each of the Corporation's directors, other than directors who are also Named Executive Officers, all amounts of compensation for the Corporation's most recently completed financial year ended August 31, 2011:

<b>Name</b>	<b>Fees Earned (\$)</b>	<b>Share-Based Awards (\$)</b>	<b>Option-Based Awards (\$)</b>	<b>Non-Equity Incentive Plan Compensation (\$)</b>	<b>Pension Value (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Ian B. McMurtrie	Nil	n/a	148,787	n/a	Nil	Nil	148,787
Gerry Romanzin	Nil	n/a	148,787	n/a	Nil	Nil	148,787
Gregory G. Turnbull Q.C.	Nil	n/a	148,787	n/a	Nil	Nil	148,787
Agustin Llana	Nil	n/a	148,787	n/a	Nil	Nil	148,787
William Roach	Nil	n/a	148,787	n/a	Nil	Nil	148,787

### **Outstanding Option-Based and Share-Based Awards**

The following table sets forth in respect of all option-based and share-based awards outstanding at the end of the most recent financial year ended August 31, 2011, for the directors of the Corporation other than directors who are also Named Executive Officers:

<b>Name</b>	<b>Option-Based Awards</b>				<b>Share-Based Awards</b>	
	<b>Number of Securities Underlying Unexercised Options (#)</b>	<b>Option Exercise Price (\$)</b>	<b>Option Expiration Date</b>	<b>Value of Unexercised in-the-Money Options (\$)</b>	<b>Number of Shares or Units of Shares that Have Not Vested (#)</b>	<b>Market or Payout Value of Share-Based Awards That Have Not Vested (\$)</b>
Ian B. McMurtrie	375,000	\$0.60	Sept. 1/15	Nil	n/a	n/a
Gerry Romanzin	375,000	\$0.60	Sept. 1/15	Nil	n/a	n/a
Gregory G. Turnbull Q.C.	375,000	\$0.60	Sept. 1/15	Nil	n/a	n/a
Agustin Llana	375,000	\$0.60	Sept. 1/15	Nil	n/a	n/a
William Roach	375,000	\$0.60	Sept. 1/15	Nil	n/a	n/a

### ***Incentive Plan Awards - Value Vested or Earned During the Year***

The following table sets forth information in respect of the value vested or earned during the Corporation's financial year ended August 31, 2011, in respect of option-based awards and share-based awards for the directors of the Corporation:

<b>Name</b>	<b>Option-Based Awards - Value Vested During the Year (\$)</b>	<b>Share-Based Awards - Value Vested During the Year (\$)</b>	<b>Non-Equity Incentive Plan Compensation - Value Earned During the Year (\$)</b>
Ian B. McMurtrie	Nil	Nil	Nil
Gerry Romanzin	Nil	Nil	Nil
Gregory G. Turnbull Q.C.	Nil	Nil	Nil
Agustin Llana	Nil	Nil	Nil
William Roach	Nil	Nil	Nil

### ***Directors' and Officers' Liability Insurance***

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

### **EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth information with respect to compensation plans under which equity securities are authorized for issuance as at August 31, 2011, aggregated for all compensation plans previously approved by the Shareholders and all compensation plans not previously approved by the Shareholders:

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</b>
Equity Compensation Plans Approved by Securityholders	n/a	n/a	n/a
Equity Compensation Plans Not Approved by Securityholders	11,600,000	\$0.60	8,295,465
Total	11,600,000	\$0.60	8,295,465

For information on the Corporation's equity compensation plans, please see discussion under "*Executive Compensation*" and "*Approval of Stock Option Plan*."

### **INDEBTEDNESS OF DIRECTORS AND OFFICERS**

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

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of directors, executive officers of the Corporation 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 since the commencement of the Corporation's most recently completed financial year.

## INTERESTS OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON

Other than as disclosed in this Circular, management of the Corporation is not aware of any material interest of any director or nominee for director or senior officer or anyone who has held office as such since the beginning of the Corporation's last financial year or of any associate or affiliate of any of the foregoing in any matter to be acted on at the Meeting.

## CORPORATE GOVERNANCE PRACTICES

Effective June 30, 2005, National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“**NI 58-101**”) and National Policy 58-201 – *Corporate Governance Guidelines* (“**NP 58-201**”) were adopted in each of the provinces and territories of Canada. NI 58-101 requires issuers to disclose the corporate governance practices that they have adopted. NP 58-201 provides guidance on corporate governance practices. The Corporation is also subject to NI 52-110, which has been adopted in each of the Canadian provinces and territories and which prescribes certain requirements in relation to audit committees.

The Board is responsible for the governance of the Corporation. The Board and the Corporation's management consider good corporate governance to be central to the effective and efficient operation of the Corporation. Below is a discussion of the Corporation's approach to corporate governance.

### ***Corporate Governance Committee***

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

### ***Independence of Members of Board***

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

### ***Management Supervision by Board***

The Chief Executive Officer and Chief Financial Officer report upon the operations of the Corporation, on a quarterly basis directly to the directors of the Board and on matters that affect the non-independent directors, without the presence of such non-independent directors. The independent directors hold meetings without the presence of non-independent directors when matters arise that require their independent approval. Two current members of management (Messrs. Ash and Monteleone) are directors of the Corporation. While management who are not directors attend meetings of the Board to report to the Board and participate in discussions, they are not eligible to vote on matters requiring Board approval. The

directors meet at any time they consider necessary without any members of management, including the non-independent directors, being present. The Corporation's auditors, legal counsel, financial advisors and employees may be invited to attend. The Audit Committee is composed of a majority of independent directors who meet with the Corporation's auditors without management in attendance. The independent directors exercise their responsibilities for independent oversight of management through the Corporate Governance Committee, which is made up of a majority of independent directors, and the appointment of an independent Chair of the Board. The independent directors also have regular and full access to management.

### ***Participation of Directors in Other Reporting Issuers***

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

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

### ***Board Mandate***

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

### ***Orientation and Continuing Education***

While the Corporation does not have a formal orientation and training program, new members of the Board are provided with:

- (a) a copy of the final long form prospectus filed by the Corporation in March 2011, which provides information respecting the functioning of the Board, committees and copies of the Corporation's corporate governance policies;
- (b) access to recent, publicly filed documents of the Corporation;
- (c) access to management; and

- (d) access to legal counsel in the event of any questions relating to the Corporation's compliance and other obligations.

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

### ***Ethical Business Conduct***

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

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

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

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

### ***Nomination of Directors***

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

expense. The Corporate Governance Committee meets at least once annually and otherwise as requested by the Board or considered desirable by the Chair of the Corporate Governance Committee.

### ***Compensation of Directors and Senior Management***

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

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

### ***Audit Committee***

Please see the discussion under “*Audit Committee*.”

### ***Compensation Committee***

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

### ***Reserves Committee***

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

## **Assessments**

The Board is responsible to assess, on an ongoing basis, its overall performance and that of its committees. The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. The review will identify any areas where the directors of the Corporation or management believe that the Board could make a better collective contribution to overseeing the affairs of the Corporation. The Board is also responsible for regularly assessing the effectiveness and contribution of each director, having regard to the competencies and skills each director is expected to bring to the Board.

## **AUDIT COMMITTEE**

The purpose of the Corporation's Audit Committee is to provide assistance to the Board in fulfilling its legal fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Corporation. 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 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 Corporation's external auditors without management present and at least quarterly with management present. The Corporation does not have internal auditors and, given the size of the Corporation, the Corporation 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 "C" to this Circular

### ***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 Mr. Gerald Romanzin. Each of the members of the Audit Committee is financially literate under Section 1.6 of 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***

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

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

**Patric 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.

For more information, please see the discussion under “*Election of Directors – Biographies.*”

### ***Audit Committee Oversight***

At no time since the commencement of the year ended August 31, 2011 was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Corporation’s Board.

### ***Reliance on Certain Exemptions***

At no time since the commencement of the year ended August 31, 2011 has the Corporation relied on the exemption under section 2.4 (*De Minimis Non-audit Services*) of NI 52-110.

At no time since the commencement of the year ended August 31, 2011 has the Corporation relied on an exemption under Part 8 of 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 Service Fees***

The aggregate fees billed by the Company’s external auditors in the 12 months ended August 31, 2011 and 2010 are as follows:

<b>Fiscal Year</b>	<b>Audit Fees (\$)</b>	<b>Audit Related Fees (\$)</b>	<b>Tax Fees (\$)</b>	<b>All Other Fees (\$)</b>
2011	\$136,431	\$80,041	\$108,185	Nil
2010	\$252,342	Nil	Nil	Nil

### ***Exemption***

The Corporation is relying on the exemption from certain reporting requirements under section 6.1 of NI 52-110.

## **ADDITIONAL INFORMATION**

Financial information of the Corporation is provided in the Corporation’s financial statements and management’s discussion and analysis for its most recently completed financial year. A copy of these documents may be obtained by contacting the Corporation’s Chief Financial Officer at Suite 350, 24 Waterway, The Woodlands, Texas, USA, 77380 (phone: 713-975-1725 and fax: 713-975-9923).

Copies of these documents as well as additional information relating to the Corporation contained in documents filed by the Corporation with the Canadian securities regulatory authorities may also be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com).

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**SCHEDULE "A"**  
**SHAREHOLDER RIGHTS PLAN RESOLUTION**

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BE IT RESOLVED as an ordinary resolution of Porto Energy Corp. (the "**Corporation**") that:

1. The Shareholder Rights Plan of the Corporation be continued and the Shareholder Rights Plan Agreement (the "**Rights Plan Agreement**") dated as of September 23, 2011 between the Corporation and Computershare Trust Company of Canada, as Rights Agent, be and it is hereby ratified, confirmed and approved;
2. The making on or prior to January 26, 2012 of any revisions to the Rights Plan Agreement as may be required by any stock exchange or by professional commentators on shareholders rights plans to conform the Rights Plan Agreement to versions of shareholder rights plans prevalent for public reporting issuers in Canada, as may be approved by any two of the President and Chief Executive Officer, the Chief Financial Officer, any Vice-President or the Corporate Secretary, is hereby approved;
3. The Rights Plan Agreement, as amended in accordance with paragraph (b), is hereby ratified, confirmed and approved; and
4. Any one officer or director of the Corporation be and is hereby authorized for and on behalf of the Corporation, under corporate seal or otherwise, to do all such things and to execute all such documents or instruments as may be necessary or desirable to give effect to this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such documents or instruments and the taking of any such actions.

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**SCHEDULE "B"**  
**STOCK OPTION PLAN RESOLUTION**

---

BE IT RESOLVED as an ordinary resolution of Porto Energy Corp. (the "**Corporation**") that:

1. The 10% rolling incentive stock option plan adopted by the Board of Directors of the Corporation on December 10, 2010 and as amended on March 10, 2011, as described in the Management Information Circular of the Corporation dated December 22, 2011, be and is hereby ratified and approved for the ensuing year; and
2. Any one officers or director of the Corporation, be and is hereby authorized and directed to do all such acts and things and to execute and deliver under the corporate seal or otherwise all such deeds, documents, instruments and assurances as in their opinion may be necessary or desirable to give effect to the foregoing resolutions and to complete all transactions in connection with the implementation of the stock option plan.

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**SCHEDULE "C"**  
**AMENDMENT RESOLUTION**

---

BE IT RESOLVED as a special resolution of Porto Energy Corp. (the "**Corporation**") that:

1. The articles of the Corporation be and are hereby amended to add the following provision under article 10:

**10.9 Meeting Locations**

Should the board of directors consider it appropriate, any meeting of the shareholders of the Corporation and any adjournments thereof may be held outside of the Province of British Columbia at such location as the board of directors may, in their discretion, fix by resolution.

## **APPENDIX "A" – SHAREHOLDER RIGHTS PLAN**

Please see attached.

**SHAREHOLDER RIGHTS PLAN AGREEMENT**

**DATED AS OF SEPTEMBER 23, 2011**

**BETWEEN**

**PORTO ENERGY CORP.**

**AND**

**OLYMPIA TRUST COMPANY**

**AS RIGHTS AGENT**

# SHAREHOLDER RIGHTS PLAN AGREEMENT

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## SHAREHOLDER RIGHTS PLAN AGREEMENT

SHAREHOLDER RIGHTS PLAN AGREEMENT dated effective as of September 23, 2011 between Porto Energy Corp. (the “**Corporation**”), a corporation incorporated under the laws of the Province of British Columbia and Olympia Trust Company, a trust company incorporated under the laws of Alberta (the “**Rights Agent**” which term shall include any successor Rights Agent hereunder).

WHEREAS the Board of Directors of the Corporation has determined that it is in the best interests of the Corporation to adopt a shareholder rights plan to insure, to the extent possible, that all shareholders of the Corporation are treated fairly in connection with any take-over bid for the Corporation;

AND WHEREAS in order to implement the adoption of a shareholder rights plan as established by this Agreement, the Board of Directors of the Corporation has:

- (a) authorized the issuance, effective at 12:01 a.m. (Calgary time) on the Effective Date (as hereinafter defined), of one Right (as hereinafter defined) in respect of each Common Share (as hereinafter defined) outstanding at 12:01 a.m. (Calgary Time) on the Effective Date (the “**Record Time**”);
- (b) authorized the issuance of one Right in respect of each Common Share of the Corporation issued after the Record Time and prior to the earlier of the Separation Time (as hereinafter defined) and the Expiration Time (as hereinafter defined); and
- (c) authorized the issuance of Convertible Securities Rights (as hereinafter defined) in respect of Convertible Securities (as hereinafter defined) upon the terms and subject to the conditions set forth herein;

AND WHEREAS each Right entitles the holder thereof, after the Separation Time, to purchase securities of the Corporation pursuant to the terms and subject to the conditions set forth herein;

AND WHEREAS the Corporation desires to appoint the Rights Agent to act on behalf of the Corporation and the holders of Rights, and the Rights Agent is willing to so act, in connection with the issuance, transfer, exchange and replacement of Rights Certificates (as hereinafter defined), the exercise of Rights and other matters referred to herein;

NOW THEREFORE, in consideration of the premises and the respective covenants and agreements set forth herein, and subject to such covenants and agreements, the parties hereby agree as follows:

### ARTICLE 1 - INTERPRETATION

#### 1.1 Certain Definitions

For purposes of this Agreement, the following terms have the meanings indicated:

- (a) **“Acquiring Person”** shall mean any Person who is the Beneficial Owner of 20% or more of the outstanding Voting Shares; provided, however, that the term “Acquiring Person” shall not include:
- (i) the Corporation or any Subsidiary of the Corporation;
  - (ii) any Person who becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares as a result of one or any combination of (A) a Voting Share Reduction, (B) Permitted Bid Acquisitions, (C) an Exempt Acquisition or (D) Pro Rata Acquisitions; provided, however, that if a Person becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares by reason of one or any combination of the operation of paragraphs (A), (B), (C) or (D) above and such Person’s Beneficial Ownership of Voting Shares thereafter increases by more than 1.0% of the number of Voting Shares outstanding (other than pursuant to one or any combination of a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition or a Pro Rata Acquisition), then as of the date such Person becomes the Beneficial Owner of such additional Voting Shares, such Person shall become an “Acquiring Person”;
  - (iii) for a period of ten days after the Disqualification Date (as defined below), any Person who becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares as a result of such Person becoming disqualified from relying on Clause 1.1(f)(v) solely because such Person or the Beneficial Owner of such Voting Shares is making or has announced an intention to make a Take-over Bid, either alone or by acting jointly or in concert with any other Person. For the purposes of this definition, **“Disqualification Date”** means the first date of public announcement that any Person is making or has announced an intention to make a Take-over Bid;
  - (iv) an underwriter or member of a banking or selling group that becomes the Beneficial Owner of 20% or more of the Voting Shares in connection with a distribution of securities of the Corporation; or
  - (v) a Person (a **“Grandfathered Person”**) who is the Beneficial Owner of 20% or more of the outstanding Voting Shares of the Corporation determined as at the Record Time, provided, however, that this exception shall not be, and shall cease to be, applicable to a Grandfathered Person in the event that such Grandfathered Person shall, after the Record Time, become the Beneficial Owner of additional Voting Shares of the Corporation that increases its Beneficial Ownership of Voting Shares by more than 1% of the number of Voting Shares outstanding as at the Record Time (other than pursuant to one or any combination of a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition or a Pro Rata Acquisition);

- (b) **“Affiliate”** when used to indicate a relationship with a Person means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified Person;
- (c) **“Agreement”** shall mean this shareholder rights plan agreement between the Corporation and the Rights Agent, and as it may be amended and/or supplemented or restated from time to time;
- (d) **“annual cash dividend”** shall mean cash dividends paid in any fiscal year of the Corporation to the extent that such cash dividends do not exceed, in the aggregate, the greatest of:
  - (i) 200 per cent of the aggregate amount of cash dividends declared payable by the Corporation on its Common Shares in its immediately preceding fiscal year;
  - (ii) 300 per cent of the arithmetic mean of the aggregate amounts of the annual cash dividends declared payable by the Corporation on its Common Shares in its three immediately preceding fiscal years; and
  - (iii) 100 per cent of the aggregate consolidated net income of the Corporation, before extraordinary items, for its immediately preceding fiscal year;
- (e) **“Associate”** means, when used to indicate a relationship with a specified Person, a spouse of that Person, any Person of the same or opposite sex with whom that Person is living in a conjugal relationship outside marriage, a child of that Person or a relative of that Person if that relative has the same residence as that Person;
- (f) A Person shall be deemed the **“Beneficial Owner”** of, and to have **“Beneficial Ownership”** of, and to **“Beneficially Own”**,
  - (i) any securities as to which such Person or any of such Person’s Affiliates or Associates is the owner at law or in equity;
  - (ii) any securities as to which such Person or any of such Person’s Affiliates or Associates has the right to become the owner at law or in equity (where such right is exercisable immediately or within a period of 60 days and whether or not on condition or the happening of any contingency or the making of any payment) pursuant to any agreement, arrangement, pledge or understanding, whether or not in writing (other than (x) customary agreements with and between underwriters and/or banking group members and/or selling group members with respect to a public offering or private placement of securities and (y) pledges of securities in the ordinary course of business), or upon the exercise of any conversion right, exchange right, share purchase right (other than the Rights), warrant or option; or

- (iii) any securities which are Beneficially Owned within the meaning of Clauses 1.1(f)(i) and (ii) by any other Person with whom such Person is acting jointly or in concert;

provided, however, that a Person shall not be deemed the “**Beneficial Owner**” of, or to have “**Beneficial Ownership**” of, or to “**Beneficially Own**”, any security:

- (iv) where such security has been, or has been agreed to be deposited or tendered pursuant to a Lock-up Agreement or is otherwise deposited or tendered to any Take-over Bid made by such Person, made by any of such Person’s Affiliates or Associates or made by any other Person acting jointly or in concert with such Person until such deposited or tendered security has been taken up or paid for, whichever shall first occur;

- (v) where such Person, any of such Person’s Affiliates or Associates or any other Person acting jointly or in concert with such Person holds or exercises dispositive power over such security provided that:

- (A) the ordinary business of any such Person (the “**Investment Manager**”) includes the management of investment funds for others (which others, for greater certainty, may include or be limited to one or more employee benefit plans or pension plans) and such security is held by the Investment Manager in the ordinary course of such business in the performance of such Investment Manager’s duties for the account of any other Person (a “**Client**”), including a non-discretionary account held on behalf of a Client by a broker or dealer appropriately registered under applicable law;

- (B) such Person (the “**Trust Company**”) is licensed to carry on the business of a trust company under applicable laws and, as such, acts as trustee or administrator or in a similar capacity in relation to the estates of deceased or incompetent Persons (each an “**Estate Account**”) or in relation to other accounts (each an “**Other Account**”) and holds such security in the ordinary course of such duties for the estate of any such deceased or incompetent Person or for such Other Accounts;

- (C) such Person is established by statute for purposes that include, and the ordinary business or activity of such Person (the “**Statutory Body**”) includes, the management of investment funds for employee benefit plans, pension plans, insurance plans or various public bodies;

- (D) such Person (the “**Administrator**”) is the administrator or trustee of one or more pension funds or plans (a “**Plan**”), or is a Plan, registered under the laws of Canada or any Province thereof or the laws of the United States of America or any State thereof;

- (E) such Person (the “**Crown Agent**”) is a Crown agent or agency; or

(F) such Person (the “**Manager**”) is the manager or trustee or a mutual fund (“**Mutual Fund**”) that is registered or qualified to issue its securities to investors under the securities laws of any province of Canada or the laws of the United States of America or is a Mutual Fund.

provided, in any of the above cases, that the Investment Manager, the Trust Company, the Statutory Body, the Administrator, the Plan, the Crown Agent, the Manager or the Mutual Fund, as the case may be, is not then making a Take-over Bid or has not then announced an intention to make a Take-over Bid alone or acting jointly or in concert with any other Person, other than an Offer to Acquire Voting Shares or other securities (x) pursuant to a distribution by the Corporation, (y) by means of a Permitted Bid or (z) by means of ordinary market transactions (including prearranged trades entered into in the ordinary course of business of such Person) executed through the facilities of a stock exchange or organized over-the-counter market;

- (vi) where such Person is (A) a Client of the same Investment Manager as another Person on whose account the Investment Manager holds such security, (B) an Estate Account or an Other Account of the same Trust Company as another Person on whose account the Trust Company holds such security or (C) a Plan with the same Administrator as another Plan on whose account the Administrator holds such security;
- (vii) where such Person is (A) a Client of an Investment Manager and such security is owned at law or in equity by the Investment Manager, (B) an Estate Account or an Other Account of a Trust Company and such security is owned at law or in equity by the Trust Company or (C) a Plan and such security is owned at law or in equity by the Administrator of the Plan; or
- (viii) where such Person is a registered holder of such security as a result of carrying on the business of, or acting as a nominee of, a securities depository;
- (g) “**Board of Directors**” shall mean the board of directors of the Corporation or any duly constituted and empowered committee thereof;
- (h) “**Business Corporations Act**” means the *Business Corporations Act* (British Columbia), as amended, and the regulations made thereunder, and any comparable or successor laws or regulations thereto;
- (i) “**Business Day**” shall mean any day other than a Saturday, Sunday or a day on which banking institutions in Calgary are authorized or obligated by law to close;
- (j) “**Canadian Dollar Equivalent**” of any amount which is expressed in U.S. dollars means, on any date, the Canadian dollar equivalent of such amount determined by multiplying such amount by the U.S. - Canadian Exchange Rate in effect on such date;

- (k) **“close of business”** on any given date shall mean the time on such date (or, if such date is not a Business Day, the time on the next succeeding Business Day) at which the principal transfer office in Calgary of the transfer agent for the Common Shares of the Corporation (or, after the Separation Time, the principal transfer office in Calgary of the Rights Agent) is closed to the public;
- (l) **“Common Shares”** shall mean the Common Shares in the capital of the Corporation;
- (m) **“Competing Permitted Bid”** means a Take-over Bid that:
  - (i) is made after a Permitted Bid has been made and prior to the expiry of the Permitted Bid;
  - (ii) satisfies all components of the definition of a Permitted Bid other than the requirements set out in Clause 1.1(kk)(ii)(A) of the definition of a Permitted Bid; and
  - (iii) contains, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified condition that no Voting Shares will be taken up or paid for pursuant to the Take-over Bid prior to the close of business on a date that is no earlier than the later of: (A) the 60th day after the date on which the earliest Permitted Bid which preceded the Competing Permitted Bid was made; and (B) 35 days after the date of the Take-over Bid constituting the Competing Permitted Bid;
- (n) **“controlled”** a Person is “controlled” by another Person or two or more other Persons acting jointly or in concert if:
  - (i) in the case of a body corporate, securities entitled to vote in the election of directors of such body corporate carrying more than 50% of the votes for the election of directors are held, directly or indirectly, by or for the benefit of the other Person or Persons and the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of such body corporate; or
  - (ii) in the case of a Person which is not a body corporate, more than 50% of the voting or equity interests of such entity are held, directly or indirectly, by or for the benefit of the other Person or Persons;and “controls”, “controlling” and “under common control with” shall be interpreted accordingly;
- (o) **“Convertible Security”** means a security of the Corporation or a Subsidiary of the Corporation that is convertible, exercisable or exchangeable into a Voting Share;

- (p) **“Convertible Security Right”** means a right, issued in respect of a Convertible Security, to receive Rights upon the terms and subject to the conditions set forth in this Agreement;
- (q) **“Co-Rights Agents”** shall have the meaning ascribed thereto in Subsection 4.1(a);
- (r) **“Disposition Date”** shall have the meaning ascribed thereto in Subsection 5.1(h);
- (s) **“Dividend Reinvestment Acquisition”** shall mean an acquisition of Voting Shares pursuant to a Dividend Reinvestment Plan;
- (t) **“Dividend Reinvestment Plan”** means a regular dividend reinvestment or other plan of the Corporation made available by the Corporation to holders of its securities where such plan permits the holder to direct that some or all of:
  - (i) dividends paid in respect of shares of any class of the Corporation;
  - (ii) proceeds of redemption of shares of the Corporation;
  - (iii) interest paid on evidences of indebtedness of the Corporation; or
  - (iv) optional cash payments;be applied to the purchase from the Corporation of Voting Shares;
- (u) **“Election to Exercise”** shall have the meaning ascribed thereto in Clause 2.2(d)(ii);
- (v) **“Effective Date”** means September 23, 2011;
- (w) **“Exempt Acquisition”** means a share acquisition in respect of which the Board of Directors has waived the application of Section 3.1 pursuant to the provisions of Subsection 5.1(a) or (h);
- (x) **“Exercise Price”** shall mean, as of any date, the price at which a holder may purchase the securities issuable upon exercise of one whole Right which, until adjustment thereof in accordance with the terms hereof, shall be \$2.00 (Cdn.) per Right;
- (y) **“Expansion Factor”** shall have the meaning ascribed thereto in Clause 2.3(a)(x);
- (z) **“Expiration Time”** means the close of business on that date which is the earliest of the date of termination of this Agreement pursuant to Section 5.15 or, if this Agreement is confirmed pursuant to Section 5.15, the date of termination of this Agreement pursuant to Section 5.16;
- (aa) **“Flip-in Event”** shall mean a transaction in or pursuant to which any Person becomes an Acquiring Person;
- (bb) **“holder”** shall have the meaning ascribed thereto in Section 2.8;

- (cc) **“Independent Shareholders”** shall mean holders of Voting Shares, other than:
- (i) any Acquiring Person;
  - (ii) any Offeror (other than any Person who, by virtue of Clause 1.1(f)(v), is not deemed to Beneficially Own the Voting Shares held by such Person);
  - (iii) any Affiliate or Associate of any Acquiring Person or Offeror;
  - (iv) any Person acting jointly or in concert with any Acquiring Person or Offeror; and
  - (v) any employee benefit plan, deferred profit sharing plan, stock participation plan and any other similar plan or trust for the benefit of employees of the Corporation unless the beneficiaries of the plan or trust direct the manner in which the Voting Shares are to be voted or withheld from voting or direct whether the Voting Shares are to be tendered to a Take-over Bid;
- (dd) **“Lock-up Agreement”** means an agreement (the terms of which are publicly disclosed and a copy of which is made available to the public (including the Corporation):
- (i) not later than the date on which the Lock-up Bid (as defined below) is publicly announced; or
  - (ii) if the Lock-up Bid has been made prior to the date on which such agreement has been entered into, forthwith and in any event not later than the Business Day following the date of such agreement);

between an Offeror, any of its Affiliates or Associates or any other Person acting jointly or in concert with the Offeror and a Person (the **“Locked-up Person”**) who is not an Affiliate or Associate of the Offeror or a Person acting jointly or in concert with the Offeror whereby the Locked-up Person agrees to deposit or tender the Voting Shares held by the Locked-up Person to the Offeror’s Take-over Bid or to any Take-over Bid made by any of the Offeror’s Affiliates or Associates or made by any other Person acting jointly or in concert with the Offeror (the **“Lock-up Bid”**) where the agreement:

- (iii) (A) permits the Locked-up Person to withdraw the Voting Shares from the agreement in order to tender or deposit the Voting Shares to another Take-over Bid or to support another transaction that provides for a consideration for each Voting Share that is higher than the consideration contained in or proposed to be contained in the Lock-up Bid; or
- (B) permits the Locked-up Person to withdraw the Voting Shares from the agreement in order to tender or deposit the Voting Shares to another Take-over Bid or to support another transaction that provides

for a consideration for each Voting Share that exceeds by as much as or more than a specified amount the (“**Specified Amount**”) the consideration for each Voting Share contained in or proposed to be contained in, and is made for at least the same number of Voting Shares as, the Lock-up Bid; and (b) does not by its terms provide for a Specified Amount that is greater than 7% over the consideration for each Voting Share contained in or proposed to be contained in the Lock-up Bid;

and, for greater certainty, the Lock-up Agreement may contain a right of first refusal or require a period of delay to give the Offeror an opportunity to at least match a higher consideration in another Take-over Bid or transaction or other similar limitation on a Locked-up Person’s rights to withdraw Voting Shares from the Lock-up Agreement and not to tender such Voting Shares to the Take-over Bid to which the Locked-up Person has agreed to deposit or tender so long as the limitation does not preclude the exercise by the Locked-up Person of the right to withdraw Voting Shares in sufficient time to tender to the other Take-over Bid or participate in the other transaction; and

- (iv) the agreement does not provide for any “break-up fees”, “top-up fees”, penalties, expenses reimbursement or other amounts that exceed in the aggregate the greater of:
  - (A) the cash equivalent of 2.5% of the consideration payable under the Take-over Bid to the Locked-up Person; and
  - (B) 50% of the amount by which the consideration payable under another take-over Bid or transaction to a Locked-up Person exceeds the consideration that such Locked-up Person would have received under the Lock-up Bid;

to be paid by a Locked-up Person pursuant to the Lock-up Agreement in the event that the Locked-up Person fails to deposit or tender Voting Shares to the Lock-up Bid or withdraws Voting Shares in order to tender to another Take-over Bid or participate in another transaction;

- (ee) “**Market Price**” per share of any securities on any date of determination shall mean the average of the daily closing prices per share of such securities (determined as described below) on each of the 20 consecutive Trading Days through and including the Trading Day immediately preceding such date; provided, however, that if an event of a type analogous to any of the events described in Section 2.3 hereof shall have caused the closing prices used to determine the Market Price on any Trading Days not to be fully comparable with the closing price on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day, each such closing price so used shall be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 hereof in order to make it fully comparable with the closing price on such date of

determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day. The closing price per share of any securities on any date shall be:

- (i) the closing board lot sale price or, in case no such sale takes place on such date, the average of the closing bid and asked prices for each of such securities as reported by the principal Canadian stock exchange (as determined by volume of trading) on which such securities are listed or admitted to trading;
- (ii) if for any reason none of such prices is available on such day or the securities are not listed or posted for trading on a Canadian stock exchange, the last sale price or, in case no such sale takes place on such date, the average of the closing bid and asked prices for each of such securities as reported by any other principal securities exchange (as determined by volume of trading) on which such securities are listed or admitted to trading;
- (iii) if for any reason none of such prices is available on such day or the securities are not listed or admitted to trading on a Canadian stock exchange or any other securities exchange, the last sale price or, in case no sale takes place on such date, the average of the high bid and low asked prices for each of such securities in the over-the-counter market, as quoted by any recognized reporting system then in use; or
- (iv) if for any reason none of such prices is available on such day or the securities are not listed or admitted to trading on a Canadian stock exchange or any other securities exchange or quoted by any such reporting system, the average of the closing bid and asked prices as furnished by a recognized professional market maker making a market in the securities;

provided, however, that if for any reason none of such prices is available on such day, the closing price per share of such securities on such date means the fair value per share of such securities on such date as determined by a nationally recognized investment dealer or investment banker; provided further that if an event of a type analogous to any of the events described in Section 2.3 hereof shall have caused any price used to determine the Market Price on any Trading Day not to be fully comparable with the price as so determined on the Trading Day immediately preceding such date of determination, each such price so used shall be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 hereof in order to make it fully comparable with the price on the Trading Day immediately preceding such date of determination. The Market Price shall be expressed in Canadian dollars and, if initially determined in respect of any day forming part of the 20 consecutive Trading Day period in question in United States dollars, such amount shall be translated into Canadian dollars on such date at the Canadian Dollar Equivalent thereof;

- (ff) **“1934 Exchange Act”** means the *Securities Exchange Act of 1934* of the United States, as amended, and the rules and regulations thereunder as now in effect or as the same may from time to time be amended, re-enacted or replaced;
- (gg) **“Nominee”** shall have the meaning ascribed thereto in Subsection 2.2(c);
- (hh) **“Offer to Acquire”** shall include:
  - (i) an offer to purchase or a solicitation of an offer to sell Voting Shares; and
  - (ii) an acceptance of an offer to sell Voting Shares, whether or not such offer to sell has been solicited;or any combination thereof, and the Person accepting an offer to sell shall be deemed to be making an Offer to Acquire to the Person that made the offer to sell;
- (ii) **“Offeror”** shall mean a Person who has announced, and has not withdrawn, an intention to make or who has made, and has not withdrawn, a Take-over Bid, other than a Person who has completed a Permitted Bid, a Competing Permitted Bid or an Exempt Acquisition;
- (jj) **“Offeror’s Securities”** means Voting Shares Beneficially Owned by an Offeror on the date of the Offer to Acquire;
- (kk) **“Permitted Bid”** means a Take-over Bid made by an Offeror by way of take-over bid circular which also complies with the following additional provisions:
  - (i) the Take-over Bid is made to all holders of Voting Shares as registered on the books of the Corporation, other than the Offeror;
  - (ii) the Take-over Bid contains, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified provision that no Voting Shares will be taken up or paid for pursuant to the Take-over Bid (A) prior to the close of business on the date which is not less than 60 days following the date of the Take-over Bid and (B) only if at such date more than 50% of the Voting Shares held by Independent Shareholders shall have been deposited or tendered pursuant to the Take-over Bid and not withdrawn;
  - (iii) unless the Take-over Bid is withdrawn, the Take-over Bid contains an irrevocable and unqualified provision that Voting Shares may be deposited pursuant to such Take-over Bid at any time during the period of time described in Clause 1.1(kk)(ii) and that any Voting Shares deposited pursuant to the Take-over Bid may be withdrawn until taken up and paid for; and
  - (iv) the Take-over Bid contains an irrevocable and unqualified provision that in the event that the deposit condition set forth in Clause 1.1(kk)(ii) is satisfied the Offeror will make a public announcement of that fact and the Take-over

Bid will remain open for deposits and tenders of Voting Shares for not less than ten Business Days from the date of such public announcement;

- (ll) **“Permitted Bid Acquisition”** shall mean an acquisition of Voting Shares made pursuant to a Permitted Bid or a Competing Permitted Bid;
- (mm) **“Person”** shall include any individual, firm, partnership, association, trust, trustee, executor, administrator, legal personal representative, body corporate, corporation, unincorporated organization, syndicate, a government and its agencies or instrumentalities and any entity or group whether or not having legal personality;
- (nn) **“Pro Rata Acquisition”** means an acquisition by a Person of Voting Shares pursuant to:
  - (i) a Dividend Reinvestment Acquisition;
  - (ii) a stock dividend, stock split or other event in respect of securities of the Corporation of one or more particular classes or series pursuant to which such Person becomes the Beneficial Owner of Voting Shares on the same pro rata basis as all other holders of securities of the particular class, classes or series;
  - (iii) the acquisition or the exercise by the Person of only those rights to purchase Voting Shares distributed to that Person in the course of a distribution to all holders of securities of the Corporation of one or more particular classes or series pursuant to a rights offering or pursuant to a prospectus, provided that the Person does not thereby acquire a greater percentage of such Voting Shares or securities convertible into or exchangeable for Voting Shares so offered than the Person’s percentage of Voting Shares Beneficially Owned immediately prior to such acquisition; or
  - (iv) a distribution of Voting Shares, or securities convertible into or exchangeable for Voting Shares (and the conversion or exchange of such convertible or exchangeable securities), made pursuant to a prospectus or by way of a private placement or securities exchange take-over bid, provided that the Person does not thereby acquire a greater percentage of such Voting Shares, or securities convertible into or exchangeable for Voting Shares, so offered than the Person’s percentage of Voting Shares Beneficially Owned immediately prior to such acquisition;
- (oo) **“Record Time”** has the meaning set forth in the second whereas clause;
- (pp) **“Right”** means a right to purchase a Common Share of the Corporation upon the terms and subject to the conditions set forth in this Agreement;
- (qq) **“Rights Certificate”** means the certificates representing the Rights after the Separation Time, which shall be substantially in the form attached hereto as Attachment 1;

- (rr) **“Rights Holders’ Special Meeting”** means a meeting of the holders of Rights called by the Board of Directors for the purpose of approving a supplement or amendment to this Agreement pursuant to Subsection 5.4(c);
- (ss) **“Rights Register”** shall have the meaning ascribed thereto in Subsection 2.6(a);
- (tt) **“Securities Act”** shall mean the *Securities Act* (Alberta), as amended, and the regulations thereunder, and any comparable or successor laws or regulations thereto;
- (uu) **“Separation Time”** shall mean the close of business on the eighth Trading Day after the earlier of:
  - (i) the Stock Acquisition Date;
  - (ii) the date of the commencement of or first public announcement of the intent of any Person (other than the Corporation or any Subsidiary of the Corporation) to commence a Take-over Bid (other than a Permitted Bid or a Competing Permitted Bid), or such later time as may be determined by the Board of Directors, provided that, if any Take-over Bid referred to in this Clause (ii) expires, is cancelled, terminated or otherwise withdrawn prior to the Separation Time, such Take-over Bid shall be deemed, for the purposes of this definition, never to have been made;
  - (iii) the date on which a Permitted Bid or Competing Permitted Bid ceases to be such;
- (vv) **“Special Meeting”** means a special meeting of the holders of Voting Shares, called by the Board of Directors for the purpose of approving a supplement or amendment to this Agreement pursuant to Subsection 5.4(b);
- (ww) **“Stock Acquisition Date”** shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Part V of Multilateral Instrument 62-104 - *Take-Over Bids and Issuer Bids* of the Canadian Securities Administrators or Section 13(d) of the *1934 Exchange Act*) by the Corporation or an Acquiring Person that an Acquiring Person has become such;
- (xx) **“Subsidiary”** a corporation is a Subsidiary of another corporation if:
  - (i) it is controlled by:
    - (A) that other; or
    - (B) that other and one or more corporations each of which is controlled by that other; or
    - (C) two or more corporations each of which is controlled by that other; or

- (ii) it is a Subsidiary of a corporation that is that other's Subsidiary;
- (yy) **"Take-over Bid"** shall mean an Offer to Acquire Voting Shares, or securities convertible into Voting Shares if, assuming that the Voting Shares or convertible securities subject to the Offer to Acquire are acquired and are Beneficially Owned at the date of such Offer to Acquire by the Person making such Offer to Acquire, such Voting Shares (including Voting Shares that may be acquired upon conversion of securities convertible into Voting Shares) together with the Offeror's Securities, constitute in the aggregate 20% or more of the outstanding Voting Shares at the date of the Offer to Acquire;
- (zz) **"Trading Day"**, when used with respect to any securities, shall mean a day on which the principal Canadian stock exchange on which such securities are listed or admitted to trading is open for the transaction of business or, if the securities are not listed or admitted to trading on any Canadian stock exchange, a Business Day;
- (aaa) **"U.S. - Canadian Exchange Rate"** means, on any date:
  - (i) if on such date the Bank of Canada sets an average noon spot rate of exchange for the conversion of one U.S. dollar into Canadian dollars, such rate; and
  - (ii) in any other case, the rate for such date for the conversion of one U.S. dollar into Canadian dollars calculated in such manner as may be determined by the Board of Directors from time to time acting in good faith;
- (bbb) **"Voting Share Reduction"** means an acquisition or redemption by the Corporation of Voting Shares which, by reducing the number of Voting Shares outstanding, increases the proportionate number of Voting Shares Beneficially Owned by any person to 20% or more of the Voting Shares then outstanding; and
- (ccc) **"Voting Shares"** shall mean the Common Shares of the Corporation and any other shares in the capital of the Corporation entitled to vote generally in the election of all directors.

## 1.2 **Currency**

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada, unless otherwise specified.

## 1.3 **Headings**

The division of this Agreement into Articles, Sections, Subsections, Clauses, Paragraphs, Subparagraphs or other portions hereof and the insertion of headings, subheadings and a table of contents are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

**1.4            Calculation of Number and Percentage of Beneficial Ownership of Outstanding Voting Shares**

For purposes of this Agreement, the percentage of Voting Shares Beneficially Owned by any Person, shall be and be deemed to be the product (expressed as a percentage) determined by the formula:

$$\frac{100 \times A}{B}$$

where:

A        =        the number of votes for the election of all directors generally attaching to the Voting Shares Beneficially Owned by such Person; and

B        =        the number of votes for the election of all directors generally attaching to all outstanding Voting Shares.

Where any Person is deemed to Beneficially Own unissued Voting Shares, such Voting Shares shall be deemed to be outstanding for the purpose of calculating the percentage of Voting Shares Beneficially Owned by such Person.

**1.5            Acting Jointly or in Concert**

For the purposes hereof, a Person is acting jointly or in concert with every Person who, as a result of any agreement, commitment or understanding, whether formal or informal, with the first Person or any Affiliate thereof, acquires or offers to acquire Voting Shares (other than customary agreements with and between underwriters and/or banking group members and/or selling group members with respect to a public offering or private placement of securities or pledges of securities in the ordinary course of business).

**1.6            Generally Accepted Accounting Principles**

Wherever in this Agreement reference is made to generally accepted accounting principles, such reference shall be deemed to be the recommendations at the relevant time of the Canadian Institute of Chartered Accountants, or any successor institute, applicable on a consolidated basis (unless otherwise specifically provided herein to be applicable on an unconsolidated basis) as at the date on which a calculation is made or required to be made in accordance with generally accepted accounting principles. Where the character or amount of any asset or liability or item of revenue or expense is required to be determined, or any consolidation or other accounting computation is required to be made for the purpose of this Agreement or any document, such determination or calculation shall, to the extent applicable and except as otherwise specified herein or as otherwise agreed in writing by the parties, be made in accordance with generally accepted accounting principles applied on a consistent basis.

## ARTICLE 2 - THE RIGHTS

### 2.1 Legend on Common Share Certificates

- (a) One Right shall be issued on the Effective Date in respect of each Common Share of the Corporation outstanding at the Record Time and one Right shall be issued in respect of each Common Share of the Corporation issued after the Record Time and prior to the earlier of the Separation Time and the Expiration Time.
- (b) Certificates representing Common Shares which are issued after the Record Time but prior to the earlier of the Separation Time and the Expiration Time, shall also evidence one Right for each Common Share represented thereby and shall have impressed on, printed on, written on or otherwise affixed to them the legend in a form substantially to the following effect:

“Until the Separation Time (defined in the Shareholder Rights Agreement referred to below), this certificate also evidences rights of the holder described in a Shareholder Rights Plan Agreement dated effective as of September 23, 2011 (the “**Shareholder Rights Agreement**”) between Porto Energy Corp. (the “**Corporation**”) and Olympia Trust Company, the terms of which are incorporated herein by reference and a copy of which is on file at the principal executive offices of the Corporation. Under certain circumstances set out in the Shareholder Rights Agreement, the rights may expire, may become null and void or may be evidenced by separate certificates and no longer evidenced by this certificate. The Corporation will mail or arrange for the mailing of a copy of the Shareholder Rights Agreement to the holder of this certificate without charge as soon as practicable after the receipt of a written request therefor.”

Certificates representing Common Shares that are issued and outstanding at the Record Time shall also evidence one Right for each Common Share represented thereby, notwithstanding the absence of the foregoing legend, until the close of business on the earlier of the Separation Time and the Expiration Time.

### 2.2 Initial Exercise Price; Exercise of Rights; Detachment of Rights

- (a) Subject to adjustment as herein set forth, each Right will entitle the holder thereof, from and after the Separation Time and prior to the Expiration Time, to purchase one Common Share for the Exercise Price (and the Exercise Price and number of Common Shares are subject to adjustment as set forth below). Notwithstanding any other provision of this Agreement, any Rights held by the Corporation or any of its Subsidiaries shall be void.
- (b) Until the Separation Time,
  - (i) the Rights shall not be exercisable and no Right may be exercised; and
  - (ii) each Right will be evidenced by the certificate for the associated Common Share of the Corporation registered in the name of the holder thereof (which

certificate shall also be deemed to represent a Rights Certificate) and will be transferable only together with, and will be transferred by a transfer of, such associated Common Share of the Corporation.

- (c) From and after the Separation Time and prior to the Expiration Time:
  - (i) the Rights shall be exercisable; and
  - (ii) the registration and transfer of Rights shall be separate from and independent of Common Shares of the Corporation.

Promptly following the Separation Time, the Corporation will prepare and the Rights Agent will mail to each holder of record of Common Shares as of the Separation Time (other than an Acquiring Person and, in respect of any Rights Beneficially Owned by such Acquiring Person which are not held of record by such Acquiring Person, the holder of record of such Rights (a “**Nominee**”)) and to each holder of record of Convertible Securities as of the Separation Time (other than an Acquiring Person or the Nominee of an Acquiring Person) at such holder’s address as shown by the records of the Corporation (the Corporation hereby agreeing to furnish copies of such records to the Rights Agent for this purpose):

- (x) a Rights Certificate appropriately completed, representing the number of Rights held by such holder at the Separation Time and having such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Corporation may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law, rule or regulation or with any rule or regulation of any self-regulatory organization, stock exchange or quotation system on which the Rights may from time to time be listed or traded, or to conform to usage; and
- (y) a disclosure statement describing the Rights,

provided that a Nominee shall be sent the materials provided for in (x) and (y) in respect of all Common Shares and Convertible Securities of the Corporation held of record by it which are not Beneficially Owned by an Acquiring Person.

- (d) Rights may be exercised, in whole or in part, on any Business Day after the Separation Time and prior to the Expiration Time by submitting to the Rights Agent:
  - (i) the Rights Certificate evidencing such Rights;
  - (ii) an election to exercise such Rights (an “**Election to Exercise**”) substantially in the form attached to the Rights Certificate appropriately completed and executed by the holder or his executors or administrators or other personal representatives or his or their legal attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Rights Agent; and

- (iii) payment by certified cheque, banker's draft or money order payable to the order of the Corporation, of a sum equal to the Exercise Price multiplied by the number of Rights being exercised and a sum sufficient to cover any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Common Shares in a name other than that of the holder of the Rights being exercised.
- (e) Upon receipt of a Rights Certificate, together with a completed Election to Exercise executed in accordance with Clause 2.2(d)(ii), which does not indicate that such Right is null and void as provided by Subsection 3.1(b), and payment as set forth in Clause 2.2(d)(iii), the Rights Agent (unless otherwise instructed by the Corporation in the event that the Corporation is of the opinion that the Rights cannot be exercised in accordance with this Agreement) will thereupon promptly:
  - (i) requisition from the transfer agent certificates representing the number of such Common Shares to be purchased (the Corporation hereby irrevocably authorizing its transfer agent to comply with all such requisitions);
  - (ii) when appropriate, requisition from the Corporation the amount of cash to be paid in lieu of issuing fractional Common Shares;
  - (iii) after receipt of the certificates referred to in Clause 2.2(e)(i), deliver the same to or upon the order of the registered holder of such Rights Certificates, registered in such name or names as may be designated by such holder;
  - (iv) when appropriate, after receipt, deliver the cash referred to in Clause 2.2(e)(ii) to or to the order of the registered holder of such Rights Certificate; and
  - (v) remit to the Corporation all payments received on exercise of the Rights.
- (f) In case the holder of any Rights shall exercise less than all the Rights evidenced by such holder's Rights Certificate, a new Rights Certificate evidencing the Rights remaining unexercised (subject to the provisions of Subsection 5.5(a)) will be issued by the Rights Agent to such holder or to such holder's duly authorized assigns.
- (g) The Corporation covenants and agrees that it will:
  - (i) take all such action as may be necessary and within its power to ensure that all Common Shares delivered upon exercise of Rights shall, at the time of delivery of the certificates for such Common Shares (subject to payment of the Exercise Price), be duly and validly authorized, executed, issued and delivered as fully paid and non-assessable;
  - (ii) take all such action as may be necessary and within its power to comply with the requirements of the *Business Corporations Act*, the *Securities Act* and the securities laws or comparable legislation of each of the provinces of Canada

and any other applicable law, rule or regulation, in connection with the issuance and delivery of the Rights Certificates and the issuance of any Common Shares upon exercise of Rights;

- (iii) use reasonable efforts to cause all Common Shares issued upon exercise of Rights to be listed on the stock exchanges on which such Common Shares were traded immediately prior to the Stock Acquisition Date;
- (iv) cause to be reserved and kept available out of the authorized and unissued Common Shares, the number of Common Shares that, as provided in this Agreement, will from time to time be sufficient to permit the exercise in full of all outstanding Rights;
- (v) pay when due and payable, if applicable, any and all federal, provincial and municipal transfer taxes and charges (not including any income or capital taxes of the holder or exercising holder or any liability of the Corporation to withhold tax) which may be payable in respect of the original issuance or delivery of the Rights Certificates, or certificates for Common Shares to be issued upon exercise of any Rights, provided that the Corporation shall not be required to pay any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Common Shares in a name other than that of the holder of the Rights being transferred or exercised; and
- (vi) after the Separation Time, except as permitted by Section 5.1, not take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

### **2.3 Adjustments to Exercise Price; Number of Rights**

The Exercise Price, the number and kind of securities subject to purchase upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 2.3.

- (a) In the event the Corporation shall at any time after the date of this Agreement:
  - (i) declare or pay a dividend on Common Shares payable in Common Shares (or other securities exchangeable for or convertible into or giving a right to acquire Common Shares or other securities of the Corporation) other than pursuant to any optional stock dividend program;
  - (ii) subdivide or change the then outstanding Common Shares into a greater number of Common Shares;
  - (iii) consolidate or change the then outstanding Common Shares into a smaller number of Common Shares; or

- (iv) issue any Common Shares (or other securities exchangeable for or convertible into or giving a right to acquire Common Shares or other securities of the Corporation) in respect of, in lieu of or in exchange for existing Common Shares except as otherwise provided in this Section 2.3,

the Exercise Price and the number of Rights outstanding, or, if the payment or effective date therefor shall occur after the Separation Time, the securities purchasable upon exercise of Rights shall be adjusted as of the payment or effective date in the manner set forth below.

If the Exercise Price and number of Rights outstanding are to be adjusted:

- (x) the Exercise Price in effect after such adjustment will be equal to the Exercise Price in effect immediately prior to such adjustment divided by the number of Common Shares (or other capital stock) (the “**Expansion Factor**”) that a holder of one Common Share immediately prior to such dividend, subdivision, change, consolidation or issuance would hold thereafter as a result thereof; and
- (y) each Right held prior to such adjustment will become that number of Rights equal to the Expansion Factor,

and the adjusted number of Rights will be deemed to be distributed among the Common Shares with respect to which the original Rights were associated (if they remain outstanding) and the shares issued in respect of such dividend, subdivision, change, consolidation or issuance, so that each such Common Share (or other capital stock) will have exactly one Right associated with it.

For greater certainty, if the securities purchasable upon exercise of Rights are to be adjusted, the securities purchasable upon exercise of each Right after such adjustment will be the securities that a holder of the securities purchasable upon exercise of one Right immediately prior to such dividend, subdivision, change, consolidation or issuance would hold thereafter as a result of such dividend, subdivision, change, consolidation or issuance.

If, after the Record Time and prior to the Expiration Time, the Corporation shall issue any shares of capital stock other than Common Shares in a transaction of a type described in Clause 2.3(a)(i) or (iv), shares of such capital stock shall be treated herein as nearly equivalent to Common Shares as may be practicable and appropriate under the circumstances and the Corporation and the Rights Agent agree to amend this Agreement in order to effect such treatment.

In the event the Corporation shall at any time after the Record Time and prior to the Separation Time issue any Common Shares otherwise than in a transaction referred to in this Subsection 2.3(a), each such Common Share so issued shall automatically have one new Right associated with it, which Right shall be evidenced by the certificate representing such associated Common Share.

- (b) In the event the Corporation shall at any time after the Record Time and prior to the Separation Time fix a record date for the issuance of rights, options or warrants to all holders of Common Shares entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Common Shares (or securities convertible into or exchangeable for or carrying a right to purchase Common Shares) at a price per Common Share (or, if a security convertible into or exchangeable for or carrying a right to purchase or subscribe for Common Shares, having a conversion, exchange or exercise price, including the price required to be paid to purchase such convertible or exchangeable security or right per share) less than the Market Price per Common Share on such record date, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction:
- (i) the numerator of which shall be the number of Common Shares outstanding on such record date, plus the number of Common Shares that the aggregate offering price of the total number of Common Shares so to be offered (and/or the aggregate initial conversion, exchange or exercise price of the convertible or exchangeable securities or rights so to be offered, including the price required to be paid to purchase such convertible or exchangeable securities or rights) would purchase at such Market Price per Common Share; and
  - (ii) the denominator of which shall be the number of Common Shares outstanding on such record date, plus the number of additional Common Shares to be offered for subscription or purchase (or into which the convertible or exchangeable securities or rights so to be offered are initially convertible, exchangeable or exercisable).

In case such subscription price may be paid by delivery of consideration, part or all of which may be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of Rights. Such adjustment shall be made successively whenever such a record date is fixed, and in the event that such rights, options or warrants are not so issued, or if issued, are not exercised prior to the expiration thereof, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect if such record date had not been fixed, or to the Exercise Price which would be in effect based upon the number of Common Shares (or securities convertible into, or exchangeable or exercisable for Common Shares) actually issued upon the exercise of such rights, options or warrants, as the case may be.

For purposes of this Agreement, the granting of the right to purchase Common Shares (whether from treasury or otherwise) pursuant to the Dividend Reinvestment Plan or any employee benefit, stock option or similar plans shall be deemed not to constitute an issue of rights, options or warrants by the Corporation; provided, however, that, in all such cases, the right to purchase Common Shares is at a price per share of not less than 95 per cent of the current market price per share (determined as provided in such plans) of the Common Shares.

- (c) In the event the Corporation shall at any time after the Record Time and prior to the Separation Time fix a record date for the making of a distribution to all holders of Common Shares (including any such distribution made in connection with a merger or amalgamation) or evidences of indebtedness, cash (other than an annual cash dividend or a dividend referred to in Section 2.3(a)(i), but including any dividend payable in other securities of the Corporation), assets or rights, options or warrants (excluding those referred to in Subsection 2.3(b)), the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction:
- (i) the numerator of which shall be the Market Price per Common Share on such record date, less the fair market value (as determined in good faith by the Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of Rights), on a per share basis, of the portion of the cash, assets, evidences of indebtedness, rights, options or warrants so to be distributed; and
  - (ii) the denominator of which shall be such Market Price per Common Share.

Such adjustments shall be made successively whenever such a record date is fixed, and in the event that such a distribution is not so made, the Exercise Price shall be adjusted to be the Exercise Price which would have been in effect if such record date had not been fixed.

- (d) Notwithstanding anything herein to the contrary, no adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least one per cent in the Exercise Price; provided, however, that any adjustments which by reason of this Subsection 2.3(d) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under Section 2.3 shall be made to the nearest cent or to the nearest ten-thousandth of a share. Notwithstanding the first sentence of this Subsection 2.3(d), any adjustment required by Section 2.3 shall be made no later than the earlier of:
- (i) three years from the date of the transaction which gives rise to such adjustment; or
  - (ii) the Expiration Date.
- (e) In the event the Corporation shall at any time after the Record Time and prior to the Separation Time issue any shares of capital stock (other than Common Shares), or rights, options or warrants to subscribe for or purchase any such capital stock, or securities convertible into or exchangeable for any such capital stock, in a transaction referred to in Clause 2.3(a)(i) or (iv), if the Board of Directors acting in good faith determines that the adjustments contemplated by Subsections 2.3(a), (b) and (c) in connection with such transaction will not appropriately protect the interests of the holders of Rights, the Board of Directors may determine what other adjustments to

the Exercise Price, number of Rights and/or securities purchasable upon exercise of Rights would be appropriate and, notwithstanding Subsections 2.3(a), (b) and (c) above, such adjustments, rather than the adjustments contemplated by Subsections 2.3(a), (b) and (c) above, shall be made. Subject to the prior consent of the holders of the Voting Shares or the Rights obtained as set forth in Subsection 5.4(b) or (c), the Corporation and the Rights Agent shall have authority to amend this Agreement as appropriate to provide for such adjustments.

- (f) Each Right originally issued by the Corporation subsequent to any adjustment made to the Exercise Price hereunder shall evidence the right to purchase, at the adjusted Exercise Price, the number of Common Shares purchasable from time to time hereunder upon exercise of a Right immediately prior to such issue, all subject to further adjustment as provided herein.
- (g) Irrespective of any adjustment or change in the Exercise Price or the number of Common Shares issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Exercise Price per Common Share and the number of Common Shares which were expressed in the initial Rights Certificates issued hereunder.
- (h) In any case in which this Section 2.3 shall require that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Corporation may elect to defer until the occurrence of such event the issuance to the holder of any Right exercised after such record date the number of Common Shares and other securities of the Corporation, if any, issuable upon such exercise over and above the number of Common Shares and other securities of the Corporation, if any, issuable upon such exercise on the basis of the Exercise Price in effect prior to such adjustment; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) or other securities upon the occurrence of the event requiring such adjustment.
- (i) Notwithstanding anything contained in this Section 2.3 to the contrary, the Corporation shall be entitled to make such reductions in the Exercise Price, in addition to those adjustments expressly required by this Section 2.3, as and to the extent that in their good faith judgment the Board of Directors shall determine to be advisable, in order that any:
  - (i) consolidation or subdivision of Common Shares;
  - (ii) issuance (wholly or in part for cash) of Common Shares or securities that by their terms are convertible into or exchangeable for Common Shares;
  - (iii) stock dividends; or
  - (iv) issuance of rights, options or warrants referred to in this Section 2.3,

hereafter made by the Corporation to holders of its Common Shares, shall not be taxable to such shareholders.

- (j) Whenever an adjustment to the Exercise Price or a change in the securities purchaseable upon exercise of the Rights is made pursuant to this Section 2.3, the Corporation shall promptly and in any event, where such change or adjustment occurs prior to the Separation Time, not later than the Separation Time:
  - (i) file with the Rights Agent and with each transfer agent for the Common Shares a certificate specifying the particulars of such adjustment or change; and
  - (ii) cause notice of the particulars of such adjustment or change to be given to the holders of the Rights.

Failure to file such certificate or to cause such notice to be given as aforesaid, or any defect therein, shall not affect the validity of such adjustment or change.

#### **2.4 Date on Which Exercise Is Effective**

Each Person in whose name any certificate for Common Shares or other securities, if applicable, is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Common Shares or other securities, if applicable, represented thereon, and such certificate shall be dated the date upon which the Rights Certificate evidencing such Rights was duly surrendered in accordance with Subsection 2.2(d) (together with a duly completed Election to Exercise) and payment of the Exercise Price for such Rights (and any applicable transfer taxes and other governmental charges payable by the exercising holder hereunder) was made; provided, however, that if the date of such surrender and payment is a date upon which the Common Share transfer books of the Corporation are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the Common Share transfer books of the Corporation are open.

#### **2.5 Execution, Authentication, Delivery and Dating of Rights Certificates**

- (a) The Rights Certificates shall be executed on behalf of the Corporation by any one of its President, Chief Financial Officer or any Vice-President together with its Corporate Secretary or any Assistant Secretary under the corporate seal of the Corporation reproduced thereon. The signature of any of these officers on the Rights Certificates may be manual or facsimile. Rights Certificates bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Corporation shall bind the Corporation, notwithstanding that such individuals or any of them have ceased to hold such offices either before or after the countersignature and delivery of such Rights Certificates.
- (b) Promptly after the Corporation learns of the Separation Time, the Corporation will notify the Rights Agent of such Separation Time and will deliver Rights Certificates executed by the Corporation to the Rights Agent for countersignature, and the Rights Agent shall manually countersign (in a manner satisfactory to the Corporation) and

send such Rights Certificates to the holders of the Rights pursuant to Subsection 2.2(c) hereof. No Rights Certificate shall be valid for any purpose until countersigned by the Rights Agent as aforesaid.

- (c) Each Rights Certificate shall be dated the date of countersignature thereof.

## **2.6 Registration, Transfer and Exchange**

- (a) The Corporation will cause to be kept a register (the “**Rights Register**”) in which, subject to such reasonable regulations as it may prescribe, the Corporation will provide for the registration and transfer of Rights. The Rights Agent is hereby appointed registrar for the Rights (the “**Rights Registrar**”) for the purpose of maintaining the Rights Register for the Corporation and registering Rights and transfers of Rights as herein provided and the Rights Agent hereby accepts such appointment. In the event that the Rights Agent shall cease to be the Rights Registrar, the Rights Agent will have the right to examine the Rights Register at all reasonable times.

After the Separation Time and prior to the Expiration Time, upon surrender for registration of transfer or exchange of any Rights Certificate, and subject to the provisions of Subsection 2.6(c), the Corporation will execute, and the Rights Agent will manually countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder’s instructions, one or more new Rights Certificates evidencing the same aggregate number of Rights as did the Rights Certificates so surrendered.

- (b) All Rights issued upon any registration of transfer or exchange of Rights Certificates shall be the valid obligations of the Corporation, and such Rights shall be entitled to the same benefits under this Agreement as the Rights surrendered upon such registration of transfer or exchange.
- (c) Every Rights Certificate surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Corporation or the Rights Agent, as the case may be, duly executed by the holder thereof or such holder’s attorney duly authorized in writing. As a condition to the issuance of any new Rights Certificate under this Section 2.6, the Corporation or the Rights Agent may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Rights Agent) connected therewith.

## **2.7 Mutilated, Destroyed, Lost and Stolen Rights Certificates**

- (a) If any mutilated Rights Certificate is surrendered to the Rights Agent prior to the Expiration Time, the Corporation shall execute and the Rights Agent shall countersign and deliver in exchange therefor a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so surrendered.

- (b) If there shall be delivered to the Corporation and the Rights Agent prior to the Expiration Time:
- (i) evidence to their reasonable satisfaction of the destruction, loss or theft of any Rights Certificate; and
  - (ii) such security or indemnity as may be reasonably required by them to save each of them and any of their agents harmless;

then, in the absence of notice to the Corporation or the Rights Agent that such Rights Certificate has been acquired by a *bona fide* purchaser, the Corporation shall execute and upon the Corporation's request the Rights Agent shall countersign and deliver, in lieu of any such destroyed, lost or stolen Rights Certificate, a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so destroyed, lost or stolen.

- (c) As a condition to the issuance of any new Rights Certificate under this Section 2.7, the Corporation or the Rights Agent may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Rights Agent) connected therewith.
- (d) Every new Rights Certificate issued pursuant to this Section 2.7 in lieu of any destroyed, lost or stolen Rights Certificate shall evidence the contractual obligation of the Corporation, whether or not the destroyed, lost or stolen Rights Certificate shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Agreement equally and proportionately with any and all other Rights duly issued hereunder.

## **2.8 Persons Deemed Owners of Rights**

The Corporation, the Rights Agent and any agent of the Corporation or the Rights Agent may deem and treat the Person in whose name a Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby for all purposes whatsoever. As used in this Agreement, unless the context otherwise requires, the term "holder" of any Right shall mean the registered holder of such Right (or, prior to the Separation Time, of the associated Common Share).

## **2.9 Delivery and Cancellation of Certificates**

All Rights Certificates surrendered upon exercise or for redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Rights Agent, be delivered to the Rights Agent and, in any case, shall be promptly cancelled by the Rights Agent. The Corporation may at any time deliver to the Rights Agent for cancellation any Rights Certificates previously countersigned and delivered hereunder which the Corporation may have acquired in any manner whatsoever, and all Rights Certificates so delivered shall be promptly cancelled by the Rights Agent. No Rights Certificate shall be countersigned in lieu of or in exchange for any Rights Certificates cancelled as provided in this Section 2.9, except as expressly permitted by this Agreement. The

Rights Agent shall, subject to applicable laws, and its ordinary business practices, destroy all cancelled Rights Certificates and deliver a certificate of destruction to the Corporation.

**2.10 Agreement of Rights Holders**

Every holder of Rights, by accepting the same, consents and agrees with the Corporation and the Rights Agent and with every other holder of Rights and Convertible Security Rights:

- (a) to be bound by and subject to the provisions of this Agreement, as amended from time to time in accordance with the terms hereof, in respect of all Rights held;
- (b) that prior to the Separation Time, each Right will be transferable only together with, and will be transferred by a transfer of, the associated Common Share certificate representing such Right;
- (c) that after the Separation Time, the Rights Certificates will be transferable only on the Rights Register as provided herein;
- (d) that prior to due presentment of a Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) for registration of transfer, the Corporation, the Rights Agent and any agent of the Corporation or the Rights Agent may deem and treat the Person in whose name the Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on such Rights Certificate or the associated Common Share certificate made by anyone other than the Corporation or the Rights Agent) for all purposes whatsoever, and neither the Corporation nor the Rights Agent shall be affected by any notice to the contrary;
- (e) that such holder of Rights has waived his right to receive any fractional Rights or any fractional shares or other securities upon exercise of a Right (except as provided herein);
- (f) that, subject to the provisions of Section 5.4, without the approval of any holder of Rights or Voting Shares and upon the sole authority of the Board of Directors, acting in good faith, this Agreement may be supplemented or amended from time to time including, without limitation, to cure any ambiguity or to correct or supplement any provision contained herein which may be inconsistent with the intent of this Agreement or is otherwise defective, as provided herein;
- (g) that notwithstanding anything in this Agreement to the contrary, neither the Corporation nor the Rights Agent shall have any liability to any holder of a Right or any other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental regulatory or administrative agency or commission, or any statute, rule, regulation or

executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation; and

- (h) the Rights Agent shall have no obligation to ensure or verify compliance with any applicable laws or regulatory requirements on the issue, exercise or transfer of any Rights or Common Shares issuable upon the exercise thereof. The Rights Agent shall be entitled to process all transfers and exercises of Rights upon the presumption that such transfers or exercises are permissible pursuant to all applicable laws and regulatory requirements. The Rights Agent shall have no obligation to ensure that the legends appearing on the Rights Certificates or Common Shares comply with regulatory requirements or securities laws of applicable jurisdiction.

## **2.11 Rights Certificate Holder Not Deemed a Shareholder**

No holder, as such, of any Rights or Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose whatsoever the holder of any Common Share or any other share or security of the Corporation which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed or deemed or confer upon the holder of any Right or Rights Certificate, as such, any right, title, benefit or privilege of a holder of Common Shares or any other shares or securities of the Corporation or any right to vote at any meeting of shareholders of the Corporation whether for the election of directors or otherwise or upon any matter submitted to holders of Common Shares or any other shares of the Corporation at any meeting thereof, or to give or withhold consent to any action of the Corporation, or to receive notice of any meeting or other action affecting any holder of Common Shares or any other shares of the Corporation except as expressly provided herein, or to receive dividends, distributions or subscription rights, or otherwise, until the Right or Rights evidenced by Rights Certificates shall have been duly exercised in accordance with the terms and provisions hereof.

## **ARTICLE 3 - ADJUSTMENTS TO THE RIGHTS**

### **3.1 Flip-in Event**

- (a) Subject to Subsection 3.1(b) and Section 5.1, in the event that prior to the Expiration Time a Flip-in Event shall occur, each Right shall constitute, effective at the close of business on the eighth Trading Day after the Stock Acquisition Date, the right to purchase from the Corporation, upon exercise thereof in accordance with the terms hereof, that number of Common Shares having an aggregate Market Price on the date of consummation or occurrence of such Flip-in Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (such right to be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 in the event that after such consummation or occurrence, an event of a type analogous to any of the events described in Section 2.3 shall have occurred).
- (b) Notwithstanding anything in this Agreement to the contrary, upon the occurrence of any Flip-in Event, any Rights that are or were Beneficially Owned on or after the earlier of the Separation Time or the Stock Acquisition Date by:

- (i) an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person); or
- (ii) a transferee of Rights, directly or indirectly, from an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person), where such transferee becomes a transferee concurrently with or subsequent to the Acquiring Person becoming such in a transfer that the Board of Directors has determined is part of a plan, arrangement or scheme of an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person), that has the purpose or effect of avoiding Clause 3.1(b)(i),

shall become null and void without any further action, and any holder of such Rights (including transferees) shall thereafter have no right to exercise such Rights under any provision of this Agreement and further shall thereafter not have any other rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise.

- (c) From and after the Separation Time, the Corporation shall do all such acts and things as shall be necessary and within its power to ensure compliance with the provisions of this Section 3.1, including without limitation, all such acts and things as may be required to satisfy the requirements of the *Business Corporations Act*, the *Securities Act* and the securities laws or comparable legislation of each of the provinces of Canada and of the United States and each of the states thereof and any other applicable law, rule or regulation in respect of the issue of Common Shares upon the exercise of Rights in accordance with this Agreement.
- (d) Any Rights Certificate that represents Rights Beneficially Owned by a Person described in either Clause 3.1(b)(i) or (ii) or transferred to any nominee of any such Person, and any Rights Certificate issued upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain the following legend:

The Rights represented by this Rights Certificate were issued to a Person who was an Acquiring Person or an Affiliate or an Associate of an Acquiring Person (as such terms are defined in the Shareholder Rights Plan Agreement) or a Person who was acting jointly or in concert with an Acquiring Person or an Affiliate or Associate of an Acquiring Person. This Rights Certificate and the Rights represented hereby are void or shall become void in the circumstances specified in Subsection 3.1(b) of the Shareholder Rights Plan Agreement.

provided, however, that the Rights Agent shall not be under any responsibility to ascertain the existence of facts that would require the imposition of such legend but

shall impose such legend only if instructed to do so by the Corporation in writing or if a holder fails to certify upon transfer or exchange in the space provided on the Rights Certificate that such holder is not a Person described in such legend.

#### **ARTICLE 4 - THE RIGHTS AGENT**

##### **4.1 General**

- (a) The Corporation hereby appoints the Rights Agent to act as agent for the Corporation and the holders of the Rights and the Convertible Security Rights in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Corporation may from time to time appoint such co-Rights Agents (“**Co-Rights Agents**”) as it may deem necessary or desirable, subject to the approval of the Rights Agent. In the event the Corporation appoints one or more Co-Rights Agents, the respective duties of the Rights Agent and Co-Rights Agents shall be as the Corporation may determine, with the approval of the Rights Agent and the Co-Rights Agent. The Corporation agrees to pay all reasonable fees and expenses of the Rights Agent in respect of the performance of its duties under this Agreement. The Corporation also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without gross negligence, wilful misconduct or fraud on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability, which right to indemnification will survive the termination of this Agreement or the resignation or removal of the Rights Agent.
- (b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any certificate for Common Shares, Convertible Securities, Rights Certificate, certificate for other securities of the Corporation, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.
- (c) The Corporation shall inform the Rights Agent in a reasonably timely manner of events which may materially affect the administration of this Agreement by the Rights Agent and, at any time upon request, shall provide to the Rights Agent an incumbency certificate certifying the then current officers of the Corporation; provided that failure to inform the Rights Agent of any such events, or any defect therein shall not affect the validity of any action taken hereunder in relation to such events.

##### **4.2 Merger, Amalgamation or Consolidation or Change of Name of Rights Agent**

- (a) Any corporation into which the Rights Agent may be merged or amalgamated or with which it may be consolidated, or any corporation resulting from any merger,

amalgamation, statutory arrangement or consolidation to which the Rights Agent is a party, or any corporation succeeding to the shareholder or stockholder services business of the Rights Agent, will be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 4.4 hereof. In case at the time such successor Rights Agent succeeds to the agency created by this Agreement any of the Rights Certificates have been countersigned but not delivered, any successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights have not been countersigned, any successor Rights Agent may countersign such Rights Certificates in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates will have the full force provided in the Rights Certificates and in this Agreement.

- (b) In case at any time the name of the Rights Agent is changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

#### **4.3 Duties of Rights Agent**

The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, all of which the Corporation and the holders of certificates for Common Shares and Convertible Securities and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

- (a) the Rights Agent, at the expense of the Corporation, may consult with and retain legal counsel (who may be legal counsel for the Corporation) and such other experts as it shall reasonably consider necessary to perform its duties hereunder, and the opinion of such counsel or other expert will be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion;
- (b) whenever in the performance of its duties under this Agreement, the Rights Agent deems it necessary or desirable that any fact or matter be proved or established by the Corporation prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by a Person believed by the Rights Agent to be the President, Chief Financial Officer, any Vice-President, Corporate Secretary or Assistant Secretary of the Corporation and delivered to the Rights Agent; and such certificate will be full authorization to the

Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate;

- (c) the Rights Agent will be liable hereunder for its own gross negligence, wilful misconduct or fraud;
- (d) the Rights Agent will not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the certificates for Common Shares or Convertible Securities or the Rights Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and will be deemed to have been made by the Corporation only;
- (e) the Rights Agent will not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due authorization, execution and delivery hereof by the Rights Agent) or in respect of the validity or execution of any certificate for a Common Share or Convertible Security or Rights Certificate (except its countersignature thereof); nor will it be responsible for any breach by the Corporation of any covenant or condition contained in this Agreement or in any Rights Certificate; nor will it be responsible for any change in the exercisability of the Rights (including the Rights becoming void pursuant to Subsection 3.1(b) hereof) or any adjustment required under the provisions of Section 2.3 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights after receipt of the certificate contemplated by Section 2.3 describing any such adjustment); nor will it by any act hereunder be deemed to make any representation or warranty as to the authorization of any Common Shares to be issued pursuant to this Agreement or any Rights or Convertible Security Rights or as to whether any Common Shares will, when issued, be duly and validly authorized, executed, issued and delivered and fully paid and non-assessable;
- (f) the Corporation agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement;
- (g) the Rights Agent is hereby authorized and directed to accept instructions in writing with respect to the performance of its duties hereunder from any individual believed by the Rights Agent to be the Chairman of the Board, President, any Vice-President, Treasurer, Corporate Secretary or any Assistant Secretary of the Corporation, and to apply to such individuals for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in accordance with instructions of any such individual;
- (h) the Rights Agent and any shareholder or stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in Common Shares, Convertible Securities,

Rights, Convertible Security Rights or other securities of the Corporation or become pecuniarily interested in any transaction in which the Corporation may be interested, or contract with or lend money to the Corporation or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Corporation or for any other legal entity; and

- (i) the Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent will not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Corporation resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

#### **4.4 Change of Rights Agent**

The Rights Agent may resign and be discharged from its duties under this Agreement upon 60 days' notice (or such lesser notice as is acceptable to the Corporation) in writing mailed to the Corporation and to each transfer agent of Common Shares and Convertible Securities by registered or certified mail. The Corporation may remove the Rights Agent upon 60 days' notice in writing, mailed to the Rights Agent and to each transfer agent of the Common Shares and Convertible Securities by registered or certified mail. If the Rights Agent should resign or be removed or otherwise become incapable of acting, the Corporation will appoint a successor to the Rights Agent. If the Corporation fails to make such appointment within a period of 60 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent, then by prior written notice to the Corporation the resigning Rights Agent or the holder of any Rights or Convertible Security Rights (which holder shall, with such notice, submit such holder's Rights Certificate, if any, for inspection by the Corporation), may apply to any court of competent jurisdiction for the appointment of a new Rights Agent, at the Corporation's expense. Any successor Rights Agent, whether appointed by the Corporation or by such a court, shall be a corporation incorporated under the laws of Canada or a province thereof authorized to carry on the business of a trust company in the Province of Alberta. After appointment, the successor Rights Agent will be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent, upon receipt of all outstanding fees and expenses owing to it, shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Corporation will file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Shares and Convertible Securities and mail a notice thereof in writing to the holders of the Rights and Convertible Securities Rights in accordance with Section 5.9. Failure to give any notice provided for in this Section 4.4, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of any successor Rights Agent, as the case may be.

## ARTICLE 5 - MISCELLANEOUS

### 5.1 Redemption and Waiver

- (a) The Board of Directors acting in good faith may, until the occurrence of a Flip-in Event, upon prior written notice delivered to the Rights Agent, determine to waive the application of Section 3.1 to a particular Flip-in Event that would result from a Take-over Bid made by way of take-over bid circular to all holders of record of Voting Shares (which for greater certainty shall not include the circumstances described in Subsection 5.1(h)); provided that if the Board of Directors waives the application of Section 3.1 to a particular Flip-in Event pursuant to this Subsection 5.1(a), the Board of Directors shall be deemed to have waived the application of Section 3.1 to any other Flip-in Event occurring by reason of any Take-over Bid which is made by means of a take-over bid circular to all holders of record of Voting Shares prior to the expiry of any Take-over Bid (as the same may be extended from time to time) in respect of which a waiver is, or is deemed to have been, granted under this Subsection 5.1(a).
- (b) Subject to the prior consent of the holders of the Voting Shares, Convertible Securities or the Rights obtained as set forth in Subsection 5.4(b) or (c), the Board of Directors acting in good faith may, at its option, at any time prior to the provisions of Section 3.1 becoming applicable as a result of the occurrence of a Flip-in Event, elect to redeem all but not less than all of the outstanding Rights at a redemption price of \$0.001 per Right appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 if an event of the type analogous to any of the events described in Section 2.3 shall have occurred (such redemption price being herein referred to as the “**Redemption Price**”).
- (c) Where a Person acquires pursuant to a Permitted Bid, a Competing Permitted Bid or an Exempt Acquisition under Subsection 5.1(a) outstanding Voting Shares, other than Voting Shares Beneficially Owned at the date of the Permitted Bid, the Competing Permitted Bid or the Exempt Acquisition under Subsection 5.1(a) by such Person, then the Board of Directors shall immediately upon the consummation of such acquisition without further formality and without any approval under Subsection 5.4(b) or (c) be deemed to have elected to redeem the Rights and Convertible Security Rights at the Redemption Price.
- (d) Where a Take-over Bid that is not a Permitted Bid Acquisition is withdrawn or otherwise terminated after the Separation Time has occurred and prior to the occurrence of a Flip-in Event, the Board of Directors may elect to redeem all the outstanding Rights at the Redemption Price.
- (e) If the Board of Directors is deemed under Subsection 5.1(c) to have elected, or elects under either of Subsection 5.1(b) or (d), to redeem the Rights, the right to exercise the Rights and the Convertible Security Rights will thereupon, without further action and without notice, terminate and the only right thereafter of the holders of Rights and Convertible Security Rights shall be to receive the Redemption Price.

- (f) Within 10 days after the Board of Directors is deemed under Subsection 5.1(c) to have elected, or elects under Subsection 5.1(b) or (d), to redeem the Rights and the Convertible Security Rights, the Corporation shall give notice of redemption to the holders of the then outstanding Rights and Convertible Security Rights by mailing such notice to each such holder at his last address as it appears upon the registry books of the Rights Agent or, prior to the Separation Time, on the registry books of the transfer agent for the Voting Shares or the Convertible Securities. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made.
- (g) Upon the Rights being redeemed pursuant to Subsection 5.1(d), all the provisions of this Agreement shall continue to apply as if the Separation Time had not occurred and Rights Certificates representing the number of Rights held by each holder of record of Common Shares or Convertible Securities as of the Separation Time had not been mailed to each such holder and for all purposes of this Agreement the Separation Time shall be deemed not to have occurred.
- (h) The Board of Directors may waive the application of Section 3.1 in respect of the occurrence of any Flip-in Event if the Board of Directors has determined within eight Trading Days following a Stock Acquisition Date that a Person became an Acquiring Person by inadvertence and without any intention to become, or knowledge that it would become, an Acquiring Person under this Agreement and, in the event that such a waiver is granted by the Board of Directors, such Stock Acquisition Date shall be deemed not to have occurred. Any such waiver pursuant to this Subsection 5.1(h) must be on the condition that such Person, within 14 days after the foregoing determination by the Board of Directors or such earlier or later date as the Board of Directors may determine (the “**Disposition Date**”), has reduced its Beneficial Ownership of Voting Shares such that the Person is no longer an Acquiring Person. If the Person remains an Acquiring Person at the close of business on the Disposition Date, the Disposition Date shall be deemed to be the date of occurrence of a further Stock Acquisition Date and Section 3.1 shall apply thereto.

## **5.2 Expiration**

No Person shall have any rights whatsoever pursuant to this Agreement or in respect of any Right or Convertible Security Right after the Expiration Time, except the Rights Agent as specified in Subsection 4.1(a) of this Agreement.

## **5.3 Issuance of New Rights Certificates**

Notwithstanding any of the provisions of this Agreement, the Rights or the Convertible Security Rights to the contrary, the Corporation may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by the Board of Directors to reflect any adjustment or change in the number or kind or class of securities purchasable upon exercise of Rights made in accordance with the provisions of this Agreement.

#### 5.4 Supplements and Amendments

- (a) The Corporation may make amendments to this Agreement to correct any clerical or typographical error or, subject to Subsection 5.4(e), which are required to maintain the validity of this Agreement as a result of any change in any applicable legislation, rules or regulations thereunder. The Corporation may, prior to the date of the shareholders' meeting referred to in Section 5.15, supplement or amend this Agreement without the approval of any holder of Rights, Voting Shares, Convertible Security Rights or Convertible Securities in order to make any changes which the Board of Directors acting in good faith may deem necessary or desirable. Notwithstanding anything in this Section 5.4 to the contrary, no such amendment shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent to such supplement or amendment.
- (b) Subject to Section 5.4(a), the Corporation may, with the prior consent of the holders of Voting Shares obtained as set forth below, at any time before the Separation Time, amend, vary or rescind any of the provisions of this Agreement and the Rights or Convertible Security Rights (whether or not such action would materially adversely affect the interests of the holders of Rights or Convertible Security Rights generally). Such consent shall be deemed to have been given if provided by the holders of Voting Shares at a Special Meeting, which Special Meeting shall be called and held in compliance with the applicable laws and regulatory requirements and the requirements in the articles and by-laws of the Corporation. Subject to compliance with any requirements imposed by the foregoing, consent shall be given if the proposed amendment, variation or rescission is approved by the affirmative vote of a majority of the votes cast by Independent Shareholders present or represented in person or by proxy at and entitled to be voted at the Special Meeting.
- (c) The Corporation may, with the prior consent of the holders of Rights obtained as set forth below, at any time after the Separation Time and before the Expiration Time, amend, vary or rescind any of the provisions of this Agreement and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally), provided that no such amendment, variation or deletion shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent thereto. Such consent shall be deemed to have been given if provided by the holders of Rights at a Rights Holders' Special Meeting, which Rights Holders' Special Meeting shall be called and held in compliance with applicable laws and regulatory requirements and, to the extent possible, with the requirements in the articles and by-laws of the Corporation applicable to meetings of holders of Voting Shares, applied *mutatis mutandis*. Subject to compliance with any requirements imposed by the foregoing, consent shall be given if the proposed amendment, variation or rescission is approved by the affirmative vote of a majority of the votes cast by holders of Rights (other than holders of Rights whose Rights have become null and void pursuant to Subsection 3.1(b)), represented in person or by proxy at and entitled to be voted at the Rights Holders' Special Meeting.

- (d) Any approval of the holders of Rights shall be deemed to have been given if the action requiring such approval is authorized by the affirmative votes of the holders of Rights present or represented at and entitled to be voted at a meeting of the holders of Rights and representing a majority of the votes cast in respect thereof. For the purposes hereof, each outstanding Right (other than Rights which are void pursuant to the provisions hereof) shall be entitled to one vote, and the procedures for the calling, holding and conduct of the meeting shall be those, as nearly as may be, which are provided in the Corporation's by-laws and the *Business Corporations Act* with respect to meetings of shareholders of the Corporation.
- (e) Any amendments made by the Corporation to this Agreement pursuant to Subsection 5.4(a) which are required to maintain the validity of this Agreement as a result of any change in any applicable legislation, rule or regulation thereunder shall:
  - (i) if made before the Separation Time, be submitted to the shareholders of the Corporation at the next meeting of shareholders and the shareholders may, by the majority referred to in Subsection 5.4(b), confirm or reject such amendment;
  - (ii) if made after the Separation Time, be submitted to the holders of Rights at a meeting to be called for on a date not later than immediately following the next meeting of shareholders of the Corporation and the holders of Rights may, by resolution passed by the majority referred to in Subsection 5.4(d), confirm or reject such amendment.

Any such amendment shall be effective from the date of the resolution of the Board of Directors adopting such amendment, until it is confirmed or rejected or until it ceases to be effective (as described in the next sentence) and, where such amendment is confirmed, it continues in effect in the form so confirmed. If such amendment is rejected by the shareholders or the holders of Rights or is not submitted to the shareholders or holders of Rights as required, then such amendment shall cease to be effective from and after the termination of the meeting at which it was rejected or to which it should have been but was not submitted or from and after the date of the meeting of holders of Rights that should have been but was not held, and no subsequent resolution of the Board of Directors to amend this Agreement to substantially the same effect shall be effective until confirmed by the shareholders or holders of Rights as the case may be.

## **5.5 Fractional Rights and Fractional Shares**

- (a) The Corporation shall not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights. After the Separation Time, in lieu of issuing fractional Rights, the Corporation shall pay to the holders of record of the Rights Certificates (provided the Rights represented by such Rights Certificates are not void pursuant to the provisions of Subsection 3.1(b), at the time such fractional Rights would otherwise be issuable), an amount in cash equal to the

fraction of the Market Price of one whole Right that the fraction of a Right that would otherwise be issuable is of one whole Right.

- (b) The Corporation shall not be required to issue fractions of Common Shares upon exercise of Rights or to distribute certificates which evidence fractional Common Shares. In lieu of issuing fractional Common Shares, the Corporation shall pay to the registered holders of Rights Certificates, at the time such Rights are exercised as herein provided, an amount in cash equal to the fraction of the Market Price of one Common Share that the fraction of a Common Share that would otherwise be issuable upon the exercise of such Right is of one whole Common Share at the date of such exercise.
- (c) The Rights Agent shall have no obligation to make any payments in lieu of issuing fractions of Rights or Common Shares pursuant to Subsection 5.5(a) or (b), respectively, unless and until the Corporation shall have provided to the Rights Agent the amount of cash to be paid in lieu of issuing such fractional Rights or Common Shares, as the case may be.

## **5.6 Rights of Action**

Subject to the terms of this Agreement, all rights of action in respect of this Agreement, other than rights of action vested solely in the Rights Agent, are vested in the respective holders of the Rights and the Convertible Security Rights. Any holder of Rights or Convertible Security Rights, without the consent of the Rights Agent or of the holder of any other Rights or Convertible Security Rights, may, on such holder's own behalf and for such holder's own benefit and the benefit of other holders of Rights and Convertible Security Rights, enforce, and may institute and maintain any suit, action or proceeding against the Corporation to enforce such holder's right to exercise such holder's Rights or Convertible Security Rights, or Rights or Convertible Security Rights to which such holder is entitled, in the manner provided in such holder's Rights Certificate or Convertible Security Rights certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights or Convertible Security Rights, it is specifically acknowledged that the holders of Rights and Convertible Security Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of the obligations of any Person subject to, this Agreement.

## **5.7 Regulatory Approvals**

Any obligation of the Corporation or action or event contemplated by this Agreement shall be subject to the receipt of any requisite approval or consent from any governmental or regulatory authority, and without limiting the generality of the foregoing, the necessary approval of the TSX Venture Exchange, such as to the issuance of Common Shares upon the exercise of Rights under Subsection 2.2(d).

## **5.8 Declaration as to Non-Canadian or Non-U.S. Holders**

If in the opinion of the Board of Directors (who may rely upon the advice of counsel) any action or event contemplated by this Agreement would require compliance by the Corporation

with the securities laws or comparable legislation of a jurisdiction outside Canada, the Board of Directors acting in good faith shall take such actions as it may deem appropriate to ensure such compliance. In no event shall the Corporation or the Rights Agent be required to issue or deliver Rights or Convertible Security Rights or securities issuable on exercise of Rights or Convertible Security Rights to persons who are citizens, residents or nationals of any jurisdiction other than Canada or the United States, in which such issue or delivery would be unlawful without registration of the relevant Persons or securities for such purposes.

## **5.9            Notices**

- (a) Notices or demands authorized or required by this Agreement to be given or made by the Rights Agent or by the holder of any Rights or Convertible Security Rights to or on the Corporation shall be sufficiently given or made if delivered, sent by registered or certified mail, postage prepaid (until another address is filed in writing with the Rights Agent), or sent by facsimile or other form of recorded electronic communication, charges prepaid and confirmed in writing, as follows:

Porto Energy Corp.  
24 Waterway Avenue  
The Woodlands, Texas 77386  
Attention: Chief Financial Officer  
Facsimile: (713) 975-9923

- (b) Notices or demands authorized or required by this Agreement to be given or made by the Corporation or by the holder of any Rights or Convertible Security Rights to or on the Rights Agent shall be sufficiently given or made if delivered, sent by registered or certified mail, postage prepaid (until another address is filed in writing with the Corporation), or sent by facsimile or other form of recorded electronic communication, charges prepaid and confirmed in writing, as follows:

Olympia Trust Company  
2300, 125 - 9<sup>th</sup> Avenue S.W.  
Calgary, AB T2G 0P6  
Attention: Manager, Corporate and Shareholder Services  
Facsimile: (403) 265-1455

- (c) Notices or demands authorized or required by this Agreement to be given or made by the Corporation or the Rights Agent to or on the holder of any Rights or Convertible Security Rights shall be sufficiently given or made if delivered or sent by first class mail, postage prepaid, addressed to such holder at the address of such holder as it appears upon the register of the Rights Agent or, prior to the Separation Time, on the register of the Corporation for its Common Shares or the Convertible Securities. Any notice which is mailed or sent in the manner herein provided shall be deemed given, whether or not the holder receives the notice.
- (d) Any notice given or made in accordance with this Section 5.9 shall be deemed to have been given and to have been received on the day of delivery, if so delivered, on

the third Business Day (excluding each day during which there exists any general interruption of postal service due to strike, lockout or other cause) following the mailing thereof, if so mailed, and on the day of telecopying or sending of the same by other means of recorded electronic communication (provided such sending is during the normal business hours of the addressee on a Business Day and if not, on the first Business Day thereafter). Each of the Corporation and the Rights Agent may from time to time change its address for notice by notice to the other given in the manner aforesaid.

**5.10 Costs of Enforcement**

The Corporation agrees that if the Corporation fails to fulfil any of its obligations pursuant to this Agreement, then the Corporation will reimburse the holder of any Rights or Convertible Security Rights for the costs and expenses (including legal fees) incurred by such holder to enforce his rights pursuant to any Rights or Convertible Security Rights or this Agreement.

**5.11 Successors**

All the covenants and provisions of this Agreement by or for the benefit of the Corporation or the Rights Agent shall bind and enure to the benefit of their respective successors and assigns hereunder.

**5.12 Benefits of this Agreement**

Nothing in this Agreement shall be construed to give to any Person other than the Corporation, the Rights Agent and the holders of the Rights or Convertible Security Rights any legal or equitable right, remedy or claim under this Agreement; further, this Agreement shall be for the sole and exclusive benefit of the Corporation, the Rights Agent and the holders of the Rights and Convertible Security Rights.

**5.13 Governing Law**

This Agreement and each Right and Convertible Security Right issued hereunder shall be deemed to be a contract made under the laws of the Province of Alberta and the federal laws of Canada applicable therein and for all purposes shall be governed by and construed in accordance with the laws of such Province applicable to contracts to be made and performed entirely within such Province.

**5.14 Severability**

If any term or provision hereof or the application thereof to any circumstance shall, in any jurisdiction and to any extent, be invalid or unenforceable, such term or provision shall be ineffective only as to such jurisdiction and to the extent of such invalidity or unenforceability in such jurisdiction without invalidating or rendering unenforceable or ineffective the remaining terms and provisions hereof in such jurisdiction or the application of such term or provision in any other jurisdiction or to circumstances other than those as to which it is specifically held invalid or unenforceable.

**5.15**            **Effective Date**

This Agreement is effective and in full force and effect in accordance with its terms from and after the date hereof. Within six months following the date hereof, the Corporation shall hold a meeting of shareholders to request confirmation of this Agreement by the holders of its Voting Shares. If this Agreement is not presented for confirmation within six months following the date hereof or is not confirmed by a majority of the votes cast by holders of Voting Shares who vote in respect of confirmation of this Agreement at such meeting, then this Agreement and all outstanding Rights and Convertible Security Rights shall terminate and be void and of no further force and effect on and from the close of business on the date that is the end of such six month period or the date of termination of such meeting.

**5.16**            **Reconfirmation and Approval**

Notwithstanding the confirmation of this Agreement pursuant to Section 5.15, this Agreement must be reconfirmed by a resolution passed by a majority of greater than 50% of the votes cast by all holders of Voting Shares who vote in respect of such reconfirmation at every third annual meeting following the meeting at which this Agreement is confirmed pursuant to Section 5.15. If the Agreement is not so reconfirmed or is not presented for reconfirmation at such annual meeting, the Agreement and all outstanding Rights and Convertible Security Rights shall terminate and be void and of no further force and effect on and from the date of termination of the annual meeting; provided that termination shall not occur if a Flip-in Event has occurred (other than a Flip-in Event which has been waived pursuant to Subsection 5.1(a) or (h) hereof), prior to the date upon which this Agreement would otherwise terminate pursuant to this Section 5.16.

**5.17**            **Determinations and Actions by the Board of Directors**

All actions, calculations and determinations (including all omissions with respect to the foregoing) which are done or made by the Board of Directors, in good faith, for the purposes hereof shall not subject the Board of Directors or any director of the Corporation to any liability to the holders of the Rights and Convertible Security Rights.

**5.18**            **Time of the Essence**

Time shall be of the essence in this Agreement.

**5.19**            **Execution in Counterparts**

This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute one and the same instrument.

**5.20**            **Compliance with Money Laundering Legislation**

The Rights Agent shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, the Rights Agent reasonably determines that such an act might cause it to be in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline. Further, should the Rights Agent

reasonably determine at any time that its acting under this Agreement has resulted in it being in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline, then it shall have the right to resign on 10 days' written notice to the Company, provided: (i) that the Rights Agent's written notice shall describe the circumstances of such non-compliance; and (ii) that if such circumstances are rectified to the Rights Agent's satisfaction within such 10-day period, then such resignation shall not be effective.

#### **5.21 Privacy Provision**

The parties acknowledge that federal and/or provincial legislation that addresses the protection of individual's personal information (collectively, "**Privacy Laws**") may apply to obligations and activities under this Agreement. Despite any other provision of this Agreement, neither party will take or direct any action that would contravene, or cause the other to contravene, applicable Privacy Laws. The Company will, prior to transferring or causing to be transferred personal information to the Rights Agent, obtain and retain any consents of the relevant individuals to the collection, use and disclosure of their personal information, or will have determined that such consents either have previously been given upon which the parties can rely or are not required under the Privacy Laws. The parties will use commercially reasonable efforts to ensure that its services hereunder comply with Privacy Laws.

### **ARTICLE 6 - CONVERTIBLE SECURITIES**

#### **6.1 Convertible Securities Certificates**

- (a) One Convertible Security Right shall be issued on the Effective Date for each issued and outstanding Convertible Security and one Convertible Security Right shall be issued in respect of each Convertible Security issued after the Record Date and prior to the earliest of the Separation Time and the Expiration Time. For this purpose, each \$1000 principal amount of debt shall be counted as one issued and outstanding Convertible Security.
- (b) Certificates representing Convertible Securities which are issued after the Record Time but prior to the earlier of the Separation Time and the Expiration Time, shall also evidence one Convertible Security Right for each issued and outstanding Convertible Security represented thereby and each Convertible Security Right will be transferable only together with, and will be transferred by a transfer of, such Convertible Securities. Each such certificate representing a Convertible Security may have impressed on, printed on, written on or otherwise affixed to it the following legend:

“Until the Separation Time (defined in the Shareholder Rights Agreement referred to below), this certificate also evidences rights of the holder described in a Shareholder Rights Plan Agreement dated effective as of September 23, 2011 (the “**Shareholder Rights Agreement**”) between Porto Energy Corp. (the “**Corporation**”) and Olympia Trust Company, the terms of which are incorporated herein by reference and a copy of which is on file at the principal executive

offices of the Corporation. Under certain circumstances set out in the Shareholder Rights Agreement, the rights may expire, may become null and void or may be evidenced by separate certificates and no longer evidenced by this certificate. The Corporation will mail or arrange for the mailing of a copy of the Shareholder Rights Agreement to the holder of this certificate without charge as soon as practicable after receipt of a written request therefor.”

Certificates for the Convertible Securities outstanding at the Record Time or certificates issued for Convertible Securities issued after the Record Time without the foregoing legend shall evidence one Convertible Security Right for each issued and outstanding Convertible Security represented thereby notwithstanding the absence of the foregoing legend, until the close of business on the earlier of the Separation Time and the Expiration Time. Each Convertible Security Right will be transferable only together with, and will be transferred by a transfer of, such Convertible Securities. Notwithstanding any other provision of this Agreement, any Convertible Security Rights held by the Corporation or any of its Subsidiaries shall be void.

## **6.2 Conversion of Convertible Security Rights**

- (a) Each Convertible Security Right will entitle the holder thereof, prior to the earlier of the Separation Time and the Expiration Time, to one Right for each whole Voting Share issued to the holder upon due exercise of the conversion privilege attached to the Convertible Security associated with such Convertible Security Right without any further payment therefor, and upon such issuance of a Voting Share, the Convertible Security Right shall be deemed to have been automatically converted into one Right for each Voting Share so issued, such Right to be evidenced by the certificate evidencing such Voting Share as provided in Section 2.1. The holder of a Convertible Security Right shall not be entitled to, and the Corporation shall not be required to issue, any fraction of a Right or any payment in lieu thereof on exercise of such conversion privilege.
- (b) In the event the Separation Time occurs prior to the Convertible Security being converted to Voting Shares, each Convertible Security Right will entitle the holder thereof to one Right for each whole Voting Share into which the Convertible Security is then convertible at the then applicable conversion price and, as of the Separation Time, such holder’s Convertible Security Rights shall be deemed to have automatically become one Right for each such whole Voting Share.

## **6.3 Persons Deemed Owners**

The Rights Agent and any agent of the Corporation or the Rights Agent may deem and treat the Person in whose name a certificate for the Convertible Securities is registered as the absolute owner thereof and of the Convertible Security Rights evidenced thereby for all purposes whatsoever. As used in this Agreement, unless the context otherwise requires, the term “holder” of any Convertible Security Rights shall mean the registered holder of the associated Convertible Securities.

#### **6.4 Agreement of Convertible Securities Rights Holders**

Every holder of Convertible Security Rights by accepting the same consents and agrees with the Corporation and the Rights Agent and with every other holder of Convertible Security Rights and Rights:

- (a) to be bound by and subject to the provisions of this Agreement, as amended from time to time in accordance with the terms hereof, in respect of all Convertible Security Rights held;
- (b) that prior to the Separation Time, each Convertible Security Right will be transferable only together with, and will be transferred by a transfer of, the associated Convertible Security certificate representing such Convertible Security Right;
- (c) that after the Separation Time, the Rights Certificates will be transferable only on the Rights Register as provided herein;
- (d) that prior to the due presentment of a Rights Certificate (or, prior to the Separation Time, the associated Convertible Security certificate) for registration or transfer, the Corporation, the Rights Agent and any agent of the Corporation or the Rights Agent may deem and treat the person in whose name the associated Convertible Securities certificate is registered as the absolute owner thereof and of the Convertible Security Rights evidenced thereby (notwithstanding any notations of ownership or writing on such associated Convertible Security certificate made by anyone other than the Corporation or the Rights Agent) for all purposes whatsoever, and neither the Corporation nor the Rights Agent shall be affected by any notice to the contrary;
- (e) that such holder of Convertible Security Rights has waived its right to receive any fractional Rights or any fractional Voting Shares or other securities upon exercise of a Right (except as provided for herein);
- (f) that, subject to Section 5.4, without the approval of any holder of Convertible Security Rights and upon the sole authority of the Trustees, acting in good faith, this Agreement may be supplemented or amended from time to time to cure any ambiguity or to correct or supplement any provision contained herein which may be inconsistent with the intent of this Agreement or is otherwise defective, as provided herein; and
- (g) that notwithstanding anything in this Agreement to the contrary, neither the Corporation nor the Rights Agent shall have any liability to any holder of a Convertible Security Right or any other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed effective as of the date first above written.

**PORTO ENERGY CORP.**

By: (signed) "Joseph Ash"  
Joseph Ash  
President and Chief Executive Officer

By: (signed) "Heath Cleaver"  
Heath Cleaver  
Chief Financial Officer

**OLYMPIA TRUST COMPANY**

By: (signed) "Kirsten Dillon"  
Kristen Dillon  
Account Officer

By: (signed) "Concepcion Jalbuena"  
Concepcion Jalbuena c/s  
Sr. Trust Officer

**ATTACHMENT 1**  
**PORTO ENERGY CORP.**  
**SHAREHOLDER RIGHTS PLAN AGREEMENT**

**[Form of Rights Certificate]**

Certificate No. \_\_\_\_\_

Rights \_\_\_\_\_

**THE RIGHTS ARE SUBJECT TO TERMINATION ON THE TERMS SET FORTH IN THE SHAREHOLDER RIGHTS PLAN AGREEMENT. UNDER CERTAIN CIRCUMSTANCES (SPECIFIED IN SUBSECTION 3.1(b) OF THE SHAREHOLDER RIGHTS PLAN AGREEMENT), RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR CERTAIN RELATED PARTIES, OR TRANSFEREES OF AN ACQUIRING PERSON OR CERTAIN RELATED PARTIES, MAY BECOME VOID.**

**RIGHTS CERTIFICATE**

This certifies that \_\_\_\_\_, or registered assigns, is the registered holder of the number of Rights set forth above, each of which entitles the registered holder thereof, subject to the terms, provisions and conditions of the Shareholder Rights Plan Agreement, dated effective as of September 23, 2011, as the same may be amended or supplemented from time to time (the "Shareholder Rights Agreement"), between Porto Energy Corp., a corporation incorporated under the laws of British Columbia (the "**Corporation**") and Olympia Trust Company, a trust company incorporated under the laws of Alberta (the "**Rights Agent**" which term shall include any successor Rights Agent under the Shareholder Rights Agreement), to purchase from the Corporation at any time after the Separation Time (as such term is defined in the Shareholder Rights Agreement) and prior to the Expiration Time (as such term is defined in the Shareholder Rights Agreement), one fully paid common share of the Corporation (a "Common Share") at the Exercise Price referred to below, upon presentation and surrender of this Rights Certificate with the Form of Election to Exercise (in the form provided hereinafter) duly executed and submitted to the Rights Agent at its principal office in any of the cities of Calgary or at any other office of the Rights Agent in the cities designated from time to time for that purpose by the Corporation. The Exercise Price shall initially be \$2.00 (Cdn.) per Right and shall be subject to adjustment in certain events as provided in the Shareholder Rights Agreement.

This Rights Certificate is subject to all of the terms and provisions of the Shareholder Rights Agreement, which terms and provisions are incorporated herein by reference and made a part hereof and to which Shareholder Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Rights Agent, the Corporation and the holders of the Rights Certificates. Copies of the Shareholder Rights Agreement are on file at the registered office of the Corporation.

This Rights Certificate, with or without other Rights Certificates, upon surrender at any of the offices of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing an aggregate number of Rights equal to the aggregate number of Rights evidenced by the Rights Certificate or Rights

Certificates surrendered. If this Rights Certificate shall be exercised in part, the registered holder shall be entitled to receive, upon surrender hereof, another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of Common Shares or of any other securities which may at any time be issuable upon the exercise hereof, nor shall anything contained in the Shareholder Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the Rights of a shareholder of the Corporation or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in the Shareholder Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Rights evidenced by this Rights Certificate shall have been exercised as provided in the Shareholder Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Corporation and its corporate seal.

Date: \_\_\_\_\_

**PORTO ENERGY CORP.**

By: \_\_\_\_\_

By: \_\_\_\_\_

Countersigned:

**OLYMPIA TRUST COMPANY**

By: \_\_\_\_\_  
Authorized Signature

By: \_\_\_\_\_

**FORM OF ASSIGNMENT**

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate.)

FOR VALUE RECEIVED \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Please print name and address of transferee)

The Rights represented by this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_ as attorney, to transfer the within Rights on the books of the Corporation, with full power of substitution.

Dated: \_\_\_\_\_

Signature Guaranteed:	(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.)
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Signature must be guaranteed by a Schedule "A" major chartered bank, trust company or a member of an acceptable medallion guarantee program. The Guarantor must affix a stamp bearing the actual words "Signature Guaranteed".

.....  
**CERTIFICATE**

(To be completed if true)

The undersigned party transferring Rights hereunder hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or a Person acting jointly or in concert with an Acquiring Person or an Affiliate or Associate thereof. Capitalized terms shall have the meaning ascribed thereto in the Shareholder Rights Agreement.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
(please print name of signatory)

.....

(To be attached to each Rights Certificate)  
**FORM OF ELECTION TO EXERCISE**

(To be exercised by the registered holder if such holder desires to exercise the Rights Certificate)

TO: \_\_\_\_\_

The undersigned hereby irrevocably elects to exercise \_\_\_\_\_ whole Rights represented by the attached Rights Certificate to purchase the Common Shares or other securities, if applicable, issuable upon the exercise of such Rights and requests that certificates for such securities be issued in the name of:

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

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
(City and Province)

\_\_\_\_\_  
(Social Insurance Number or other taxpayer identification number)

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights shall be registered in the name of and delivered to:

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

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
(City and Province)

\_\_\_\_\_  
(Social Insurance Number or other taxpayer identification number)

Dated: \_\_\_\_\_

Signature Guaranteed:

Signature

(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.)

Signature must be guaranteed by a Schedule "A" major chartered bank, trust company or a member of an acceptable medallion guarantee program. The Guarantor must affix a stamp bearing the actual words "Signature Guaranteed".

**CERTIFICATE**

(To be completed if true)

The undersigned party exercising Rights hereunder, hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or a Person acting jointly or in concert with an Acquiring Person or an Affiliate or Associate thereof. Capitalized terms shall have the meaning ascribed thereto in the Shareholder Rights Agreement.

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Signature

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(To be attached to each Rights Certificate)

## **NOTICE**

In the event the certification set forth above in the Forms of Assignment and Election is not completed, the Corporation will deem the Beneficial Owner of the Rights evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof. No Rights Certificates shall be issued in exchange for a Rights Certificate owned or deemed to have been owned by an Acquiring Person or an Affiliate or Associate thereof, or by a Person acting jointly or in concert with an Acquiring Person or an Affiliate or Associate thereof.

## **APPENDIX "B" – STOCK OPTION PLAN**

Please see attached.

**PORTO ENERGY CORP.**

**STOCK OPTION PLAN**

**ARTICLE 1 - PURPOSE**

- 1.1 The purpose of the Porto Energy Corp. Stock Option Plan (the “**Plan**”) is to provide an incentive to the Employees, Officers, Directors and certain Consultants of the Corporation and its Subsidiaries to achieve the longer term objectives of the Corporation, to give suitable recognition of the ability and industry of such Persons who contribute materially to the success of the Corporation and to attract and retain Persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Corporation.

**ARTICLE 2 - DEFINED TERMS**

- 2.1 Where used herein, the following terms shall have the following meanings, respectively:

“**Affiliate**” means a corporation that is affiliated with the Corporation within the meaning of Section 2 of the *Business Corporations Act* (British Columbia), as amended, and, for greater certainty, includes a Subsidiary of the Corporation.

“**Associate**” has the meaning ascribed to it in Policy 1.1 – Interpretation of the TSX Venture Exchange, as amended.

“**Board**” means the board of directors of the Corporation and shall be deemed to include any committee or officer to which the Board has, fully or partially, delegated responsibility or authority relating to the Plan or the administration and operation of the Plan pursuant to Article 3.

“**Change of Control**” means:

- (a) the acquisition by any Persons acting jointly or in concert (as determined by the *Securities Act* (Alberta)), whether directly or indirectly, of voting securities of the Corporation that, together with all other voting securities of the Corporation held by such persons, constitute in the aggregate more than 50% of all outstanding voting securities of the Corporation;
- (b) an amalgamation, merger, arrangement, plan of arrangement or other form of business combination of the Corporation with another Person that results in the holders of voting securities of that other Person holding, in the aggregate, more than 50% of all outstanding voting securities of the corporation resulting from the business combination;
- (c) the sale, lease or exchange of all or substantially all of the property of the Corporation to another Person (other than an Affiliate), other than in the ordinary course of business of the Corporation; or

- (d) any other transaction that is deemed to be a “Change of Control” for the purposes of this Plan by the Board in its sole discretion.

“**Common Shares**” means the common shares of all classes of the Corporation or, in the event of an adjustment contemplated by Article 13 of this Plan, such other common shares to which a Participant may be entitled upon the exercise of an Option as a result of such adjustment.

“**Consultant**” means, in relation to the Corporation, a Person other than an Employee or a Director of the Corporation who:

- (a) is engaged to provide on a ongoing bona fide basis, consulting, technical, management or other services to the Corporation or to an Affiliate of the Corporation, other than services provided in relation to a sale of securities from the treasury of the Corporation;
- (b) provides the services under a written contract between the Corporation or an Affiliate of the Corporation and the Person;
- (c) in the reasonable opinion of the Corporation, spends or will spend a significant amount of time and attention on the affairs and business of the Corporation or an Affiliate of the Corporation; and
- (d) has a relationship with the Corporation or an Affiliate of the Corporation that enables the Person to be knowledgeable about the business and affairs of the Corporation.

“**Corporation**” means Porto Energy Inc. and includes any successor corporation or entity.

“**Director**” means a member of the board of directors of the Corporation or any Subsidiary and includes senior Officers and Management Company Employees.

“**Employee**” means:

- (a) an Individual who is considered an employee of the Corporation or any Subsidiary under applicable tax laws;
- (b) an Individual who works full-time for the Corporation or any Subsidiary providing services normally provided by an employee and who is subject to the same control and direction by the Corporation over the details and methods of work as an employee of the Corporation, but for whom income tax deductions are not made at source; or
- (c) an Individual who works for the Corporation or any Subsidiary on a continuing and regular basis for a minimum amount of time per week (the number of hours to be disclosed when submitting an Option for approval (if necessary) of the stock exchange or exchanges on which the Corporation is then listed) providing services normally provided by an employee and who is subject to the same control and

direction by the Corporation over the details and methods of work as an employee of the Corporation, but for whom income tax deductions are not made at source.

“**Exercise Price**” means the price per share at which Common Shares may be purchased under an Option, as determined by the Board at the time the Option is granted, in accordance with the provisions of Article 5, as may be adjusted in accordance with Articles 5 and 13 of this Plan.

“**Full Purchase Price**” means the Exercise Price multiplied by the number of Common Shares the Participant wishes to purchase under the Option.

“**Individual**” means a natural person.

“**Insider**” has the meaning ascribed to it in Policy 1.1 – Interpretation of the TSX Venture Exchange, as amended.

“**Investor Relations Activities**” means any activities, by or on behalf of the Corporation or Shareholder of the Corporation, that promote or reasonably could be expected to promote the purchase or sale of securities of the Corporation, but does not include:

- (a) the dissemination of information provided, or records prepared, in the ordinary course of business of the Corporation:
  - (i) to promote the sale of products or services of the Corporation; or
  - (ii) to raise public awareness of the Corporation,

that cannot reasonably be considered to promote the purchase or sale of securities of the Corporation;

- (b) activities or communications necessary to comply with the requirements of:
  - (i) applicable securities laws; or
  - (ii) the requirements of the stock exchange or exchanges the Corporation on which the Common Shares are listed or the by-laws, rules or other regulatory instruments of any other self regulatory body or exchange having jurisdiction over the Corporation;
- (c) Communications by a publisher of, or writer for, a newspaper, magazine or business or financial publication, that is of general or regular paid circulation, distributed only to subscribers to it for value or to purchasers of it, if:
  - (i) the communication is only through the newspaper, magazine or publication; and
  - (ii) the publisher or writer receives no commission or other consideration other than for acting in the capacity of publisher or writer; or

- (d) activities or communications that may be otherwise specified by the stock exchange or exchanges on which the Corporation's common shares are then listed.

**“Management Company Employee”** means an individual employed by a Person providing management services to the Corporation, which are required for the ongoing successful operation of the business enterprise of the Corporation, but excluding a Person engaged in Investor Relations Activities.

**“Market Price”** means, as of a particular day, the last closing price of the Common Shares on the principal stock exchange on which the Common Shares are traded or as determined by the Board, acting reasonably, in their sole discretion.

**“Notice of Exercise”** means a notice, substantially in the form of the notice attached to the form of Option Agreement or such other form as approved by the Board, provided by a Participant to the Corporation giving notice of the exercise or partial exercise of an Option previously granted to the Participant.

**“Officer”** means an officer of the Corporation as appointed by the Board.

**“Option”** means an option to purchase a certain number of Common Shares granted by the Board to a Participant, subject to the provisions of this Plan and the Option Agreement evidencing such Option.

**“Option Agreement”** means an agreement, substantially in the form of the agreement set out in Schedule A to this Plan or such other form as approved by the Board, between the Corporation and a Participant setting out the terms of an Option granted to such Participant.

**“Option Period”** means the period during which the option may be exercised, as determined by the Board at the time the Option is granted, in accordance with the provisions of Article 6.

**“Participant”** means bona fide Directors, Officers, Employees and Consultants to whom Options may be granted under the Plan.

**“Person”** means Individuals, corporations, limited and unlimited liability companies, general and unlimited partnerships, associations, trusts, incorporated organizations, joint ventures and governmental authorities.

**“Plan”** means this Stock Option Plan of the Corporation, as may be amended or varied from time to time.

**“Shareholder”** means a registered or beneficial holder of shares in the Corporation.

**“Subsidiary”** means any corporation that is a subsidiary of the Corporation, as such term is defined under Section 2.2 of the *Business Corporations Act* (British Columbia), as such section is from time to time amended, varied or re enacted.

2.2 In this Plan, words importing the singular number include the plural and vice versa and words importing any gender include all genders.

### **ARTICLE 3 - ADMINISTRATION**

- 3.1 The Plan shall be administered by the Board or a duly appointed committee of the Board, as contemplated by Section 3.5 hereof.
- 3.2 The Board will determine the Participants to whom Options will be granted and the number of Common Shares which shall be the subject of each Option.
- 3.3 All Options granted pursuant to the Plan and all Common Shares issuable on the due exercise of Options shall be duly authorized and issued.
- 3.4 Options shall be evidenced by a written Option Agreement, signed on behalf of the Corporation and by the Person to whom an Option is granted.
- 3.5 The Board may, from time to time, adopt such rules and regulations for administering the Plan as it may deem proper and in the best interests of the Corporation and may, subject to applicable laws, delegate its powers to administer the Plan to a committee of the Board.
- 3.6 All decisions and interpretations of the Board respecting the Plan or Options granted under the Plan shall be conclusive and binding on the Corporation and the Participants and their respective legal representatives, personal representatives and beneficiaries.

### **ARTICLE 4 - GRANTING OF OPTIONS**

- 4.1 The Board may from time to time grant Options to Participants.
- 4.2 Except in relation to Persons who are Consultants, Options may be granted only to Individuals or to Persons wholly owned by Individuals eligible to be Participants. If the Person to whom an Option is to be granted is a Person who is a Consultant but not an Individual or is a Person wholly owned by an Individual eligible to be a Participant, then that Person will provide the stock exchange or exchanges on which the Common Shares are then listed with any information and undertakings required by such stock exchange or exchanges.
- 4.3 The aggregate number of Common Shares reserved for issuance under the Plan must not exceed 10% of the issued and outstanding Common Shares (calculated on a non-diluted basis) unless the Corporation seeks and receives the permission of the stock exchange or exchanges on which the Common Shares are then listed (if applicable) to exceed such threshold.
- 4.4 The number of Common Shares that may be acquired under an Option granted to a Participant shall be determined by the Board at the time the Option is granted, provided that:
  - (a) the aggregate number of Common Shares reserved for issuance to any one Participant under this Plan shall not exceed 5% of the total number of issued and outstanding Common Shares (calculated on a non-diluted basis) in any 12 month period;

- (b) the aggregate number of Common Shares reserved for issuance to any Directors that are not also Employees or Management Company Employees of the Corporation or any Subsidiary under this Plan shall not exceed the lesser of: (i) 3% of the total number of issued and outstanding Common Shares (calculated on a non-diluted basis); or (ii) 2% of the total number of issued and outstanding Common Shares (calculated on a non-diluted basis) at such time as the Common Shares of the Corporation are listed for trading on a recognized stock exchange; and
  - (c) in the case of Consultants and Persons retained to perform Investor Relations Activities, shall not exceed 2% of the total number of issued and outstanding Common Shares (calculated on a non-diluted basis) in any 12 month period.
- 4.5 An Option may be granted subject to vesting requirements. Any vesting requirements will be determined at the time the Option is granted and will be as prescribed in the Option Agreement. In the case of Options granted to Consultants and Persons retained to perform Investor Relation Activities, the Options will vest in stages over 12 months with no more than 1/4 of the Options vesting in any three month period.
- 4.6 In the case of Options granted to Consultants or Persons performing Investor Relations Activities, the Board will monitor the trading in the securities of the Corporation by Persons performing Investor Relations Activities.
- 4.7 If required by the stock exchange or exchanges on which the Common Shares are then listed, any Options, or Common Shares issued on the exercise of Options, will be marked with a legend indicating any applicable hold period.
- 4.8 If any Option granted under this Plan expires or terminates for any reason without having been exercised in full, any unpurchased Common Shares to which such Option relates shall continue to be available for the purposes of the granting of Options under this Plan.
- 4.9 All Options granted under this Plan shall NOT be treated as incentive stock options within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended (the “Code”).

#### **ARTICLE 5 - EXERCISE PRICE**

- 5.1 The Board shall, at the time an Option is granted under this Plan, fix the Exercise Price provided that such Exercise Price shall not be less than as permitted under the rules of any stock exchange or exchanges on which the Common Shares are then listed, as determined from time to time and in any event shall not be less than 100% of the Market Price of the Common Shares on the Grant Date.
- 5.2 The Participant must pay the Exercise Price in cash, cheque or bank draft to the Corporation at the time of exercise of the Option.
- 5.3 At the discretion of the Board, the Exercise Price of Options previously granted may increase, throughout the period or for any part of the period that the Option or a portion of

the Option remains unexercised, by an amount per annum fixed by the Board at the time the Option is granted.

- 5.4 The Exercise Price of Options previously granted may not be reduced throughout the period or for any part of the period that the Option or a portion of the Option remains unexercised.

#### **ARTICLE 6 - OPTION PERIOD**

- 6.1 Subject to Articles 9, 10 and 14 below, the Option Period shall be determined by the Board at the time the Option is granted, subject to any vesting limitations which may be imposed by the Board at the time such Option is granted, provided that:

- (a) no Option shall be exercisable for a period exceeding 5 years from the date the Option is granted unless the Corporation receives the permission of the stock exchange or exchanges on which the Common Shares are then listed (if applicable), and in any event, no Option shall be exercisable for a period exceeding 10 years from the date the Option is granted;
- (b) no Option in respect of which Shareholder approval is required under this Plan or the rules of any stock exchange or exchanges on which the Common Shares are then listed (if applicable) shall be exercisable until such time as the Option has been approved by the Shareholders;
- (c) the Board may, subject to the receipt of any necessary regulatory approvals, in its sole discretion, accelerate the time at which any Option may be exercised, in whole or in part; and
- (d) any Options granted to any Participant must expire within 90 days after the Participant ceases to be a Participant, with the exception that any Options granted to any Consultant or Person performing Investor Relations Activities must expire within 30 days after such Consultant or Person ceases to be a Participant.

#### **ARTICLE 7 - METHOD OF EXERCISE OF OPTION**

- 7.1 Except as set forth in Articles 9 and 10 below or as otherwise determined by the Board, no Option may be exercised by a Participant unless the Participant is, at the time the Option is exercised, a Director, Officer, Employee or Consultant of the Corporation or any of its Subsidiaries.
- 7.2 Options that are otherwise exercisable in accordance with their terms may be exercised in whole or in part from time to time.
- 7.3 Any Participant (or the Participant's legal or personal representative duly authorized in writing) wishing to exercise an Option shall deliver to the Corporation:
- (a) a Notice of Exercise; and

- (b) a cash payment, certified cheque or bank draft, representing the Full Purchase Price of the Common Shares in respect of which the Option is exercised.
- 7.4 Upon the exercise of an Option, the Corporation shall use its reasonable efforts to deliver, or cause the registrar and transfer agent of the Common Shares to deliver, a certificate representing the aggregate number of fully paid and non-assessable Common Shares as the Participant shall have then paid for pursuant to the exercise of their Option.
- 7.5 In the event of a Change of Control, and if approved by the Board, in lieu of paying the Exercise Price for the Common Shares, the Participant may elect to dispose of their Options to the Corporation in exchange for a number of Common Shares determined by subtracting the Exercise Price from the Market Price on the date of disposition, multiplying the difference by the number of Common Shares in respect of which the Option was being disposed, and dividing the product by the Market Price of the Common Shares on that date. In such event the number of Common Shares as so determined (and, for greater certainty, not the number of Common Shares to be issued under the Option) will be deemed to be issued under this Plan.
- 7.6 In order to fulfill the Corporation's obligations under the *Income Tax Act* (Canada) (the "ITA") in respect of withholding and remittance on account of tax payable by Participants on the exercise of Options under Section 7.3 or the disposition of Options under Section 7.5, the Corporation shall advise each Participant, on receiving such Participant's notice of intention to exercise or dispose, the amount of such remittance (the "**Remittance Amount**") required under subsection 153(1) of the ITA. The Participant may pay to the Corporation, as an additional amount on the exercise or disposition of their Options, the Remittance Amount; upon receipt of this amount, the Corporation shall in accordance with Section 7.4 issue to the Participant the Common Shares for which the Option was exercised or disposed.
- 7.7 Should a Participant choose not to pay the Remittance Amount at the time of exercise or disposition of their Options, the Corporation shall retain and sell on behalf of the Participant such number of Common Shares having a value equal to the Remittance Amount on the principal stock exchange on which the common shares are traded to satisfy the Remittance Amount.
- 7.8 Notwithstanding anything else contained herein, each Participant shall be responsible for the payment of all applicable taxes, including, but not limited to, income taxes payable in connection with the exercise of any Options under this Plan and the Corporation, its Directors, Officers, Employees and agents shall bear no liability in connection with the payment of such taxes.

#### **ARTICLE 8 - TRANSFERABILITY**

- 8.1 All benefits, rights and Options accruing to any Participant in accordance with the terms and conditions of this Plan shall be non-transferable and non-assignable. During the lifetime of a Participant any Options granted may only be exercised by the Participant and in the event of the death or permanent disability of a Participant, then in accordance with Article 10 of this Plan.

## **ARTICLE 9 - CEASING TO BE A PARTICIPANT**

- 9.1 Subject to any written agreement between the Corporation and a Participant providing otherwise and subject to the Option Period, if any Participant ceases to hold the position or positions of Director, Officer, Employee or Consultant of the Corporation or any of its Subsidiaries for any reason other than death or permanent disability of the Participant, the Options granted to the Participant will terminate at 5:00 p.m. (Calgary time) on the earlier of the date of the expiration of the Option Period and 90 days after the date such Participant ceases to hold the position or positions of Director, Officer, Employee or Consultant of the Corporation as the case may be, and ceases to actively perform services for the Corporation. Notwithstanding the foregoing, any Options held by a Consultant or Person performing Investor Relations Activities, such Options will terminate at 5:00 p.m. (Calgary time) on the earlier of the date of the expiration of the Option Period and 30 days after such Consultant or Person is no longer retained to perform Investor Relations Activities. For greater certainty:
- (a) subject to any written agreement between the Corporation and a Participant providing otherwise, any Options that have not vested as at the date that a Participant ceases to hold the position or positions of Director, Officer, Employee or Consultant of the Corporation or any of its Subsidiaries, or ceases to be retained to perform Investor Relations Activities, shall be terminated and cancelled by the Corporation immediately at such date; and
  - (b) the termination of any Options, and the period during which the Participant may exercise any Options, shall be without regard to any notice period arising from the Participant ceasing to hold the position or positions of Director, Officer, Employee or Consultant, or to perform Investor Relations Activities of the Corporation or any of its Subsidiaries.
- 9.2 Neither the selection of any Person as a Participant nor the granting of an Option to any Participant under this Plan shall:
- (a) confer upon such Participant any right to continue as a Director, Officer, Employee or Consultant of the Corporation or any of its Subsidiaries or to be retained to perform Investor Relations Activities, as the case may be; or
  - (b) be construed as a guarantee that the Participant will continue as a Director, Officer, Employee or Consultant of the Corporation or any of its Subsidiaries, or to be retained to perform Investor Relations Activities, as the case may be.

## **ARTICLE 10 - DEATH AND PERMANENT DISABILITY OF A PARTICIPANT**

- 10.1 In the event of the death or permanent disability of a Participant, any Option previously granted to the Participant shall be exercisable until the end of the Option Period or until the expiration of 12 months after the date of death or permanent disability of such Participant, whichever is earlier, and then only:
- (a) by the Person or Persons to whom the Participant's rights under the Option shall pass by the Participant's last will and testament or applicable law; and

- (b) to the extent that the Participant was entitled to exercise the Option as at the date of the Participant's death or permanent disability.

#### **ARTICLE 11 - RIGHTS OF PARTICIPANTS**

- 11.1 No Person entitled to exercise any Option granted under this Plan shall have any of the rights or privileges of a Shareholder in respect of any Common Shares issuable upon exercise of such Option until such Common Shares have been paid for in full and issued to that Person.

#### **ARTICLE 12 - PROCEEDS FROM EXERCISE OF OPTIONS**

- 12.1 The proceeds from any sale of Common Shares issued upon the exercise of Options shall be added to the general funds of the Corporation and shall thereafter be used from time to time for such corporate purposes as the Board may determine and direct.

#### **ARTICLE 13 - ADJUSTMENTS**

- 13.1 The number of Common Shares subject to the Plan shall be increased or decreased proportionately in the event of the subdivision or consolidation of the outstanding Common Shares of the Corporation, and in any such event a corresponding adjustment shall be made to the number of Common Shares to be delivered upon the exercise of any Option granted prior to such event without any change in the total price applicable to the unexercised portion of the Option, but with a corresponding adjustment in the price for each Common Share that may be acquired upon the exercise of the Option. In case the Corporation is reorganized or merged, consolidated or amalgamated with another corporation, appropriate provisions shall be made for the continuance of the Options outstanding under this Plan and to prevent their dilution or enlargement. Any adjustment hereunder shall be made in a manner such that the Option shall not be considered to provide for the "deferral of compensation" within the meaning of Section 409A of the Code and the Treasury Regulations thereunder.
- 13.2 Adjustments under this Article 13 shall be made by the Board, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional Common Shares shall be issued upon the exercise of an Option following the making of any such adjustment.

#### **ARTICLE 14 - CHANGE OF CONTROL**

- 14.1 Options may provide that, in the event of a Change of Control, such Option may be exercised, as to all or any of the Common Shares in respect of which such Option has not previously been exercised including the right to purchase Common Shares in relation to Options not otherwise vested at such time, by the Participant at any time up to and including (but not after) the earlier of the date that is 30 days following the date of the Change of Control and the expiry time of such Option.

### **ARTICLE 15 - MAINTENANCE OF SUFFICIENT CAPITAL**

- 15.1 The Corporation shall at all times during the term of this Plan ensure that the number of Common Shares it is authorized to issue shall be sufficient to satisfy the Corporation's obligations under all outstanding Options granted pursuant to this Plan.

### **ARTICLE 16 - AMENDMENT AND TERMINATION OF PLAN**

- 16.1 The Board may, at any time, amend, suspend or terminate this Plan, provided that no such amendment, suspension or termination may be made:
- (a) without obtaining any required approval of any regulatory authority or stock exchange or exchanges having jurisdiction over the securities of the Corporation;
  - (b) without obtaining any required approval of Shareholder, as set out in Sections 17.2 and 17.3 of this Plan; and
  - (c) that will materially prejudice the rights of any Participant under any Option previously granted to the Participant without the consent or deemed consent of the Participant.

### **ARTICLE 17 - SHAREHOLDER APPROVAL**

- 17.1 This Plan must receive Shareholder approval yearly, at the Corporation's Annual General Meeting.
- 17.2 The Corporation must obtain disinterested Shareholder approval (as set out in Section 17.3 hereof) of the grant of Options if under this Plan or any other stock option plan:
- (a) the number of Common Shares reserved for issuance under Options granted to Insiders exceeds 10% of the issued and outstanding Common Shares (calculated on a non-diluted basis);
  - (b) the grant to Insiders, within a 12 month period, of a number of Options could exceed 10% of the issued and outstanding Common Shares (calculated on a non-diluted basis);
  - (c) the grant to any one Participant, within a 12 month period, of a number of Options could exceed 5% of the issued Common Shares (calculated on a non-diluted basis);
  - (d) the grant to Directors that are not Employees or Management Company Employees of a number of Options that would exceed the lesser of: (i) 3% of the total number of issued and outstanding Common Shares (calculated on a non-diluted basis); or (ii) 2% of the total number of issued and outstanding Common Shares (calculated on a non-diluted basis) at such time as the Common Shares of the Corporation are listed for trading on a recognized stock exchange; or

- (e) the Corporation is proposing to increase the total number of Common Shares reserved for issuance under this Plan.
- 17.3 If Section 17.2 hereof applies, the proposed grant(s) under this Plan or any other stock option plan must also be approved by a majority of the votes cast by all Shareholders at a meeting of Shareholders excluding votes attaching to Common Shares beneficially owned by:
- (a) Insiders to whom Options may be granted under this Plan or any other stock option plan; and
  - (b) Associates of Persons referred to in Section 17.3(a) hereof.

#### **ARTICLE 18 - NECESSARY APPROVALS**

- 18.1 The obligation of the Corporation to issue and deliver Common Shares in accordance with this Plan and Options granted pursuant to this Plan are subject to applicable securities legislation and to the receipt of any approvals that may be required from any regulatory authority or stock exchange having jurisdiction over the securities of the Corporation. If Common Shares cannot be issued to a Participant upon the exercise of an Option for any reason whatsoever, the obligation of the Corporation to issue such Common Shares shall terminate and any funds paid to the Corporation in connection with the exercise of such Option will be returned to the Participant as soon as practicable.

#### **ARTICLE 19 - STOCK EXCHANGE RULES**

- 19.1 This Plan and any option agreements entered into under the Plan shall comply with and be subject to the requirements of the stock exchange or exchanges on which the Common Shares are then listed including, filing the required documentation with the stock exchange or exchanges at the end of the calendar month in which an Option is granted, or as required from time to time.

#### **ARTICLE 20 - RIGHT TO ISSUE OTHER SHARES**

- 20.1 The Corporation shall not by virtue of this Plan be in any way restricted from declaring and paying stock dividends, issuing further Common Shares, varying or amending its share capital or corporate structure or conducting its business in any way whatsoever.

**ARTICLE 21 - INTERPRETATION**

21.1 This Plan will be governed by and construed in accordance with the laws of the Province of Alberta.

DATED this \_\_\_\_ day of December, 2010.

**PORTO ENERGY CORP.**

Per:

\_\_\_\_\_  
Joseph P. Ash  
President and Chief Executive Officer

**Schedule A**

**PORTO ENERGY CORP.**

**STOCK OPTION PLAN**

**OPTION AGREEMENT**

This Option Agreement is entered into between Porto Energy Corp. (the “**Corporation**”) and the Participant named below pursuant to the Porto Energy Corp. Stock Option Plan (the “**Plan**”) and confirms that:

- (i) on \_\_\_\_\_ (the “**Grant Date**”);
- (ii) \_\_\_\_\_ (the “**Participant**”);
- (iii) was granted an option to purchase \_\_\_\_\_ Common Shares (the “**Optioned Shares**”) of the Corporation, [exercisable as to ●% on each of the first, ● and ● anniversary dates of the Grant Date on a cumulative basis];
- (iv) at an exercise price (the “**Exercise Price**”) of \$ \_\_\_\_\_ per Common Share; and
- (v) for a term expiring at 5:00 p.m. (Calgary Time), on \_\_\_\_\_ (the “**Expiry Date**”);

all on, and subject to, the terms and conditions of the Plan. By signing this agreement, the Participant acknowledges that they have read and understands the Plan and accepts the Options in accordance with the terms of the Plan.

This Option is not to be treated as an incentive stock option within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended.

IN WITNESS WHEREOF the Corporation and the Participant have executed this Option Agreement as of ●, 201●.

**PORTO ENERGY CORP.**

By: \_\_\_\_\_

\_\_\_\_\_  
Name of Participant

\_\_\_\_\_  
Signature of Participant

**NOTICE OF EXERCISE**

TO: Porto Energy Corp.  
Suite 1040, 885 West Georgia Street  
Vancouver, BC V6C 3E8

Attention: President or Chief Financial Officer

Reference is made to the Option Agreement made as of ●, 201●, between the Corporation and the Participant. The Participant hereby exercises the Option to purchase Shares of the Corporation as follows:

Number of Optioned Shares for which the Option is  
being exercised: \_\_\_\_\_

Exercise Price per Share: \$●

Total Exercise Price (in the form of cash, certified  
cheque or bank draft tendered with this Notice of  
Exercise): \$ \_\_\_\_\_

Name of Participant as it is to appear on share  
certificate: \_\_\_\_\_

Address of Participant as it is to appear on the  
register of Shares of the Corporation and to which a  
certificate representing the Shares being purchased  
is to be delivered:

Dated \_\_\_\_\_

\_\_\_\_\_  
Name of Participant

\_\_\_\_\_  
Signature of Participant

## **APPENDIX "C" – AUDIT COMMITTEE CHARTER**

Please see attached.

**PORTO ENERGY CORP.  
AUDIT COMMITTEE CHARTER**

**1.01            The Board of Directors' Mandate for the Audit Committee**

***The Board of Directors***

The Board of Directors (the “**Board**”) has responsibility for the stewardship of Porto Energy Corp. (the “**Corporation**”). To discharge this responsibility, the Board is obligated by the *Business Corporations Act* (British Columbia) to supervise the management of the business and affairs of the Corporation.

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

- (a) that the Corporation complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure;
- (b) that the Corporation’s quarterly and annual financial statements are accurate within a reasonable level of materiality and fairly presents the Corporation’s financial position and performance in accordance with, for so long as required by applicable regulation, generally accepted accounting principles (“**GAAP**”), and thereafter in accordance with International Financial Reporting Standards (“**IFRS**”);
- (c) that the accounting principles, significant judgments and disclosures which underlie or are incorporated in the Corporation’s financial statements are appropriate in the prevailing circumstances; and
- (d) that appropriate information concerning the financial position and performance of the Corporation is disseminated to the public in a timely manner in accordance with corporate and securities law and with stock exchange regulations.

The Board is of the view that monitoring of the Corporation’s financial reporting and disclosure policies and procedures cannot be reliably met unless the following activities are, in all material respects, conducted effectively:

- (a) the Corporation’s accounting functions are performed in accordance with a system of internal financial controls designed to record accurately all of the Corporation’s financial transactions;
- (b) the internal financial controls are regularly assessed for effectiveness and efficiency;
- (c) the Corporation’s quarterly and annual financial statements are properly prepared by management to comply with GAAP, for so long as required by applicable regulation, and thereafter in accordance with IFRS; and

- (d) the Corporation's quarterly and annual financial statements are reported on by an external auditor appointed by the shareholders of the Corporation.

To assist the Board in its monitoring of the Corporation's financial reporting and disclosure and to conform to applicable corporate and securities law, the Board has established the Audit Committee (the "**Committee**") of the Board.

#### ***Composition of Committee***

- (a) The Committee shall be appointed annually by the Board and consist of at least three members from among the directors of the Corporation.
- (b) Until such date falling on the one-year anniversary of the Corporation receiving a receipt for a final prospectus pursuant to which the Corporation assumes the status of reporting issuer (an "**IPO**"), a majority of the directors comprising the Committee shall be "independent" as such term is defined by National Instrument 52-110-*Audit Committees*. Following the one-year anniversary of an IPO, all of the directors comprising the Committee shall be independent.
- (c) The Board shall designate the Chairman of the Committee.
- (d) In the event of a vacancy arising in the Committee or a loss of independence of any member, the Committee will fill the vacancy within the sooner of six months or the following annual shareholders' meeting.

#### ***Reliance on Experts***

In contributing to the Committee's discharging of its duties under this mandate, each member of the Committee shall be entitled to rely in good faith upon:

- (a) financial statements of the Corporation represented to such Committee member by an officer of the Corporation or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with GAAP, for so long as required by applicable regulation, and thereafter in accordance with IFRS; and
- (b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

#### ***Limitations on Committee's Duties***

In contributing to the Committee's discharging of its duties under the Terms of Reference, each member of the Corporation shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in the Terms of Reference is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject.

## 1.02 Audit Committee Terms of Reference

The Committee's Terms of Reference outline how the Committee will satisfy the requirements set forth by the Board in its Mandate. Terms of Reference reflect the following:

- Operating Principles;
- Operating Procedures; and
- Specific Responsibilities and Duties.

### A. Operating Principles

The Committee shall fulfill its responsibilities within the context of the following principles:

#### (1) *Committee Values*

The Committee expects the management of the Corporation to operate in compliance with corporate policies, reflecting laws and regulations governing the Corporation and to maintain strong financial reporting and control processes.

#### (2) *Communications*

The Committee and members of the Committee expect to have direct, open and frank communications throughout the year with management, other Committee Chairmen, the external auditors, and other Committee advisors or Corporation staff members as applicable.

#### (3) *Financial Literacy*

All members of the Committee should be sufficiently versed in financial matters to read and understand the Corporation's financial statements and also to understand the Corporation's accounting practices and policies and the major judgments involved in preparing the financial statements.

#### (4) *Annual Committee Work Plan*

The Committee, in consultation with management and the external auditors, shall develop an annual Committee work plan responsive to the Committee's responsibilities as set out in these Terms of Reference. In addition, the Committee, in consultation with management and the external auditors, shall participate in a process for review of important financial topics that have the potential to impact the Corporation's financial disclosure.

The work plan will be focused primarily on the annual and interim financial statements of the Corporation; however, the Committee may at its sole discretion, or the discretion of the Board, review such other matters as may be necessary to satisfy the Committee's Terms of Reference.

**(5) *Meeting Agenda***

Committee meeting agendas shall be the responsibility of the Chairman of the Committee in consultation with Committee members, senior management and the external auditors and shall be circulated on a timely basis prior to the Committee meetings.

**(6) *Committee Expectations and Information Needs***

The Committee shall communicate its expectations to management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management and the external auditors at a reasonable time in advance of meeting dates.

**(7) *External Resources***

To assist the Committee in discharging its responsibilities, the Committee may at its discretion, in addition to the external auditors, at the expense of the Corporation, retain one or more persons having special expertise, including independent counsel.

**(8) *In Camera Meetings***

At the discretion of the Committee, the members of the Committee shall meet in private session with the external auditors.

**(9) *Reporting to the Board***

The Committee, through its Chairman, shall report to the Board at the Board's next regular meeting after each Committee meeting.

**(10) *Committee Self Assessment***

The Committee shall annually review, discuss and assess its own performance. In addition, the Committee shall periodically review its role and responsibilities.

**(11) *The External Auditors***

The Committee expects that, in discharging their responsibilities to the shareholders, the external auditors shall report directly and be accountable to the Board through the Committee. The external auditors shall report all material issues or potentially material issues, either specific to the Corporation or to the financial reporting environment in general, to the Committee.

**B. Operating Procedures**

(1) The Committee shall meet at least four times annually, or more frequently as circumstances dictate.

(2) Meetings shall be held at the call of the Chairman, upon the request of two members of the Committee or at the request of the external auditors.

(3) Quorum shall be a majority of the members and the rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing the Board unless otherwise determined by the Committee or the Board.

(4) The Chair shall preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee present shall designate from among the members the Chair for the purposes of the meeting.

(5) Members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.

(6) A member of the Committee or an officer of the Corporation, or any other person selected by the Committee, shall be appointed at each meeting to act as secretary for the purposes of recording the minutes of each meeting.

(7) Minutes of the Committee will be maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.

C. Specific Responsibilities and Duties

To fulfill its responsibilities and duties, the Committee shall:

***Financial Reporting***

(1) Review, prior to public release, the Corporation's annual and quarterly financial statements with management and the external auditors with a view to gaining reasonable assurance that the statements (i) are accurate within reasonable levels of materiality, (ii) are complete, (iii) fairly represent the Corporation's financial position and performance in accordance with GAAP, consistently applied. The Committee shall report on their review of the annual and quarterly financial statements to the Board before such financial statements are approved by the Board;

(2) Receive from the external auditors reports of their review of the annual and quarterly financial statements;

(3) Review, prior to public release, and, if appropriate, recommend approval to the Board, of news releases and reports to shareholders issued by the Corporation with respect to the Corporation's annual and quarterly financial statements;

(4) Review and, if appropriate, recommend approval to the Board of prospectuses, material change disclosures of a financial nature, management discussion and analysis, annual information forms and similar disclosure documents to be issued by the Corporation;

(5) Assess whether the Corporation's accounting policies are being adequately disclosed in the Corporation's financial reporting; and

(6) Review and validate procedures for the receipt, retention and resolution of complaints received by the Corporation from any party regarding accounting, auditing or internal controls. For greater certainty, the Committee's responsibilities in this area will not include complaints about minor operational issues. (Examples of minor operational issues include late payment of invoices, minor disputes over accounts owing or receivable, revenue and expense allocations and other similar items characteristic of the normal daily operations of the accounting department of an oil and gas corporation.)

### ***Accounting Policies***

(1) Review with management and the external auditors the appropriateness of the Corporation's accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto;

(2) Obtain reasonable assurance that the Corporation's accounting policies are in compliance with GAAP consistently applied from management and external auditors and report results to the Board;

(3) Review with management and the external auditors the apparent degree of conservatism of the Corporation's underlying accounting policies, key estimates and judgments and provisions along with quality of financial reporting; and

(4) Participate, if requested, in the resolution of disagreements, between management and the external auditors.

### ***Risk and Uncertainty***

(1) Acknowledging that it is the responsibility of the Board, in consultation with management, to identify the principal business risks facing the Corporation, determine the Corporation's tolerance for risk and approve risk management policies, the Committee shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled by:

- (a) reviewing with management the Corporation's tolerance for financial risks;
- (b) reviewing with management its assessment of the significant financial risks facing the Corporation;
- (c) reviewing with management the Corporation's policies and any proposed changes for managing significant financial risks; and
- (d) reviewing with management its plans, processes and programs to manage and control such risks;

(2) Review policies and compliance with policies that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;

(3) Review foreign currency, interest rate and commodity price risk mitigation strategies, including the use of derivative financial instruments;

(4) Review the adequacy of insurance coverages maintained by the Corporation; and

(5) Review regularly with management, the external auditors and the Corporation's legal counsel, any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these matters have been disclosed in the financial statements.

### ***Financial Controls and Control Deviations***

(1) Review the plans of the external auditors to gain reasonable assurance that the evaluation and testing of applicable internal financial controls is comprehensive, coordinated and cost-effective;

(2) Receive regular reports from management and the external auditors on all significant deviations, indications or detection of fraud and any corrective activity undertaken;

(3) Institute a procedure that will permit any employee, including management employees, to bring to the attention of the Board, under conditions of confidentiality, concerns relating to financial controls and reporting which are material in scope and which cannot be addressed, in the employee's judgment, through existing reporting structures in the Corporation; and

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

### ***Compliance with Laws and Regulations***

(1) Review regular reports from management and others (e.g. external auditors) with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including:

(a) tax and financial reporting laws and regulations;

(b) legal withholding requirements;

(c) other laws and regulations which expose directors to liability; and

(2) Review the filing status of the Corporation's tax returns.

### ***Relationship with External Auditors***

(1) Recommend to the Board the nomination of the external auditors;

(2) Approve the remuneration and the terms of engagement of the external auditors as set forth in the engagement letter and receive a copy of the engagement letter once finalized;

- (3) Review the performance of the external auditors annually or more frequently as required;
- (4) Receive annually from the external auditors an acknowledgement in writing that the shareholders, as represented by the Board and the Committee, are their primary client;
- (5) Receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and related fees) for non-audit services by the Corporation;
- (6) Review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, and the materiality levels which the external auditors propose to employ;
- (7) Meet with the external auditors in the absence of management to determine, *inter alia*, that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the Committee;
- (8) Establish effective communication processes with management and the external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee;
- (9) Establish a reporting relationship between the external auditors and the Committee such that the external auditors can bring directly to the Committee matters that, in the judgment of the external auditors, merit the Committee's attention. In particular, the external auditors will advise the Committee as to disagreements between management and the external auditors regarding financial reporting and how such disagreements were resolved;
- (10) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present auditor and any former external auditors of the Corporation; and
- (11) Review, when there is to be a change of external auditors, all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors, the documentation called for under applicable securities legislation and the planned steps for an orderly transition period.

### ***Other Responsibilities***

- (1) Approve annually the reasonableness of the expenses of the Chairman of the Board and the Chief Executive Officer;
- (2) After consulting with the Chief Financial Officer and the external auditors, to consider at least annually the quality and sufficiency of the Corporation's accounting and financial personnel and other resources;
- (3) Approve in advance non-audit services, including tax advisory and compliance services provided by the external auditors. However, the Committee can establish a threshold

amount for fees for non-audit services to be provided by the external auditors without advance approval of the Committee. The nature of such services and the associated cost will be provided to the Committee prior to the next following Committee meeting;

(4) Investigate any matters that, in the Committee's discretion, fall within the Committee's duties;

(5) Perform such other functions as may from time to time be assigned to the Committee by the Board;

(6) Review and update the Terms of Reference on a regular basis for approval by the Board; and

(7) Review disclosures regarding the organization and duties of the Committee to be included in any public document, including quarterly and annual reports to shareholders, information circulars and annual information forms.

May 2010



