MADALENA VENTURES INC.

ANNUAL INFORMATION FORM

Year Ended December 31, 2006

April 26, 2007

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ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas	
bbl	Barrel	Mcf	thousand cubic feet
bbls	Barrels	MMcf	million cubic feet
Mbbls	thousand barrels	Mcf/d	thousand cubic feet per day
MMbbls	million barrels	MMcf/d	million cubic feet per day
Mstb	1,000 stock tank barrels	MMbtu	million British Thermal Units
bbls/d	barrels per day	Bcf	billion cubic feet
bopd	barrels of oil per day	Tcf	trillion cubic feet
NGLs	natural gas liquids	Gj	gigajoule
STB	stock tank barrels		

Other

AECO	EnCana Corp.'s natural gas storage facility located at Suffield, Alberta
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale
ARTC	Alberta Royalty Tax Credit
BOE or boe	barrel of oil equivalent of natural gas and crude oil on the basis of 1 BOE for 6 Mcf of natural gas
m3	cubic metres
MBOE	1,000 barrels of oil equivalent
Mstboe	1,000 stock tank barrels of oil equivalent
$000's	Thousands of dollars
$mm	Millions of dollars
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade
psi	pounds per square inch

CONVERSIONS

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls oil	6.293
feet	Metres	0.305
metres	Feet	3.281
miles	kilometres	1.609
kilometres	Miles	0.621
acres	Hectares	0.405
hectares	Acres	2.471
gigajoules	MMbtu	0.950

In this document, a boe conversion ratio of 6 Mcf = 1 bbl has been used. Boe's may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

FORWARD LOOKING STATEMENTS

Certain statements contained in this Annual Information Form and in certain documents incorporated by reference into this Annual Information Form, constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form, as the case may be. The Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required pursuant to applicable securities laws.

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

- the quantity of reserves;
- oil and natural gas production levels;
- capital expenditure programs;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development; and
- treatment under government regulatory and taxation regimes.

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

- volatility in market prices for oil and natural gas;
- liabilities and risks inherent in oil and natural gas operations;
- uncertainties associated with estimating reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions; and
- geological, technical, drilling and processing problems.

CERTAIN DEFINITIONS

In this Annual Information Form, the following words and phrases have the following meanings, unless the context otherwise requires:

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

"**Common Shares**" or "**common shares**" means the common shares of Madalena Ventures Inc. as presently constituted;

"**Dry Hole**" or "**Dry Well**" or "**Non-Productive Well**" means a well found to be incapable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well;

"**Exploratory Well**" means a well drilled either in search of a new, as-yet undiscovered oil or natural gas reservoir or to greatly extend the known limits of a previously discovered reservoir;

"**Madalena**" or "**Company**" means Madalena Ventures Inc., a company created under the laws of the Province of British Columbia, and continued under the laws of the Province of Alberta;

"**GLJ**" means GLJ Petroleum Consultants Ltd.;

"**GLJ Report**" means the report of GLJ dated March 28, 2007 evaluating the crude oil, natural gas liquids and natural gas reserves of the Company as at December 31, 2006;

"**Gross**" or "**gross**" means:

(a) in relation to the Company's interest in production and reserves, its "Company gross reserves", which are the Company's interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of the Company;

(b) in relation to wells, the total number of wells in which the Company has an interest; and

(c) in relation to properties, the total area of properties in which the Company has an interest;

"**Net**" or "**net**" means:

(a) in relation to the Company's interest in production and reserves, the Company's interest (operating and non-operating) share after deduction of royalties obligations, plus the Company's royalty interest in production or reserves.

(b) in relation to wells, the number of wells obtained by aggregating the Company's working interest in each of its gross wells; and

(c) in relation to the Company's interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company;

"**NI 51-101**" means National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities;

"**NI 51-102**" means National Instrument 51-102 Continuous Disclosure Obligations; and

"**TSXV**" means the TSX Venture Exchange, Inc.

Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101.

MADALENA VENTURES INC.

The Company

Madalena Ventures Inc. ("**Madalena**" or the "**Company**") was created under the laws of the Province of British Columbia on September 14, 2001, on the amalgamation of Madalena Gold Corporation and Corsair Minerals Inc., as part of a statutory arrangement (the "**Arrangement**") under the former *Issuer Act* (British Columbia) involving Pacific Genesis Technologies, Madalena Gold Corporation, and Corsair Minerals Inc. On September 30, 2004 Madalena Ventures Inc. amalgamated with a wholly owned subsidiary, RMS Medical Systems Research (B.C.) Ltd., and continued as Madalena Ventures Inc.

On August 22, 2006 the Company completed a plan of arrangement whereby the mineral exploration assets, and marketable securities related to the mineral exploration assets, were transferred to Great Bear Resources Inc. ("**GBR**"), with each shareholder of Madalena receiving one common share of GBR for every 15 common shares of Madalena owned by such shareholder. The purpose of the arrangement was to separate the mineral exploration business in GBR so that GBR could carry on the mineral exploration business, and Madalena could focus on its' recently developed oil and gas exploration business.

The Company was continued from the province of British Columbia to the province of Alberta on September 26, 2006.

The Company's Common Shares are listed on the TSXV under the symbol "MVN".

The Company's principal office is located at 200, 441 - 5th Avenue S.W., Calgary, Alberta, T2P 2V1, and the Company's registered office is located at Suite 1400, 350 - 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

Inter-corporate Relationships

The Company has no investments in any other corporations, partnerships or trusts. The Company's Canadian oil and gas exploration, development and production operations are carried on through a joint ventures with Cork Exploration Inc., and Burlington Resources Ltd. Two members of the board of directors of Madalena are also members of the board of directors of Cork Exploration Inc.

GENERAL DEVELOPMENT OF THE BUSINESS

Madalena is an independent, Canadian-based, international upstream oil and gas company whose main business activities include exploration, development and production of crude oil, natural gas liquids and natural gas. The Company has exploration and production operations in Canada and Tunisia and is concentrating on assessing and developing oil and gas investment opportunities in South America.

Three Year History

Madalena's financial position and business operations have changed in several material aspects over the last three completed financial years as described below.

Through 2004, the Company proceeded entirely with certain mineral exploration activities which have subsequently been discontinued. Through fiscal 2005, the Company continued these activities and was successful in having the common shares of the Company listed for trading on the CNQ trading and quotation system.

During 2006, Madalena focused its attention on developing an international oil and gas exploration, development, and production company, and decided to discontinue its mineral exploration activities. A summary of the significant activities are as follows:

(a) During late 2005 and 2006 Madalena made strategic changes to its board of directors and management team to position itself to take advantage of domestic and international oil and gas exploration and development opportunities. Each of the appointments to the board of directors, were individuals with significant oil and gas experience both domestically and internationally. The following significant changes were made to the board of directors and management of the Company during 2005 and 2006:

- October 26, 2005 - Mr. Ray Smith appointed to the board of directors.
- December 29, 2005 - Mr. Mike Lock appointed to the board of directors.
- March 13, 2006 - Mr. Ving Woo appointed to the board of directors.
- March 21, 2006 - Mr. Ken Broadhurst and Mr. Dwayne Warkentin were added to the board of directors and appointed as President and Chief Executive Officer, and Senior Vice President and Chief Operating Officer, respectively. Mr. Ray Smith was appointed chairman of the board of directors.
- June 2, 2006 - Mr. Jeff Lawson was added to the board of directors.
- November 14, 2006 - Mr. Greg Ford, CA was appointed Vice President, Finance and Chief Financial Officer of the Company.

(b) During 2006 Madalena raised approximately $27,000,000 to allow it to compete for oil and gas exploration and development opportunities domestically and in the international market place. A summary of the funds raised through private placement financings is as follows:

- On March 2, 2006, the Company completed a brokered private placement of 12,000,000 common shares at a price of $0.50 per share for total proceeds of $6,000,000. As part of the placement agreement, the agent received 600,000 warrants to purchase 600,000 common shares of Madalena at a price of $0.50 per share until March 2, 2007. The private placement closed March 2, 2006 and was fully subscribed.

- On May 16, 2006 the Company completed a non-brokered private placement of 1,000,000 units at a price of one dollar per unit for total proceeds of $1,000,000. Each unit consisted of one common share and one-half of a share purchase warrant. The warrants allow the owner to purchase 500,000 common shares at $1.25 per share until May 16, 2007.

- In November, 2006, the Company completed a brokered private placement, issuing 5,155,250 units at a price of $0.80 per unit for gross proceeds of approximately $20,000,000. Each unit consisted of one common share and one-half of a share purchase warrant, each warrant entitling the owner to purchase one common share at a price of $0.90 per share and expiring one year from the date of issue. The Company also issued 1,509,315 warrants to purchase 1,509,315 common shares at a price of $0.80 per share and expiring one year from the date of issue, as a part of the agent's commission.

(c) Part of the Company's strategy to grow as an international exploration and development company is to participate in domestic development opportunities in order to create cash flow to cover ongoing general and administration expenses, while it pursues high potential exploration opportunities in the international market place. The Company pursued this initiative during 2006 by participating in two joint venture drilling programs with Cork Exploration Inc. in the Edson and Brazeau areas of Alberta. The Company is not the operator in either of these areas. During 2006, the Company spent approximately $9,200,000 on exploration, development and equipping costs in these two areas, pursuant to the following announcements of the joint venture programs:

- On January 27, 2006 the Company announced that it had entered into a participation agreement with Cork Exploration Inc. to participate in the drilling of four exploration wells located in the Edson area of Alberta. The Company paid 25% of the drilling and abandonment, or completion costs to earn a 12.5% interest in 12 sections.

- On May 8, 2006 the Company announced that it had entered into a participation agreement with Cork Exploration Inc., to participate in the drilling of four exploration wells located in the Brazeau area of Alberta. The Company paid 33.35% of the drilling and abandonment or completion costs to earn interests varying from 17% to 24% in 8.25 sections with options to earn 2 additional sections.

(d) In March of 2006, the Company took steps to further align itself with the oil and gas sector by moving its head office to Calgary, Alberta, from Burnaby, British Columbia. The Company was also continued from the Province of British Columbia to the Province of Alberta on September 26, 2006 pursuant to the applicable provisions of the *Business Corporations Act* (British Columbia) and the *Business Corporations Act* (Alberta), respectively.

(e) In March of 2006, the Company adopted a "plan of arrangement" to distribute its entire mineral exploration business to a related company. The plan of arrangement was approved by the shareholders of the Company on June 2, 2006 and by the Supreme Court of British Columbia on August 22, 2006, and became effective on August 22, 2006. A summary of the plan of arrangement follows:

(i) each shareholder of Madalena received one-fifteenth of a common share of Great Bear Resources Ltd. ("**GBR**") for each common share of Madalena owned by such shareholder at August 22, 2006;

(ii) each shareholder of Madalena received one new common share of Madalena for each common share of Madalena owned by such shareholder on August 22, 2006;

(iii) Madalena retained all petroleum and natural gas assets owned at the time of the plan of arrangement; and

(iv) GBR acquired the mineral property interests.

(f) On May 23, 2006 and June 8, 2006 the Company announced two participation agreements in Tunisia with Storm Ventures International Inc. ("**Storm**").

On May 23, 2005, the Company announced that it had entered into a seismic option agreement with Storm on the Hammamet offshore exploration block containing over 1.1 million acres in the Pelagian basin offshore Tunisia. The block contains the previously developed Tazerka oil field which produced 21 million barrels prior to its deactivation and is offset by eight proven oil discoveries, two of which are scheduled for development by other operators within the next 12 to 18 months. In addition, Lundin Petroleum announced in December 2006 that their Oudna block located offshore Tunisia has exceeded production rates of 20,000 boepd. The Oudna block is located within the geographical boundary of the Hammamet block and is surrounded on three sides by the Hammamet acreage. The Tunisian authorities granted the Hammamet block to Storm on June 2005, for a period of five years, starting September 13, 2005, under favourable fiscal terms. Madalena will be participating for a 30% working interest in an extensive 3-D seismic program of approximately 350 square kilometres to commence during the third or fourth quarter of 2007. Upon review of the 3-D seismic, Madalena will have the option to participate for 30% in the drilling of a test well on the block to earn a 15% working interest and the right to participate in all further development of the block. An evaluation of the extensive 2-D seismic base over the block is currently being undertaken by the parties. The 3-D seismic program has been designed to evaluate the potential reactivation of the Tazerka field, delineate seven significant hydrocarbon shows in wells drilled on the block, evaluate three large untested structures previously recognized on the block and high-grade the most prospective test well location on the block for drilling during 2008.

On June 8, 2006, the Company entered into a second seismic option agreement with Storm on the Remada Sud onshore exploration block containing over 1.2 million acres in the prospective Ghadames basin of southern Tunisia. Madalena will be participating for a 30% working interest in 200 km 2-D seismic program which will provide further delineation of structures identified by 2-D seismic data shot during 2005. It is anticipated the seismic program for the onshore Remada Sud block will commence during the second quarter of 2007 and at least one well will be drilled prior to year end. Upon review of the 2-D seismic Madalena will have the option to participate for 30% in the drilling of a test well on the block to earn a 15% working interest in approximately 600,000 acres of land. Madalena will retain the option to drill a second test well on the block to earn an additional 600,000 acres and will have the right to participate in all further development of the block. The Remada Sud block has exploratory potential in the Ordovician, Silurian Acacus and Triassic formations. All three zones are proven commercially productive from adjoining blocks in Libya and Tunisia. In addition to the proven play concepts defined by offsetting production, there are at least two additional trap configurations prospective on the block that could prove to be significantly larger. The Ghadames basin is widely recognized as a world-class basin.

The Company estimates that the timeline and costs associated with its Tunisian resource properties are as follows:

- $2,300,000 in 2007 to perform seismic operations on two blocks;
- $2,400,000 in 2007 to drill and test the Remada Sud Well; and
- $3,300,000 in 2008 to drill and test an offshore well.

(g) The Company is concentrating on assessing and developing oil and gas investment opportunities in South America with the objective of having significant working interest in selected properties. The Company is committed to alignment with high quality joint ventures partners whose skill sets add value to our own. Several additional opportunities for exploration and acquisition in South America are currently under evaluation by the Company.

Significant Acquisitions

The Company did not complete any significant acquisitions for which disclosure is required under Part 8 of NI 51-102 within or since the completion of its most recently completed financial year.

DESCRIPTION OF THE BUSINESS AND PRINCIPAL PROPERTIES

In March of 2006 Madalena shifted its focus from Canadian mining operations to international oil and gas exploration and development. An experienced international management team joined Madalena in April 2006. In May and June of 2006, Madalena announced that it had entered into Seismic Option and Joint Venture Agreements with Storm Ventures International Inc. to jointly explore the Hammamet offshore and Remada Sud onshore blocks in Tunisia. Madalena has also participated in the drilling of ten wells in Alberta during 2006.

The Company is focused on South America and Tunisia for the establishment of its initial core asset bases. The Company successfully closed an equity financing in December of 2006 for approximately $20 million in gross proceeds for international investment purposes. Strategic alliances negotiated with other international companies and local operating companies established in these core areas have yielded a number of prospective investment opportunities currently under evaluation by Madalena.

Madalena’s strategy is to create value through the generation of a balanced portfolio of high quality oil and gas assets in proven hydrocarbon areas characterized by competitive fiscal terms and significant development potential.

The following paragraphs outline the current and planned activities of the principle properties of Madalena Ventures Inc. as described above under the Corporation’s Three Year History.

Principle Properties

Canada, (Brazeau and Edson Areas of Alberta)

All of Madalena’s oil and gas revenue is generated from oil and gas properties drilled during 2006 in Canada. As well, all the Corporation’s reserves are associated with the Canadian properties. Four wells were drilled in the Edson area and six in the Brazeau area during 2006 under terms outlined in the Corporate History above. At year end 2006, five of those wells were on production, and five waiting on completion and/or EUB approval for commingling. By the fourth quarter, production averaged 198 mcfd and 7 barrels of natural gas liquids per day for a total of 40 boepd. Since year end 2006, one oil well has been brought on stream, and two additional wells drilled, one in which Madalena Ventures Inc. declined to participate in completion. The oil well was placed on production in mid-April 2007 and production volumes will be announced following adequate production history.

Remada Sud (Onshore), Tunisia

The planned 2-D seismic acquisition is expected to commence in Remada Sud during the second quarter 2007 providing further delineation of structures identified by the 2-D seismic data shot during 2005. Plans are then to drill on this property during the second half of 2007.

Hammamet (Offshore), Tunisia

The 3-D seismic program has been delineated to highlight existing leads and prospects in the offshore Hammamet area. Discussions with contractors have commenced and shooting is expected to occur during the third quarter, 2007.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The reserves data set forth below (the "**Reserves Data**") is based upon an evaluation by GLJ of the Reserves in association with Madalena's assets. The GLJ Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in NI 51-101 and the COGE Handbook. The Reserves Data summarizes the oil, liquids and natural gas reserves associated with Madalena's assets and properties and the net present values of future net revenue for these Reserves using constant prices and costs and forecast prices and costs as at December 31, 2006. The Reserves Data conforms with the requirements of NI 51-101. Madalena engaged GLJ to provide evaluations of Proved Reserves and Proved plus Probable Reserves.

All evaluations of future revenue are stated after the deduction of future income tax expenses (unless otherwise noted in the tables), royalties, development costs, production costs and well abandonment costs but before consideration of indirect costs such as administrative, overhead and other miscellaneous expenses. The estimated future net revenue contained in the following tables does not necessarily represent the fair market value of the Reserves associated with Madalena's assets and properties. There is no assurance that the forecast price and cost assumptions contained in the GLJ Report will be attained and variances could be material. Other assumptions and qualifications relating to costs and other matters are summarized in the notes to the following tables. The recovery and reserves estimates for Madalena's assets and properties described herein are estimates only and there is no guarantee that the estimated Reserves will be recovered. The actual Reserves for Madalena's assets and properties may be greater or less than those calculated.

The Report of Management and Directors on Oil and Gas Disclosure (on Form 51-101F3) and the Report on Reserves Data by GLJ Petroleum Consultants Ltd. (on Form 51-101F2) are included in this AIF. See "Form 51-101F2 - Report on Reserves Data by GLJ Petroleum Consultants Ltd." and, "Form 51-101F3 - Report of Management and Directors on Oil and Gas Disclosure" attached hereto as Appendices A and B, respectively.

SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE at December 31, 2006

CONSTANT PRICES AND COSTS

	Reserves							
	Natural Gas		NGL		Light/Medium Crude Oil		Oil Equivalent	
Reserves Category	**Gross (MMcf)**	**Net (MMcf)**	**Gross (Mbbl)**	**Net (Mbbl)**	**Gross (Mbbl)**	**Net (Mbbl)**	**Gross (Mbbl)**	**Net (Mbbl)**
Proved								
Developed Producing	311	283	13	11	0	0	65	58
Developed Non-Producing	213	161	9	6	23	19	68	52
Undeveloped	145	121	6	5	0	0	31	25
Total Proved	670	566	28	22	23	19	163	135
Probable	423	357	17	13	12	9	99	81
Total Proved Plus Probable	1,093	923	45	34	35	28	263	216

	Net Present Values of Future Net Revenue									
	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
Reserves Category	**0 (000 $)**	**5 (000 $)**	**10 (000 $)**	**15 (000 $)**	**20 (000 $)**	**0 (000 $)**	**5 (000 $)**	**10 (000 $)**	**15 (000 $)**	**20 (000 $)**
Proved										
Developed Producing	1,890	1,477	1,230	1,066	948	1,890	1,477	1,230	1,066	948
Developed Non-Producing	2,084	1,620	1,309	1,094	940	2,084	1,620	1,309	1,094	940
Undeveloped	606	452	342	262	202	606	452	342	262	202
Total Proved	4,579	3,548	2,881	2,422	2,090	4,579	3,548	2,881	2,422	2,090
Probable	2,669	1,535	1,005	713	535	2,669	1,535	1,005	713	535
Total Proved Plus Probable	7,248	5,083	3,887	3,135	2,625	7,248	5,083	3,887	3,135	2,625

TOTAL FUTURE NET REVENUE (UNDISCOUNTED) at December 31, 2006

CONSTANT PRICES AND COSTS

Category	**Revenue (000 $)**	**Royalties (Includes ARTC) (000 $)**	**Operating Costs (000 $)**	**Develop-ment Costs (000 $)**	**Other Income (000 $)**	**Well Abandonment and Reserves Reclamation Costs (000 $)**	**Future Net Revenue Before Income Taxes (000 $)**	**Income Taxes (000 $)**	**Future Net Revenue After Income Taxes (000 $)**
Proved Reserves	7,679	1,206	1,347	455	0	93	4,579	0	4,579
Proved Plus Probable Reserves	12,248	1,988	2,323	586	0	104	7,248	0	7,248

FUTURE NET REVENUE
BY PRODUCTION GROUP
at December 31, 2006

CONSTANT PRICES AND COSTS

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year) (000 $)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	-
	Heavy Oil (including solution gas and other by-products)	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	-
Proved plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	2,881
	Heavy Oil (including solution gas and other by-products)	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	3,887

SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
at December 31, 2006

FORECAST PRICES AND COSTS

	Reserves							
	Natural Gas		NGL		Light/Medium Crude Oil		Oil Equivalent	
Reserves Category	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)
Proved								
Developed Producing	313	284	13	11	0	0	65	58
Developed Non-Producing	213	161	9	6	23	19	68	52
Undeveloped	145	120	6	5	0	0	31	25
Total Proved	672	564	28	22	23	19	164	135
Probable	424	358	17	13	12	9	100	81
Total Proved Plus Probable	1,096	922	46	34	35	28	263	216

	Net Present Values of Future Net Revenue									
	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
Reserves Category	0 (000 $)	5 (000 $)	10 (000 $)	15 (000 $)	20 (000 $)	0 (000 $)	5 (000 $)	10 (000 $)	15 (000 $)	20 (000 $)
Proved										
Developed Producing	2,486	1,879	1,533	1,310	1,155	2,486	1,879	1,533	1,310	1,155
Developed Non-Producing	2,430	1,855	1,476	1,216	1,033	2,430	1,855	1,476	1,216	1,033
Undeveloped	811	609	467	363	286	811	609	467	363	286
Total Proved	5,727	4,344	3,475	2,890	2,474	5,727	4,344	3,475	2,890	2,474
Probable	3,952	2,111	1,334	928	689	3,952	2,111	1,334	928	689
Total Proved Plus Probable	9,679	6,455	4,808	3,818	3,163	9,679	6,455	4,808	3,818	3,163

TOTAL FUTURE NET REVENUE (UNDISCOUNTED) at December 31, 2006

FORECAST PRICES AND COSTS

Reserves Category	Revenue (000 $)	Royalties (Includes ARTC) (000 $)	Operating Costs (000 $)	Develop-ment Costs (000 $)	Other Income (000 $)	Well Abandonment and Reclamation Costs (000 $)	Future Net Revenue Before Income Taxes (000 $)	Income Taxes (000 $)	Future Net Revenue After Income Taxes (000 $)
Proved Reserves	9,340	1,490	1,537	472	0	115	5,727	0	5,727
Proved Plus Probable Reserves	15,824	2,545	2,851	603	0	145	9,679	0	9,679

FUTURE NET REVENUE BY PRODUCTION GROUP at December 31, 2006

FORECAST PRICES AND COSTS

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year) (000 $)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	-
	Heavy Oil (including solution gas and other by-products)	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	3,475
Proved plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	-
	Heavy Oil (including solution gas and other by-products)	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	4,808

Note:

(1) The forecast cost and price assumptions assume the continuance of current laws and regulations and increase in wellhead selling prices and they take into account inflation with respect to future operating costs and capital costs. In the GLJ Report, operating costs are assumed to escalate at 2% per annum. Oil and natural gas base case prices as forecast by GLJ effective January 1, 2007, are as follows:

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
at December 31, 2006
FORECAST PRICES AND COSTS

GLJ Petroleum Consultants
Natural Gas Price Forecast
Effective January 1, 2007

		Alliance						
		Spot						
Year	AECO-C Spot Then Current (Cdn$/MMbtu)	Then Constant 2007 ($/MMbtu)	Then Current ($/MMbtu)	ARP ($/MMbtu)	Aggregator ($/MMbtu)	Alliance ($/MMbtu)	Inflation Rates (%/year)	Exchange Rate ($US/$CDN)
2007	7.20	7.00	7.00	6.95	6.90	6.65	2.0	.870
2008	7.45	7.10	7.25	7.25	7.25	7.05	2.0	.870
2009	7.75	7.25	7.55	7.55	7.55	7.10	2.0	.870
2010	7.80	7.15	7.60	7.60	7.60	7.20	2.0	.870
2011	7.85	7.05	7.65	7.65	7.65	7.25	2.0	.870
2012	8.15	7.20	7.95	7.95	7.95	7.50	2.0	.870
2013	8.30	7.20	8.10	8.10	8.10	7.70	2.0	.870
2014	8.50	7.20	8.30	8.30	8.30	7.85	2.0	.870
2015	8.70	7.25	8.50	8.50	8.50	8.05	2.0	.870
2016	8.90	7.25	8.65	8.65	8.65	8.20	2.0	.870
2017	9.10	7.25	8.85	8.85	8.85	8.40	2.0	.870
2018+	+2.0%/yr	7.25	+2.0%/yr		Escalate at 2.0% per year			

GLJ Petroleum Consultants
Crude Oil and Natural Gas Liquids
Price Forecast
Effective January 1, 2007

			NYMEX WTI Near Month Futures Contract Crude Oil at Cushing Oklahoma		Light, Sweet Crude Oil (40 API, 0.3%S) at Edmonton		Alberta Natural Gas Liquids (Then Current Dollars			
Year	Inflation %	Bank of Canada Average Noon Exchange Rate $US/$Cdn	Constant 2007 $$US/bbl	Then Current $US/bbl	Constant 2007 $Cdn/bbl	Then Current $Cdn/bbl	Spec Ethane $Cdn/bbl	Edmonton Propane $Cdn/bbl	Edmonton Butane $Cdn/bbl	Edmonton Pentanes Plus $Cdn/bbl
2007	2.0	.870	62.00	62.00	70.25	70.25	24.25	45.00	56.25	71.75
2008	2.0	.870	58.75	60.00	66.75	68.00	25.25	43.50	50.25	69.25
2009	2.0	.870	55.75	58.00	63.25	65.75	26.25	42.00	48.75	67.00
2010	2.0	.870	53.75	57.00	60.75	64.50	26.50	41.25	47.75	65.75
2011	2.0	.870	52.75	57.00	59.50	64.50	26.50	41.25	47.75	65.75
2012	2.0	.870	52.00	57.50	58.75	65.00	27.75	41.50	48.00	66.25
2013	2.0	.870	52.00	58.50	58.75	66.25	28.25	42.50	49.00	67.50
2014	2.0	.870	52.00	59.75	59.00	67.75	29.00	43.25	50.25	69.00
2015	2.0	.870	52.00	61.00	59.00	69.00	29.50	44.25	51.00	70.50
2016	2.0	.870	52.00	62.25	59.00	70.50	30.00	45.00	52.25	72.00
2017	2.0	.870	52.00	63.50	58.75	71.75	30.75	46.00	53.00	73.25
2018+	2.0	.870	52.00	+2.0%/yr	58.75	+2.0%/yr		Escalate at 2.0% per year		

Historical futures contract price is an average of the daily settlement price of the near month contract over the calendar month.

SUMMARY OF PRICE ASSUMPTIONS
as at December 31, 2006

CONSTANT PRICES AND COSTS

Natural Gas	Crude Oil	Natural Gas Liquids			
Plant Gate ($Cdn/mmbtu)	Light, Sweet @ Edmonton ($Cdn/bbl)	Pentanes Plus Field Gate ($Cdn/bbl)	Butanes Field Gate ($Cdn/bbl)	Inflation Rate %/Yr.	Exchange Rate ($US/$Cdn)
5.82	67.58	71.55	54.06	2.0	0.8581

Notes:

(1) The constant price assumptions assume the continuance of current laws, regulations and operating costs in effect on the date of the GLJ Report. Product prices were not escalated beyond December 31, 2006. In addition, operating and capital costs have not been increased on an inflationary basis.

(2) The extent and characteristics of all factual data supplied to GLJ were accepted by GLJ as represented. The oil and natural gas reserve calculations and any projections upon which the GLJ Report is based were determined in accordance with generally accepted evaluation practices. No field inspection was conducted. Salvage values for facilities and lease reclamation costs have not been included in the GLJ Report (well abandonment costs associated with existing and future reserves wells have been included).

(3) The royalties deducted from the Reserves are based on the percentage royalty calculated by applying the applicable royalty rate or formula. In the case of Crown sliding scale royalties which are dependent on selling prices, the price forecasts for the individual properties in question have been employed.

Reconciliation of Net Reserves by Principal Product Type

The following table summarizes the changes in reserves from December 31, 2005[(1)] to December 31, 2006[(1)]:

FORECAST PRICES AND COSTS

	Light & Medium Crude Oil			NGLs			Natural Gas			Total boe		
FACTORS	**Net Proved (mbbls)**	**Net Probable (mbbls)**	**Net Proved Plus Probable (mbbls)**	**Net Proved (mbbls)**	**Net Probable (mbbls)**	**Net Proved Plus Probable (mbbls)**	**Net Proved (mmcf)**	**Net Probable (mmcf)**	**Net Proved Plus Probable (mmcf)**	**Net Proved (boe)**	**Net Probable (boe)**	**Net Proved Plus Probable (boe)**
December 31, 2005	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-	-	-	2	1	3	1	-	1
Discovery	-	-	-	1	2	3	49	73	122	9	14	23
Extension	19	9	28	21	11	32	547	284	832	132	67	199
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	1	-	(1)	(34)	-	(34)	(7)	-	(7)
December 31, 2006	19	9	28	22	13	34	564	358	922	135	81	216

Note:

(1) Based on net reserves and using forecast cost and price cases.

Historical Undeveloped Reserves – Constant Prices and Costs

The following table discloses the volumes of undeveloped reserves that were first attributed in each of the Corporation's financial years.

	Proved Undeveloped Reserves			Probable Undeveloped Reserves		
Year	Crude Oil Light and Medium (mbbls)	NGLs (mbbls)	Natural Gas (mmcf)	Crude Oil Light and Medium (mbbls)	NGLs (mbbls)	Natural Gas (mmcf)
2006	-	6	145	-	-	-
2005	-	-	-	-	-	-

Proved Undeveloped Reserves

The Corporation generally attributes proved undeveloped reserves under the following categories:

1. Wells which are budgeted and scheduled to be drilled in the near future and are located between existing wells such that there is a high degree of certainty that the reservoir is present and producible in these locations.

2. Enhanced recovery recognition on pools which the Corporation expects to be put under [EOR] within the next year and/or incremental recovery from recently implemented [EOR] projects.

The Corporation does not carry proved undeveloped reserves for long periods of time unless there is a good reason (such as the above) for not putting these reserves on production in the short term. In fact, where there is sufficient economic justification, the Corporation will often take steps to accelerate production from gas caps and secondary zones. These steps involve early gas cap blowdown when it does not significantly impact oil recovery and dually completing or twinning wells for secondary zones.

Probable Undeveloped Reserves

Probable undeveloped reserves are, for the most part, attributed to step-out drilling locations, re-completion and tie-ins that are anticipated to proceed in the near term but do not meet the required confidence factor to be booked as proved.

Significant Factors or Uncertainties

The process of evaluating reserves is inherently complex. It requires judgment and making decisions based on available geological, geophysical, engineering and economic data. Estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserves estimates contained herein are based on current production forecasts, geological evaluation, engineering data, prices and economic conditions. The Reserves associated with the Madalena assets have been evaluated by GLJ, an independent engineering firm. These factors and assumptions include, among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the Reserves.

As circumstances change and additional data becomes available, Reserves estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions. Revisions to Reserves estimates can arise from changes in, among other things, year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

Future Development Costs

The following table outlines the forecast for future development costs associated with Madalena assets and properties for the reserves categories noted below, calculated on an undiscounted and a discounted (10%) basis:

	Future Development Costs Constant Prices and Costs (000 $)		Future Development Costs Forecast Prices and Costs (000 $)	
Year	**Proved Reserves**	**Proved Plus Probable Reserves**	**Proved Reserves**	**Proved Plus Probable Reserves**
2007	63	194	63	194
2008	320	320	326	326
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
Remainder	72	72	83	83
Total (Undiscounted)	455	586	472	603
Total (Discounted at 10%)	372	498	383	508

Future development costs are capital expenditures which will be required in the future for Madalena to convert Proved Undeveloped Reserves and Probable Reserves to Proved Developed Producing Reserves.

On an ongoing basis, Madalena intends to use internally generated cash flow from operations, debt (where deemed appropriate) and new equity issues (if available on favourable terms) to finance its capital expenditure program. When financing corporate acquisitions, Madalena may also assume certain future liabilities.

Other Oil and Gas Information

Landholdings

The following table sets forth the developed and undeveloped landholdings of Madalena as at December 31, 2006:

	Total Developed Undeveloped & Right to Earn		Developed		Undeveloped		Right to Earn	
Location	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Acres								
Edson	9,600	1,253	3,200	427	6,400	827	-	-
Brazeau	8,000	1,891	4,000	940	4,000	951	-	-
	17,600	3,144	7,200	1,367	10,400	1,778	-	-

Oil and Natural Gas Wells

The following table sets forth the number and status of wells in which Madalena has a working interest and which are producing or which Madalena considers to be capable of production as at December 31, 2006:

Location	Producing Wells				Shut-in Wells[1]			
	Oil		Natural Gas		Oil		Natural Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Edson	-	-	1	0.1	-	-	3	0.4
Brazeau	-	-	4	0.9	1	0.2	1	0.2
Total	-	-	4	1	1	0.2	4	0.6

Note:

(1) "**Shut-in**" wells refers to wells that have encountered, and are capable of producing, crude oil or natural gas but which are not producing due to the timing of the well completion and/or tie in which is anticipated to occur in 2007

Properties With No Attributed Reserves

The following table sets forth Madalena's undeveloped land position as at December 31, 2006:

Location	Gross		Net	
	Acres	Sections	Acres	Sections
Edson	6,400	10	827	1
Brazeau	4,000	6	951	2
Total	10,400	16	1,778	3

DIVIDEND POLICY

On November 16, 2004 the Company announced the declaration of a dividend in specie of 2,970,640 common shares of Planet shares to the beneficial owners of Madalena common shares at the close of business on November 15, 2004. The terms of the dividend called for the Company to set aside and transfer 0.675 of a Planet share for each issued and outstanding Madalena common share owned by a shareholder of Madalena at November 15, 2004. In order to receive the Planet shares Madalena shareholders had to fulfill certain conditions precedent.

In 2004 no Planet shares were distributed and no dividends were recorded. In 2005 the Company distributed 1,898,498 Planet shares to shareholders and recorded dividend distributions of $953,784 based on the fair value of the Planet shares at the dates of distribution. In 2006 the Company distributed 96,063 Planet shares to shareholders and recorded dividend distributions of $51,716 based on the fair value of the Planet shares at the dates of distribution. The remaining Planet shares, being 975,179 shares, were transferred to Great Bear Resources Ltd. pursuant to the Plan of Arrangement dated August 22, 2006. As part of the Plan of Arrangement, Great Bear Resources Ltd. has assumed all obligations to distribute future Planet shares.

The board of directors of the Company will determine the timing, payment and amount of future dividends, if any, that may be paid by the Company from time to time based upon, among other things, the cash flow, results of operations and financial condition of the Company, the need for funds to finance ongoing operations and other business considerations as the board of directors considers relevant.

DESCRIPTION OF CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of common shares without nominal or par value. As at April 16, 2007, there were 107,368,699 common shares issued and outstanding. In addition, as at such date, there were an aggregate of 7,900,000 common shares reserved for issuance upon the exercise of outstanding options to purchase common shares, and an aggregate of 14,586,940 common shares reserved for issuance upon the exercise of outstanding warrants to purchase common shares.

The following is a summary of the rights, privileges, restrictions and conditions attaching to the common shares of the Company. Documents affecting the rights of securityholders, including the Company's Articles, have been filed in accordance with National Instrument 51-102 and are available on the Company's SEDAR profile at www.sedar.com.

Each Common Share entitles its holder to receive notice of and to attend all meetings of the shareholders of the Company and to one vote at such meetings. The holders of Common Shares are, at the discretion of the board of directors of the Company and subject to applicable legal restrictions, entitled to receive any dividends declared by the board of directors on the Common Shares, subject to prior satisfaction of all preferential rights attached to all shares of other classes of the Company ranking in priority to the Common Shares. The holders of Common Shares are entitled to share equally in any distribution of the assets of the Company upon the liquidation, dissolution, bankruptcy or winding-up of the Company or other distribution of its assets among its shareholders for the purpose of winding-up its affairs, subject to prior satisfaction of all preferential rights attached to all shares of other classes of the Company ranking in priority to the Common Shares.

MARKET FOR SECURITIES

The common shares of the Company trade on the TSXV under the symbol "MVN". The common shares were listed and began trading on the TSXV on February 16, 2007. Prior to February 16, 2007, the common shares of the Company were listed for trading on the Canadian Trading and Quotation System ("**CNQ**").

The following table sets forth the price range and volume of the Common Shares as reported by the CNQ for the periods indicated.

2006	High	Low	Volume
January	$ 0.60	$ 0.40	1,705,878
February	0.70	0.53	1,407,922
March	0.85	0.62	1,366,921
April	1.15	0.73	1,968,804
May	1.55	1.02	2,574,036
June	1.40	0.99	1,295,542
July	1.00	0.91	1,951,711
August	1.15	0.90	1,660,411
September	0.94	0.73	1,175,326
October	0.89	0.75	883,445
November	0.90	0.72	789,179
December	0.82	0.72	290,700

ESCROWED SECURITIES

When the Company listed its common shares for trading on the TSX Venture exchange, the exchange considered 7,576,500 common shares of the Company to be "value securities" and required that they be subject to escrow. As of the date hereof, 6,818,850 common shares remain subject to escrow in accordance with value security escrow agreement (the "**Escrow Agreement**") among the shareholders, the Company, and Computershare Trust Company of Canada, as trustee. The following table provides a summary of the percentage of original shares, number of shares and the dates of release of the original common shares subject to escrow.

%	Number of shares released	Release Date
10%	757,650	At listing date – February 16, 2007
15%	1,136,475	6 months – August 16, 2007
15%	1,136,475	12 months – February 16, 2008
15%	1,136,475	18 months – August 16, 2008
15%	1,136,475	24 months – February 16, 2009
15%	1,136,475	30 months – August 16, 2009
15%	1,136,475	36 months – February 16, 2010

DIRECTORS AND OFFICERS

The name and place of residence of each director and officer, the offices held by each in the Company, and the principal occupation of the directors and officers, the period served as director and the number of securities of the Company owned by such individuals as at April 16, 2007 is as follows:

Name, Address and Position	Principal Occupation for the Previous 5 Years	Director Since	Number of Common Shares
Ken Broadhurst Alberta, Canada Director / President / Chief Executive Officer	Currently the President and Chief Executive Officer of the Issuer; formerly self-employed as consulting President and Chief Executive Officer of privately owned Era Oil & Gas Corp. and Egypt Production Interest Corp. from September, 2001 until joining the Company.	February 24, 2006	1,370,000 (direct) 2,500,000 (options)
Dwayne Warkentin Alberta, Canada Director / Senior Vice President / Chief Operating Officer	Chief Operating Officer of the Issuer. Prior thereto, Chief Operating Officer from February, 2005 and Vice President, Operations since 1999 at Antrim Energy Inc.	February 24, 2006	1,100,000 (direct) 2,500,000 (options)
Greg Ford Alberta, Canada Chief Financial Officer	Executive Director of Ernst & Young LLP from February 1999 until joining the Company.	N/A	1,000,000 (options)
Ray Smith California, USA Director / Chairman(4) (5) (6) (7)	Currently Chairman of the Board of Cruiser Oil and Gas Ltd. and Cork Exploration Ltd., both public oil and gas exploration companies. Formerly Chairman and CEO of Meridian Energy Corp. from September 2002 until March 2005. President and CEO of Corsair Exploration Inc. from July 1999 to January 2002.	October 12, 2005	4,846,500 (direct) 187,500 (warrants)
Mike Lock Alberta, Canada Director(4) (5) (6)	President of Upsilon Holdings Ltd., a privately owned consulting company.	December 29,2005	310,000 (direct)(1) 200,000 (indirect)(2) 300,000 (options)
Ving Woo Alberta, Canada Director(4) (7)	Currently director of Cork Exploration Inc., a public oil and gas company. Formerly Vice President, Engineering for Meridian Energy Corp. from September 2002 until March 2005. Formerly Vice President, Engineering for Corsair Exploration Inc. from July 1999 until April 2002. Formerly Vice President, Engineering for New Cache Petroleum from February 1996 until February 1999.	March 10, 2006	625,000 (direct) 100,000 (indirect)(3) 300,000 (options)
J.G. (Jeff) Lawson Alberta, Canada Director(5)	Partner, Burnet, Duckworth & Palmer LLP.	June 2, 2006	300,000 (options)
John Wilson Alberta, Canada Corporate Secretary	Associate with Burnet, Duckworth & Palmer LLP since 2006. Prior thereto, student.	N/A	50,000 (options)

Notes:

(1) Ms. Kathryn Lock, the spouse of Mike Lock, holds directly 500,000 Common Shares.
(2) 200,000 Common Shares are held by Mr. Mike Lock in trust for one minor and three adult children.
(3) 100,000 Common Shares are held in Mr. Woo's CIBC Wood Gundy RRSP account.
(4) Member of the Audit Committee.
(5) Member of the Corporate Governance Committee.
(6) Member of the Compensation Committee.
(7) Member of the Reserves Committee.

The directors and officers of the Company own, directly or indirectly, or control or exercise direction over 8,401,500 common shares, representing 7.8% of the issued and outstanding common shares.

Each director of the Company holds office from the time elected until the next annual meeting of the Company at which time they shall retire but, if qualified, shall be eligible for re-election. All officers of the Company, in the absence of agreement to the contrary, shall be subject to removal by resolution of the board of directors of the Company at any time, with or without cause.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as set forth below, no director or officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company is, or within the last ten years has been, a director or officer of any company (including Madalena) that, while such person was acting in that capacity: (i) was the subject of a cease trade or similar order or an order that denied the Company access to any exemption under securities legislation for a period of more than 30 consecutive days; or (ii) was subject to an event that resulted, after the director or officer ceased to be a director or officer, in the company being the subject of a cease trade order or an order that denied the Company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) within a year of such person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

Mr. Mike Lock was Vice President of Land for Big Bear Exploration Inc. ("**Big Bear**"), which filed under the *Companies Creditor Arrangement Act* (Canada) in March of 1999. Mr. Lock left employment with Big Bear in November of 1999.

Jeff Lawson has been a director of BakBone Software Incorporated ("**BakBone**") since 2000. In October 2004, BakBone announced that, in conjunction with a change of accountants, it would not be in a position to file its quarterly report on Form #10-Q for the September 30, 2004 period and consequently, on December 4, 2004, each of the Alberta, British Columbia and Ontario Securities Commissions issued cease trade orders against BakBone to the effect that all trading in the securities of BakBone cease until it has filed its financial statements in accordance with Canadian securities legislation. These orders remain outstanding at present date, and will continue in effect until such time as BakBone has filed all of its outstanding financial statements.

No director or officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

No director, officer or promoter of the Company, or a shareholder holding sufficient securities of the Company to affect materially the control of the Company, or a personal holding company of any such persons, has, within the 10 years preceding the date of this document, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or being subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the individual.

Conflicts of Interest

Directors and officers of the Company may, from time to time, be involved with the business and operations of other oil and gas issuers, in which case a conflict may arise. No assurances can be given that opportunities identified by such board members or officers will be provided to the Company. However, directors who have an interest in any proposed transaction upon which the board of directors of the Company is voting are required to disclose their interests and refrain from voting on the transaction. See "Risk Factors". In addition, the directors are required to act honestly and in good faith with a view to the best interest of the Company. Certain directors of the Company have either other employment or other business or time restrictions placed on them and accordingly, these directors will only be able to devote part of their time to the affairs of the Company.

The Company had the following related party transactions:

(a) Two directors of the Company are also directors of a public exploration company with which Madalena is in engaged in joint venture operations. All of the Company's oil and gas revenues, royalties and operating expenses are derived from this joint venture. At December 31, 2006 the Company has accounts payable due to this joint venture partner of $858,625.

(b) The Company utilizes the services of a law firm in which one of the directors is a partner. During the year ended December 31, 2006 the Company expended $108,883 on services obtained from this firm.

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of the consideration established and agreed to by the related parties and which is the same as those negotiated with third parties.

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate and Terms of Reference

The Mandate and Terms of Reference of the Audit Committee of the board of directors is attached hereto as Schedule "C". The members of the Audit Committee are Ray Smith, Mike Lock, and Ving Woo.

Composition of the Audit Committee

The members of the Audit Committee are independent (in accordance with National Instrument 52-110) and are financially literate. The following table sets out the assessment of each of Audit Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

Name and Municipality of Residence	Independent	Financially Literate	Relevant Education and Experience
Ray Smith California, USA	Yes	Yes	Mr. Smith is currently Chairman of the Board of Cruiser Oil and Gas Ltd. and Cork Exploration Ltd., both public oil and gas exploration companies. Mr. Smith was formerly Chairman and CEO of Meridian Energy Corp., President and CEO of Corsair Exploration Inc., President, Chairman and CEO of Rydal Energy, and President and CEO of New Cache Petroleum. Mr. Smith is a Director of True Energy Trust, Cork Exploration Inc., Cruiser Oil & Gas Ltd., and Rolling Thunder Exploration. Mr. Smith has a proven track record of building companies and significantly increasing shareholder value. Mr. Smith is a Petroleum Engineer with over 33 years experience in oil and gas exploration.
Ving Woo Calgary, Alberta	Yes	Yes	Mr. Woo is currently a director of Cork Exploration Inc., a public oil and gas company. Prior to that Mr. Woo held the position of Vice President, Engineering for Meridian Energy Corp., Corsair Exploration Inc., and New Cache Petroleum. Mr. Woo is a petroleum engineer with thirty six years of industry experience. He graduated from the University of Calgary in 1970 with a B.Sc. in Chemical Engineering. Since starting his career, he has gained experience in all facets of petroleum engineering with particular emphasis on reservoir engineering, economic evaluations, drilling and completions, production operations as well as optimization of oil and gas properties.

Name and Municipality of Residence	Independent	Financially Literate	Relevant Education and Experience
Mike Lock Calgary, Alberta	Yes	Yes	Mr. Lock is currently President of Upsilon Holdings Ltd., a privately owned land consulting company providing land consulting services to a number of junior oil and gas company's including Meridian Energy Corporation, Resolute Energy Inc. and Cork Exploration Inc. Mr. Lock has 27 years of experience as a negotiator, manager and officer for public and private companies. Mr. Lock was previously Vice President of Land with Stampeder Exploration Inc. and Big Bear Exploration Ltd., and held various land positions with Canadian Superior Resources, and Murphy Oil and Gas. Mr. Lock was a founder and director of Era Oil and Gas Corp., a private Company.

Pre-Approval of Policies and Procedures of the Audit Committee

The Company will not engage the Company's independent auditors, KPMG LLP ("**KPMG**"), to carry out any Prohibited Service such as bookkeeping, internal audit or management functions. The Audit Committee will consider the pre-approval of permitted services to be performed by the external auditor.

For permitted services, the Company has adopted the following pre-approval policies:

(a) Audit Services

- The Audit Committee will pre-approve all Audit Services provided by KPMG through their recommendation of KPMG as shareholders' auditors at the Company's annual meeting and through the Audit Committee's review of KPMG's annual Audit Plan.

(b) Pre-Approval Of Audit Related, Tax And Other Non-Audit Services

- Annually the Audit Committee will update a list of Pre-Approved Services and pre-approve services that are recurring or otherwise reasonably expected to be provided.

- The Audit Committee will be subsequently informed quarterly of the services for which the auditor has been actually engaged.

(c) Approval Of Additional Services

- The request for service should include a description of the service, the estimated fee, a statement that the service is not a Prohibited Service and the reason KPMG is being engaged.

- Where the aggregate fees are estimated to be less than or equal to $25,000, recommendations, in respect of each engagement, will be submitted by the Vice President, Finance and Chief Financial Officer to the Chairman of the Audit Committee for consideration and approval. The full Audit Committee will subsequently be informed of the service, at its next meeting. The engagement may commence upon approval from the Chairman of the Audit Committee.

- Where the aggregate fees are estimated to be greater than $25,000, recommendations, in respect of each engagement, will be submitted by the Vice President, Finance and Chief Financial Officer to the full Audit Committee for consideration and approval, generally at its next meeting or at a special meeting called for the purpose of approving such services. The engagement may commence upon approval of the full Audit Committee.

Audit Service Fees

The following table sets forth the audit service fees paid or accrued by the Company to the Company's external auditors. For 2004 and 2005 the Company's auditors were Steingarten Schector & Company ("**SSC**"), and for 2006 the Company's auditors were KPMG LLP.

Type of Fees	**Fiscal Year Ended December 31,**	**Aggregate Fees Billed**	**Nature of Service Performed**
Audit fees	2006	$38,000	Audit of financial statements - KPMG
	2005	$15,500	Audit of financial statements - SSC
Audit related fees	2006	nil	
	2005	nil	
Tax fees	2006	$2,500	Tax compliance and consulting - SSC
	2005	$16,650	Tax compliance and consulting - SSC
All other fees	2006	$6,800	Miscellaneous fees - SSC
	2005	$13,500	Miscellaneous fees - SSC

HUMAN RESOURCES

The Company currently employs four full-time employees and two consultants. The Company intends to add additional professional and administrative staff as the needs arise.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no outstanding legal proceedings material to the Company to which the Company is a party or in respect of which any of its respective properties are subject, nor are there any such proceedings known to be contemplated. In addition there were no penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the 2006 financial year, no other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision, and no settlement agreements entered into by the Company with a court relating to securities legislation or with a securities regulatory authority during the 2006 financial year.

TRANSFER AGENT AND REGISTRAR

Computer Share Trust Company, at its principal offices in Calgary, Alberta is the transfer agent and registrar of the Common Shares of the Company.

RISK FACTORS

An investment in the Company should be considered highly speculative due to the nature of the Company's activities and the present stage of its development. Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Company's other public filings before making an investment decision:

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, the Company may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Company. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Company.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Company may make acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the Company can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Company, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Company.

Operational Dependence

Other companies operate the assets in which the Company has an interest. As a result, the Company will have limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Company's financial performance. The Company's return on assets operated by others will therefore depend upon a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Project Risks

The Company will manage a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The

Company's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond the Company's control, including but not limited to:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Company could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Competition

The petroleum industry is competitive in all its phases. The Company will compete with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Company's competitors will include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Company. The Company's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See "Industry Conditions". Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. At this time the Alberta Government is in the process of examining the royalty and tax regime applicable to oil, gas and oil sands – see "Industry Conditions – Provincial Royalties and Incentives". The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Company's costs, any of which may have a material adverse effect on the Company's intended business, financial condition and results of operations. In order to conduct oil and gas operations, the Company will require licenses from various governmental authorities. There can be no assurance that the Company will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Company's exploration and production facilities and other operations and activities emit greenhouse gases which will likely subject the Company to possible future legislation regulating emissions of greenhouse gases. The Government of Canada has proposed a Bill, which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those included in Alberta's Climate Change and Emissions Management Act (partially in force), may require the reduction of emissions (or emissions intensity) produced by the Company's expected operations and facilities. The direct or indirect costs of these regulations may adversely affect the expected business of the Company. See "Industry Conditions – Environmental Regulation".

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. Although the Company believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition. See "Industry Conditions – Environmental Regulation".

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Company is and will continue to be affected by numerous factors beyond its control. The Company's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational problems affecting such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The Company's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include economic conditions, in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to the Company in part determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could reduce the Company's borrowing base.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Company's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations and prospects.

Additional Funding Requirements

The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on favourable terms acceptable to the Company.

Issuance of Debt

From time to time the Company may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase the Company's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time, could impair the Company's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time the Company may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases and the Company may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time the Company may enter into agreements to fix the exchange rate of Canadian to United States dollars or Argentina Peso's in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Company will not benefit from the fluctuating exchange rate.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. To the extent the Company is not the operator of its oil and gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Company's claim which could result in a reduction of the revenue received by the Company.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth herein are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, the Company's independent reserves evaluator has used both constant and forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Company's oil and gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and has not been updated and thus does not reflect changes in the Company's reserves since that date.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although the Company maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company.

Geo-Political Risks

The marketability and price of oil and natural gas that may be acquired or discovered by the Company is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle-East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of the Company's net production revenue.

In addition, the Company's oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of the Company's properties, wells or facilities are the subject of terrorist attack it could have a material adverse effect on the Company. The Company will not have insurance to protect against the risk from terrorism.

Developing Countries: Political and Regulatory Instability

The Company is pursuing exploration and development opportunities in many developing countries including Tunisia and Argentina. These areas may experience periods of civil unrest and political and economic instability. Oil and gas exploration and development in these jurisdictions may be affected by political instability, and changing government regulations on the oil and gas industry, foreign investment, and on pricing of oil and gas commodities. Any changes in regulations, or shifts in political condition are beyond the control of Madalena, and could adversely affect the Company's business.

Operations could be affected by changing government regulations, policies or directives with respect to production or sales, price controls, export controls, repatriation of income, income taxes, carried interests for the Country or Province, expropriation of property and environmental legislation. The Company may also have to negotiate property development agreements with some governments, which may impose conditions that could affect the viability of a project. There is no assurance that the Company will able to conclude agreements which are commercially acceptable or enforceable with these governments. Operations may also be affected by political and economic instability, economic or other sanctions imposed by other countries, terrorism, civil wars, guerrilla activities, military oppression, crime, material fluctuations in exchange rates and high inflation.

Dilution

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

Expiration of Licences and Leases

The Company's properties are held in the form of licences and leases and working interests in licences and leases. If the Company or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the Company's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Company's results of operations and business.

Dividends

The Company has not paid any dividends on its outstanding shares except for the dividend-in-specie declared in 2004 and paid by the distribution of Planet common shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of the Company, the need for funds to finance ongoing operations and other business considerations as the board of directors of the Company considers relevant.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Company is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful this could have an adverse effect on the Company and its operations.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Company.

Third Party Credit Risk

The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

Conflicts of Interest

The directors or officers of the Company may also be directors or officers of other oil and gas companies or otherwise involved in natural resource exploration and development and situations may arise where they are in a conflict of interest with the Company. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the Business Corporations Act (Alberta) (the "**ABCA**") which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Company disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Reliance on Key Personnel

The Company's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on the Company. The contributions of the existing management team to the immediate and near term operations of the Company are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Company.

INDUSTRY CONDITIONS

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation, and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta, British Columbia, and Saskatchewan, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the Company's operations in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations, and agreements, governing the oil and gas industry.

Pricing and Marketing Oil and Natural Gas

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on oil quality, prices of competing fuels, distance to market, value of refined products, supply/demand balance, and other contractual terms. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "**NEB**"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export license from the NEB and the issuance of such license requires the approval of the Governor in Council.

The price of natural gas is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m3/day), must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires the approval of the Governor in Council.

The governments of Alberta, British Columbia, and Saskatchewan also regulate the volume of natural gas that may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements, and market considerations.

Pipeline Capacity

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market natural gas production. In addition, the pro-rationing of capacity on the inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas.

The North American Free Trade Agreement

The North American Free Trade Agreement ("**NAFTA**") among the governments of Canada, United States of America, and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada United States Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price subject to an exception with respect to certain voluntary measures which only restrict the volume of exports; and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import-price requirements, such requirements do not apply with respect to enforcement of countervailing and anti-dumping orders and undertakings.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector by 2010 and prohibits discriminatory border restrictions and export taxes. NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, which is important for Canadian natural gas exports.

Provincial Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection, and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur, and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalty's payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery, and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

Occasionally the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays, and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions would reduce the amount of Crown royalties paid by oil and gas producers to the provincial governments and would increase the net income and funds from operations of such producers. However, the trend in recent years has been for provincial governments to eliminate, amend or allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

The Canadian federal corporate income tax rate levied on taxable income is 22.1% effective January 1, 2007 for active business income including resource income. With the elimination of the corporate surtax effective January 1, 2008 and other rate reductions introduced in the 2006 Federal Budget, the federal corporate income tax rate will decrease to 19% in three steps: 20.5% on January 1, 2008, 20% on January 1, 2009 and 19% on January 1, 2010.

Alberta

In Alberta, companies are granted the right to explore, produce and develop petroleum and natural gas resources in exchange for royalties, bonus bid payments and rents. Currently, the amount of royalties that are payable is influenced by the oil production, density of the oil, and the vintage of the oil. Originally, the vintage classified oil in "new oil" and "old oil" depending on when the oil pools were discovered. If the oil was discovered prior to March 31, 1974 it is considered "old oil", if it was discovered after March 31, 1974 and before September 1, 1992, it is considered "new oil". The Alberta government introduced in 1992 a Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 1, 1992. The new oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 35%.

The royalty reserved to the Crown in respect of natural gas production, subject to various incentives, is between 15% and 30%, in the case of new natural gas, and between 15% and 35%, in the case of old natural gas, depending upon a prescribed or corporate average reference price. Natural gas produced from qualifying intervals in eligible gas wells spudded or deepened to a depth below 2,500 metres is also subject to a royalty exemption, the amount of which depends on the depth of the well.

Oil sands projects are subject to a specific regulation made effective July 1, 1997, and expiring June 30, 2007, which, among other things, determines the Crown's share of crude and processed oil sands products.

Regulations made pursuant to the Mines and Minerals Act (Alberta) provided various incentives for exploring and developing oil reserves in Alberta. However, the Alberta Government announced in August of 2006 that four royalty programs were to be amended, a new program was to be introduced and the Alberta Royalty Tax Credit Program ("**ARTC**") was to be eliminated, effective January 1, 2007. The programs affected by this announcement are: (i) Deep Gas Royalty Holiday; (ii) Low Productivity Well Royalty Reduction; (iii) Reactivated Well Royalty Exemption; and (iv) Horizontal Re-Entry Royalty Reduction. The program being introduced is the Innovative

Energy Technologies Program (the "**IETP**") which is intended to promote the producers' investment in research, technology and innovation for the purposes of improving environmental performance while creating commercial value. The IETP provides royalty reductions which are presumed to reduce financial risk. Alberta Energy will be the one to decide which projects qualify and the level of support that will be provided. The deadline for the IETP third round of applications is May 31, 2007.

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil, gas and oil sands will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. The purpose of this process is to ensure that Albertans are receiving a fair share from energy development through royalties, taxes and fees. The issues to be reviewed during this examination process are: (i) undertaking a comparison of Alberta's royalty system to other oil and gas producing jurisdictions, taking into account investment economics and industry returns and risks in Alberta; (ii) whether Alberta's royalty system is sufficiently sensitive to market conditions; (iii) whether the current revenue minus cost system for oil sands royalties is optimal; (iv) which programs built into the existing royalty system should be retained or strengthened, and which should be adapted or eliminated; (v) how the tax treatment of the oil and gas sector compares to other sectors and jurisdictions; (vi) the economic and fiscal impacts of any possible changes to the royalty and corporate tax structures; and (vii) how existing resource development should be treated if changes are to be made to the fiscal regime. The review panel is to produce a final report that will be presented to the Minister of Finance by August, 31, 2007.

Land Tenure

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences, and permits for varying terms from two years, and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

Environmental legislation in the Province of Alberta has been consolidated into the *Environmental Protection and Enhancement Act* (Alberta) (the "**EPEA**"), which came into force on September 1, 1993, and the *Oil and Gas Conservation Act* (Alberta) (the "**OGCA**"). The EPEA and OGCA impose stricter environmental standards, require more stringent compliance, reporting and monitoring obligations, and significantly increased penalties. In 2006, the Alberta Government enacted regulations pursuant to the EPEA to specifically target sulphur oxide and nitrous oxide emissions from industrial operations including the oil and gas industry. No additional expenses are foreseen that are associated with complying with the new regulations. The Company will be committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment, and will be taking such steps as required to ensure compliance with the EPEA and similar legislation in other jurisdictions in which it operates. We believe that we are in material compliance with applicable environmental laws and regulations. We also believe that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue.

In December, 2002, the Government of Canada ratified the Kyoto Protocol ("**Protocol**"). The Protocol calls for Canada to reduce its greenhouse gas emissions to 6% below 1990 "business-as-usual" levels between 2008 and 2012. Given revised estimates of Canada's normal emissions levels, this target translates into an approximately 40% gross reduction in Canada's current emissions. It remains uncertain whether the Kyoto target of 6% below 1990 emission levels will be enforced in Canada. The Federal Government has introduced legislation aimed at reducing greenhouse gas emissions using a "intensity based" approach, the specifics of which have yet to be determined. Bill C-288, which is intended to ensure that Canada meets its global climate change obligations under the Kyoto Protocol, was passed by the House of Commons on February 14, 2007. As details of the implementation of this legislation have not yet been announced, the effect of our operations cannot be determined at this time.

Trends

There are a number of trends that have been developing in the oil and gas industry during the past several years that appear to be shaping the near future of the business.

The first trend is the volatility of commodity prices. Natural gas is a commodity influenced by factors within North America. A tight supply-demand balance for natural gas causes significant elasticity in pricing, whereas higher than average storage levels tend to depress natural gas pricing. Drilling activity, weather, fuel switching and demand for electrical generation are all factors that affect the supply-demand balance. Changes to any of these or other factors create price volatility.

Crude oil is influenced by the world economy, Organization of the Petroleum Exporting Countries' ability to adjust supply to world demand and weather. Crude oil prices have been kept high by political events causing disruptions in the supply of oil, and concerns over potential supply disruptions triggered by unrest in the Middle East, and more recently have been impacted by weather and increased storage levels. Political events trigger large fluctuations in price levels.

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

A second trend within the Canadian oil and gas industry is the fairly consistent "renewal" of private and small junior oil and gas companies starting up business. These companies often have experienced management teams from previous industry organizations that have disappeared as a part of the ongoing industry consolidation. Many are able to raise capital and recruit well qualified personnel. The Company will have to compete with these companies and others to attract qualified personnel.

A third trend currently affecting the oil and gas industry is the impact on capital markets caused by investor uncertainty in the North American economy. The capital market volatility in Canada has also been affected by uncertainties surrounding the economic impact that the Protocol, and other environmental initiatives, will have on the sector and, in more recent times, by the October 31, 2006 proposals of the Federal Government of Canada (the "**October 31, 2006 Proposals**") relating to income trusts and other "specified investment flow-through" entities ("**SIFTs**"). Pursuant to the existing provisions of the *Income Tax Act* (Canada), to the extent that a SIFT has any income for a taxation year after certain inclusions and deductions, the SIFT will be permitted to deduct all amounts of income which are paid or become payable by it to unitholders in the year. Under the October 31, 2006 Proposals, SIFTs will be liable for tax at a rate consistent with the taxes currently imposed on corporations commencing in January 2011, provided that the SIFT experiences only "normal growth" and no "undue expansion" before then, in which case the tax could be imposed prior to the January 2011 deadline. Although the October 31, 2006 Proposals will not affect the method in which the Company will be taxed, they may have an impact on the ability of a SIFT to purchase producing assets from junior oil and gas companies (as well as the price that a SIFT is willing to pay for such an acquisition) thereby affecting exploration and production companies' ability to be sold to a SIFT which has been a key "exit strategy" in recent years for small to mid sized oil and gas companies. This may be a benefit for the Company as it will compete with SIFTs for the acquisition of oil and gas properties from junior producers. However, it may also limit the Company's ability to sell producing properties or pursue an exit strategy.

Generally during the past year, the economic recovery combined with increased commodity prices has caused an increase in new equity financings in the oil and gas industry, although the level of same was negatively impacted by the October 31, 2006 Proposals. The Company will compete with numerous new companies and their new management teams and development plans in its access to capital. The competitive nature of the oil and gas industry will cause opportunities for equity financings to be selective. The Company may have to rely on internally generated funds to conduct their exploration and developmental programs.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of directors and senior officers of the Company, any shareholder who beneficially owns more than 10% of the outstanding Common Shares, or any known associate or affiliate of such persons, in any transactions since the beginning of the Company's last completed financial year or in any proposed transaction which has materially affected or will materially affect the Company except as described herein.

MATERIAL CONTRACTS

Except for contracts entered into by the Company in the ordinary course of business or otherwise disclosed herein, the Company has no contracts which can reasonably be regarded as material.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Company during, or related to, the Company's most recently completed financial year other than GLJ Petroleum Consultants Ltd., the Company's independent engineering evaluators and KPMG LLP, the Company's auditors.

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

KPMG LLP has advised the Company that they are independent within the meaning of the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta and its partners did not hold any registered or beneficial ownership interests, directly or indirectly, in the securities of the Company or its associates or affiliates.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular for the most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in the Company's financial statements and management's discussion and analysis for the most recently completed financial year. Documents affecting the rights of security holders, along with other information relating to the Company, may be found on SEDAR at www.sedar.com.

REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR

To the board of directors of Madalena Ventures Inc. (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2006. The reserves data consist of the following:

   (a) (i) proved, proved plus probable and proved plus probable oil and gas reserves estimated as at December 31, 2006 using forecast prices and costs; and

   (ii) the related estimated future net revenue; and

   (b) (i) proved, proved plus probable and proved plus probable oil and gas reserves estimated as at December 31, 2006 using constant prices and costs; and

   (ii) the related estimated future net revenue.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2006, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors.

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves (County or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate) Audited	Evaluated	Reviewed	Total
			M$	M$	M$	M$
GLJ Petroleum Consultants Ltd.	February 11, 2007	Canada	-	$4,808	-	$4,808

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material

Executed as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, dated March 28, 2007.

GLJ PETROLEUM CONSULTANTS LTD.

(signed) "*Bryan M. Joa*"

Bryan M. Joa, P. Eng.
Vice President

SCHEDULE "B"

FORM 51-101 F3
REPORT OF MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER INFORMATION

Management of Madalena Ventures Inc. (the "**Corporation**") are responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- proved and proved plus probable oil and gas reserves estimated as at January 1, 2007 using forecast prices and costs; and the related estimated future net revenue: and

- proved and proved plus probable oil and gas reserves estimated as at January 1, 2007 using constant prices and costs; and the related estimated future net revenue .

An independent qualified reserves evaluator has evaluated the Corporation's reserves data. The report of the independent qualified reserves evaluator will be filed with the securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Corporation has:

- reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator;

- met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

- reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has on the recommendation of the Reserves Committee approved:

- the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;

- the filing of the report of the independent qualified reserves evaluation on the reserves data; and

- the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Dated at Calgary, Alberta, this 4th day of April, 2007

(signed) "*Ken Broadhurst*"	(signed) "*Ving Y. Woo*"
Ken Broadhurst, President & Chief Executive Officer and Director	Ving Y. Woo, Director and Chairman of the Reserves Committee
(signed) "*Dwayne Warkentin*"	(signed) "*Raymond G. Smith*"
Dwayne Warkentin, Senior Vice-President & Chief Operating Officer	Raymond G. Smith, Director and Chairman of the Board of Directors

SCHEDULE C

AUDIT COMMITTEE MANDATE
AND TERMS OF REFERENCE FOR AUDIT COMMITTEE CHAIR

Our Audit Committee Charter outlines the specific roles and duties of the Committee's members.

GENERAL FUNCTIONS, AUTHORITY, AND ROLE

The Audit Committee is a Committee of the Board of Directors appointed to assist the Board in monitoring (1) the integrity of the financial statements of the Company, (2) compliance by the Company with legal and regulatory requirements related to financial reporting, (3) qualifications, independence and performance of the Company's independent auditors, and (4) performance of the Company's internal controls and financial reporting process.

The Audit Committee has the power to conduct or authorize investigations into any matters within its scope of responsibilities, with full access to all books, records, facilities and personnel of the Company, its auditors and its legal advisors. In connection with such investigations or otherwise in the course of fulfilling its responsibilities under this charter, the Audit Committee has the authority to independently retain special legal, accounting, or other consultants to advise it, and may request any Officer or employee of the Company, its independent legal counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Audit Committee also has the power to create specific sub-committees with all of the investigative powers described above.

The Company's independent auditor is ultimately accountable to the Board of Directors and to the Audit Committee; and the Board of Directors and Audit Committee, as representatives of the Company's shareholders, have the ultimate authority and responsibility to evaluate the independent auditor, and to nominate annually the independent auditor to be proposed for shareholder approval, and to determine appropriate compensation for the independent auditor. In the course of fulfilling its specific responsibilities hereunder, the Audit Committee must maintain free and open communication between the Company's independent auditors, Board of Directors and management. The responsibilities of a member of the Audit Committee are in addition to such member's duties as a member of the Board of Directors.

While the Audit Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete, accurate, and in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor (other than disagreements regarding financial reporting), or to assure compliance with laws and regulations or the Company's own policies.

MEMBERSHIP

The membership of the Audit Committee will be as follows:

- The Committee will consist of a minimum of three members of the Board of Directors, appointed annually, each of whom is affirmatively confirmed as independent by the Board of Directors, with such affirmation disclosed in the Company's annual securityholder materials.

- The Board will elect, by a majority vote, one member as chairperson.

- A member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other Board Committee, accept any consulting, advisory, or other compensatory fee from the Company, and may not be an affiliated person of the Company or any subsidiary thereof.

RESPONSIBILITIES

The responsibilities of the Audit Committee shall be as follows:

1. Frequency of Meetings

- Meet quarterly or as often as may be deemed necessary or appropriate in its judgment, either in person or telephonically.
- Meet with the independent auditor at least quarterly, either in person or telephonically.

2. Reporting Responsibilities

- Provide to the Board of Directors proper Committee minutes.
- Report Committee actions to the Board of Directors with such recommendations as the Committee may deem appropriate.
- Provide a report for the Company's Annual Information Circular.

3. Charter Evaluation

- Annually review and reassess the adequacy of this Charter and recommend any proposed changes to the Board of Directors for approval.

4. Whistleblower Mechanisms

- Adopt and review annually a mechanism through which employees and others can directly and anonymously contact the Audit Committee with concerns about accounting and auditing matters. The mechanism must include procedures for responding to, and keeping of records of, any such expressions of concern.

5. Independent Auditor

- Nominate annually the independent auditor to be proposed for shareholder approval.
- Approve the compensation of the independent auditor, and evaluate the performance of the independent auditor.
- Establish policies and procedures for the engagement of the independent auditor to provide non-audit services.
- Ensure that the independent auditor is not engaged for any activities not allowed by any of the Canadian provincial securities commissions, the SEC or any securities exchange on which the Company's shares are traded.
- Ensure that the auditors are not engaged for any of the following nine types of non-audit services contemporaneous with the audit:
- bookkeeping or other services related to accounting records or financial statements of the Company;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions, or contributions-in-kind reports;

- actuarial services;
- internal audit outsourcing services;
- any management or human resources function;
- broker, dealer, investment advisor, or investment banking services;
- legal services; and
- expert services related to the auditing service.

6. Hiring Practices

- Ensure that no senior officer who is, or in the past full year has been, affiliated with or employed by a present or former auditor of the Company or an affiliate, is hired by the Company until at least one full year after the end of either the affiliation or the auditing relationship.

7. Independence Test

- Take reasonable steps to confirm the independence of the independent auditor, which shall include:
  - insuring receipt from the independent auditor of a formal written statement delineating all relationships between the independent auditor and the Company, consistent with the Independence Standards Board Standard No. 1 and related Canadian regulatory body standards;
  - considering and discussing with the independent auditor any relationships or services, including non-audit services, that may impact the objectivity and independence of the independent auditor; and
  - as necessary, taking, or recommending that the Board of Directors take, appropriate action to oversee the independence of the independent auditor.

8. Audit Committee Meetings

- At the request of the independent auditor, convene a meeting of the Audit Committee to consider matters the auditor believes should be brought to the attention of the Directors or shareholders.
- Keep minutes of its meetings and report to the Board for approval of any actions taken or recommendations made.

9. Restrictions

- Ensure no restrictions are placed by management on the scope of the auditors' review and examination of the Company's accounts.
- Ensure that no Officer or Director attempts to fraudulently influence, coerce, manipulate or mislead any accountant engaged in auditing of the Company's financial statements.

AUDIT AND REVIEW PROCESS AND RESULTS

10. Scope

- Consider, in consultation with the independent auditor, the audit scope and plan of the independent auditor.

11. Review Process and Results

- Consider and review with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, as the same may be modified or supplemented from time to time.

- Review and discuss with management and the independent auditor at the completion of the annual examination:

  - the Company's audited financial statements and related notes;

  - the Company's MD&A and news releases related to financial results;

  - the independent auditor's audit of the financial statements and its report thereon;

  - any significant changes required in the independent auditor's audit plan;

  - any non-GAAP related financial information;

  - any serious difficulties or disputes with management encountered during the course of the audit; and

  - other matters related to the conduct of the audit, which are to be communicated to the Audit Committee under generally accepted auditing standards.

- Review, discuss with management and approve annual and interim quarterly financial statements prior to public disclosure.

- Review and discuss with management and the independent auditor the adequacy of the Company's internal controls that management and the Board of Directors have established and the effectiveness of those systems, and inquire of management and the independent auditor about significant financial risks or exposures and the steps management has taken to minimize such risks to the Company.

- Meet separately with the independent auditor and management, as necessary or appropriate, to discuss any matters that the Audit Committee or any of these groups believe should be discussed privately with the Audit Committee.

- Review and discuss with management and the independent auditor the accounting policies which may be viewed as critical, including all alternative treatments for financial information within generally accepted accounting principles that have been discussed with management, and review and discuss any significant changes in the accounting policies of the Company and industry accounting and regulatory financial reporting proposals that may have a significant impact on the Company's financial reports.

- Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures, if any, on the Company's financial statements.

- Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.

- Review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's financial compliance policies and any material reports or inquiries received from regulators or governmental agencies related to financial matters.

SECURITIES REGULATORY FILINGS

- Review filings with the Canadian provincial securities commissions and the SEC and other published documents containing the Company's financial statements.

- Review, with management and the independent auditor, prior to filing with regulatory bodies, the interim quarterly financial reports (including related notes and MD&A) at the completion of any review engagement or other examination. The designated financial expert of the Audit Committee may represent the entire Audit Committee for purposes of this review.

RISK ASSESSMENT

- Meet periodically with management to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.

- Assess risk areas and policies to manage risk including, without limitation, environmental risk, insurance coverage and other areas as determined by the Board of Directors from time to time.

AMENDMENTS TO AUDIT COMMITTEE CHARTER

Annually review this Charter and propose amendments to be ratified by a simple majority of the Board of Directors

AUDIT COMMITTEE CHAIR

The Chair is appointed annually by and reports to the Board. The Chair's primary role is managing the affairs of the Committee, including ensuring the Committee is organized properly, functions effectively and meets its obligations and responsibilities. The Chair works with the Chief Operating Officer ("**COO**") of the Company to ensure effective relations with Committee members. The Chair maintains on-going communications with the COO and with such other Officers of the Company as the Chair determines appropriate. The Chair, in conjunction with the Committee, maintains ongoing communications with the Company's external auditors. The Chair has the responsibility to lead the Committee and report to the Board after each Committee meeting.

The Chair also has the responsibility to ensure the Committee is alert to its obligations to the Board and pursuant to law and to chair Committee meetings.

The Chair must also:

(a) assist the Board in its recommendation of Committee members and its review of the performance and suitability of the Committee;

(b) ensure the co-ordination of the agenda, information packages and related events for Committee meetings in conjunction with the Board Chair, the COO and the Corporate Secretary;

(c) maintain a liaison and communication with Committee members, other Directors and the Board Chair to co-ordinate input from Committee members and Directors, and optimize the effectiveness of the Committee;

(d) in collaboration with the COO and other Officers, ensure information requested by Committee members is provided and meets their needs;

(e) in conjunction with the Nomination and Corporate Governance Committee, the Board and the Board Chair, review and assess Committee attendance, performance and compensation and the size and composition of the Committee; and

(f) in conjunction with the Compensation Committee, lead the Committee in assessing the performance of the Company's financial management team.