Consolidated Financial Statements of

MADALENA VENTURES INC.

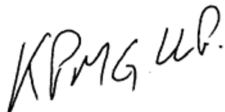
As at and for the years ended December 31, 2008 and 2007

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Madalena Ventures Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2008 and 2007 and the consolidated results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Canada
April 20, 2009

MADALENA VENTURES INC.

Consolidated Balance Sheets

As at December 31,	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 7,861,868	$ 13,082,472
Accounts receivable	235,274	306,281
Prepaid expenses	90,814	58,189
	8,187,956	13,446,942
Property and equipment (note 5)	15,686,991	8,099,113
	$ 23,874,947	$ 21,546,055
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 944,595	$ 210,703
Asset retirement obligations (note 7)	356,378	114,913
	1,300,973	325,616
Commitments (note 11)		
Shareholders' equity		
Share capital and warrants (note 8)	31,491,768	31,941,768
Contributed surplus (note 8)	6,709,251	3,071,925
Deficit	(15,627,045)	(13,793,254)
	22,573,974	21,220,439
	$ 23,874,947	$ 21,546,055

See accompanying notes to the consolidated financial statements

On behalf of the Board:

[signed] “Ray Smith”

Ray Smith
Chairman

[signed] “James K. Wilson”

James K. Wilson
Director

MADALENA VENTURES INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

Year ended December 31,	2008	2007
Revenue		
Petroleum and natural gas	$ 764,700	$ 932,964
Royalties	(214,568)	(145,798)
	550,132	787,166
Interest income	264,478	661,293
Foreign exchange gain	1,299,708	158,613
	2,114,318	1,607,072
Expenses		
Operating	164,188	233,488
General and administrative	1,946,419	1,382,596
Stock-based compensation	648,956	1,601,591
Depletion, depreciation and accretion	1,188,546	4,422,984
	3,948,109	7,640,659
Net loss and other comprehensive loss	(1,833,791)	(6,033,587)
Deficit - beginning of year	(13,793,254)	(7,289,667)
Extension of warrants (note 8)	-	(470,000)
Deficit - end of year	$ (15,627,045)	$ (13,793,254)
Net loss and other comprehensive loss per common share - basic and diluted	$ (0.017)	$ (0.056)
Weighted average number of shares:		
Basic and diluted	110,608,114	107,163,771

See accompanying notes to the consolidated financial statements

MADALENA VENTURES INC.

Consolidated Statements of Cash Flows

Year ended December 31,	2008	2007
Cash provided by (used in):		
Operating activities		
Net loss and other comprehensive loss	$ (1,833,791)	$ (6,033,587)
Items not involving cash		
Stock-based compensation	648,956	1,601,591
Depletion, depreciation and accretion	1,188,546	4,422,984
Foreign exchange gain	(1,299,708)	(158,613)
Abandonment costs	(20,635)	(2,214)
	(1,316,632)	(169,839)
Change in non-cash working capital items (note 10)	301,178	(129,169)
	(1,015,454)	(299,008)
Financing activities		
Issue of common shares	2,450,000	298,625
Investing activities		
Additions to property and equipment	(8,425,954)	(5,360,596)
Change in non-cash working capital items (note 10)	522,447	(774,876)
	(7,903,507)	(6,135,472)
Change in cash and cash equivalents	(6,468,961)	(6,135,855)
Cash and cash equivalents, beginning of the year	13,082,472	19,059,714
Impact of foreign exchange on cash balances	1,248,357	158,613
Cash and cash equivalents, end of year	**$ 7,861,868**	**$ 13,082,472**

See accompanying notes to the consolidated financial statements

1. Nature of business and basis of presentation

Madalena Ventures Inc. ("Madalena" or the "Company") is incorporated pursuant to the laws of the Province of Alberta. Madalena is based in Calgary, Alberta and is involved in the exploration, development and production of petroleum and natural gas in Alberta, Tunisia and Argentina. These consolidated financial statements include the accounts of Madalena Ventures Inc. and its wholly owned subsidiaries Madalena Ventures International Holding Company Inc. and Madalena Ventures International Inc. All inter-company transactions and balances have been eliminated.

These consolidated financial statements have been prepared on the basis that the Company is a going concern and will realize assets and discharge liabilities in the normal course of operations for the foreseeable future. Presently, Madalena has minimal production and limited cash flow from operating activities. The Company currently relies on equity financing to pay for exploration activities and overhead expenses. Therefore, the Company's ability to continue operations is dependent on identifying commercial oil and gas reserves, generating profitable operations and raising sufficient capital to complete planned exploration and development activities. The outcome of these matters cannot be predicted at this time.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), within reasonable limits of materiality and the framework of significant accounting policies described below. Certain comparative information has been reclassified to be consistent with current year presentation.

2. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and short-term money market investments with an original maturity of less than three months.

Property and equipment

The Company follows the full cost method of accounting for expenditures on petroleum and natural gas properties. All costs associated with the exploration for and the development of oil and gas reserves are capitalized in country-based cost centers. Capitalized costs include drilling costs, lease rentals on non-producing properties, tangible production equipment, asset retirement obligations, and general and administrative expenses directly attributable to exploration and development activities.

Costs accumulated in each cost center together with an estimate of future costs to develop proved reserves are depleted using the unit of production method, based on estimated proved petroleum and natural gas reserves, before royalties. Reserves and production are converted to equivalent units of petroleum based on relative energy content of six thousand cubic feet of natural gas to one barrel of petroleum. Costs of acquiring and evaluating significant unproved petroleum and natural gas interests are excluded from the depletion calculation until it is determined that proved reserves are attributable to such interests, or until impairment occurs.

Cost centers with associated proved reserves are subject to a ceiling test to determine if the net accumulated costs are recoverable. Costs are considered recoverable if the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved petroleum and natural gas interests exceeds the carrying amount of the cost centre. If the carrying amount is not recoverable an impairment loss is recognized equal to the excess of the cost center carrying amount over the sum of the discounted cash flows from the production of proved and probable reserves and the cost of unproved petroleum and natural gas interests. The volumes and cash flows associated with proved and probable reserves are determined by independent engineers, using expected future product prices and costs and discounted using a risk-free interest rate.

Costs centers where planned principal operations have not commenced are considered to be in the pre-production stage whereby costs associated with exploration for and evaluation of oil and gas reserves, net of any preliminary testing revenue, are capitalized but excluded from the calculation of depletion and the ceiling test. Instead, these costs are evaluated in each reporting period to determine if the costs recorded are recoverable. Any costs that are considered unlikely to be recovered are written off.

Proceeds on sale or disposition of oil and gas properties are credited to the applicable cost center unless this results in a change in the depletion and depreciation rate by 20 percent or more, in which case a gain or loss is recognized.

Office furniture, equipment and other assets are recorded at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using a 20% declining balance basis for Canadian office furniture and equipment, a straight line basis over 10, 5 and 3 years for Argentine office furniture and equipment, and a straight line basis over the term of the lease for all leasehold improvements.

Asset retirement obligations ("ARO")

The Company recognizes an ARO in the period in which a well is drilled and a reasonable estimate of the fair value of the future costs associated with removal, site restoration and asset retirement, can be made. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding increase in the carrying amount of the related cost center. These costs are then amortized using the unit of production method and included in depletion, depreciation, and accretion expense. The carrying amount of the liability is increased each reporting period due to the passage of time with the related accretion included in depletion, depreciation and accretion expense. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation and charge to Property and Equipment. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized in the Company's earnings in the period in which the settlement occurs.

Future income taxes

The Company uses the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on the difference between the financial accounting and tax basis of the Company's assets and liabilities, and measured using the substantively enacted tax rates and laws anticipated to apply to the years in which the differences will reverse. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period that the change is substantively enacted. The Company records a future income tax asset only when it is more likely than not to be realized in the future.

Revenue recognition

Petroleum and natural gas revenues are recognized when the title and risks pass to the purchaser.

Stock-based compensation

The Company follows the fair value method of accounting for stock options. The fair value of each option is calculated based on the Black-Scholes option pricing model and is charged to income over the vesting period of the option, with a corresponding increase recorded in contributed surplus. Upon exercise of the stock option, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

The fair value of stock options issued to non-employees is re-measured at each reporting date until the consultants' performance, or the amortization period is complete (which ever is shorter). Changes to the fair value are amortized over the remaining vesting period of the options.

Foreign currency translation

The Company has petroleum exploration and development operations in Tunisia and Argentina. Both locations are considered "integrated foreign operations" for accounting purposes and the financial results of each are translated to Canadian dollars using the temporal method. Under the temporal method, foreign denominated monetary assets and liabilities are translated at the exchange rate prevailing at the period end; non-monetary assets, liabilities and related depletion, depreciation and accretion are translated at historic rates; and revenues and expenses are translated at the rate in effect at the time of the transaction. Foreign exchange gains or losses arising from the translation of these balances are included in net income in the period.

Per share amounts

Basic per share amounts are computed by dividing period earnings by the weighted average shares outstanding during the period. Diluted amounts are computed using the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of options and warrants where market price exceeds exercise price are used to repurchase shares at the average market price for the period. The difference between the number of shares that could have been purchased at market prices in the period and the number of options and warrants is added to the weighted average shares outstanding.

Joint interests

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

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingencies. These financial statements include amounts recorded for depletion, depreciation and accretion, asset retirement obligations and future income taxes in addition to assumptions used in the ceiling test calculation and pre-production stage cost center recoverability assessment, which are based on estimates of proven reserves, future production rates, oil and natural gas prices, future costs, and other relevant assumptions. Accruals for revenues and expenses are based on estimates if actual results are not available, and stock-based compensation amounts are calculated using certain assumptions as more fully described in Note 8. Actual results could differ from the assumptions and estimates used in determining each of these amounts.

3. Recent accounting pronouncements

Business combinations, Non-controlling interests, Consolidated financial statements

Effective January 1, 2011 the Company will be required to adopt the new Canadian accounting standards for "*Business Combinations*", "*Non-controlling Interests*" and "*Consolidated Financial Statements*". All three new standards were issued in contemplation of convergence with International Financial Reporting Standards ("IFRS") as discussed below. The new standards address accounting for business combinations, both at the time of acquisition and subsequent to the initial purchase accounting, and includes guidance on accounting for non-controlling interests and subsequent preparation of consolidated financial statements. The Company has no transactions that are affected by these new standards. Early adoption of the standards is allowed, and will be considered if and when applicable transactions arise.

Goodwill and intangible assets

Effective January 1, 2009, the Company will be required to adopt the new Canadian accounting standard for "*Goodwill and Intangible Assets*", which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets, particularly with respect to those assets which are internally developed. The adoption of this standard should not have any impact on the consolidated financial statements.

IFRS

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that IFRS will become Canadian GAAP effective January 1, 2011 for profit-oriented Canadian publicly accountable enterprises. The adoption of IFRS will have a significant impact on the financial results and disclosures of the Company; however, that impact cannot be reasonably estimated at this time. Madalena has developed a specific implementation plan which will include assessment and quantification of anticipated impacts.

4. Financial risk and capital management

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, policies and procedures. The following outlines the Company's risk exposures and explains how these risks and its capital structure are managed.

Capital management

The Company's objective is to maintain a strong capital position in order to execute on its exploration and development plans and maximize shareholder value.

The Company currently defines its capital as shareholders' equity and working capital. Changes to the relative weighting of the capital structure is driven by our business plans, changes in economic conditions and risks inherent in the oil and gas industry. In order to maintain or adjust the capital structure, the Company may consider any or all of the following activities, depending on existing economic conditions and access to external capital sources:

- Issue new shares through a public offering or private placement
- Raise fixed or floating interest rate debt
- Consolidate outstanding common shares
- Farm-out existing exploration opportunities
- Sale of assets

The Company is not subject to any external restrictions on its capital structure and has no debt facilities.

The Company periodically reviews its capital structure in relation to its expected exploration and development budgets. As the Company is primarily in the exploration phase as a result of its Tunisia and Argentina pre-production activities, certain quantitative measures used by industry peers, such as return on equity, return on capital employed and debt to equity ratios, are not relevant measures for the Company.

The current global economic conditions, including lower interest rates, the weakening Canadian dollar, lower commodity prices and the limited access to external debt and equity financing markets has required Madalena to refocus its capital management policies and processes at December 31, 2008. The Company's capital management is now focused on conserving cash balances and focusing on high impact, low capital cost exploration and development programs.

Credit risk

The Company is exposed to credit risk in relation to its cash and cash equivalents and accounts receivable.

Cash and cash equivalents are held with highly rated international banks and are considered to have negligible credit risk.

The Company's accounts receivable are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Company's accounts receivable include amounts due from its Canadian and Argentine operators which are subject to normal industry credit risk. The carrying amounts of accounts receivable represents the Company's maximum credit exposure. The Company does not record an allowance for doubtful accounts and has not written off any accounts receivable in the year ended December 31, 2008 or 2007. At December 31, 2008 the Company had $29,418 of accounts receivable due from its Canadian operator which is past due.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk through management of its capital structure and annual budgeting of its revenues, expenditures, and cash flow. As of December 31, 2008, the Company has a working capital surplus of $7,243,361 which given planned capital expenditures, administrative overhead requirements and commitments, is sufficient to meet all financial obligations in the current year.

Market risk

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

Commodity price risk

Price fluctuations for both crude oil and natural gas are determined by world and North American supply and demand factors. The Company has no influence over the pricing of oil and natural gas and has not attempted to mitigate commodity price risk through the use of financial derivatives.

Interest rate risk

The Company is exposed to interest rate fluctuations on its investments of excess cash in short term discount notes issued by international banks.

Foreign currency exchange rate risk

A substantial portion of the Company's exploration and development activities are conducted in foreign jurisdictions and a portion of the Company's cash and cash equivalents are denominated in US dollars (USD) and Argentine Pesos (ARS). Consequently, the Company is exposed to foreign currency exchange risk on a substantial portion of its financial assets. The Company has not entered into derivative exchange rate contracts to mitigate this risk.

Sensitivity analysis

The following table presents an estimate of the impact on net loss and other comprehensive loss of each of the market risk factors discussed above and is calculated based on the noted change in the market factor applied to the volume for the period or the balance at the end of the period.

Market risk	Change in market factor (+/-)	Impact on net loss ($+/-)
Commodity prices - effect of change in market factor for:		
Crude oil and liquids produced in the year	$10/bbl	$ 48,000
Natural gas produced in the year	$0.50/mcf	18,000
Foreign exchange - effect of change in market factor for:		
USD denominated financial assets and liabilities	3%	123,000
ARS denominated financial assets and liabilities	3%	35,000
Interest rates - effect of change in market factor for:		
Interest bearing accounts and discount notes	50 basis points	50,000

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, the carrying values of which approximate their fair values at December 31, 2008 due to their short-term nature. The Company has no bank indebtedness.

Cash and cash equivalents not invested in discount notes are categorized as held-for-trading assets and are measured at fair value with any change in fair value recognized in net loss during the period. Accounts receivable are categorized as loans and receivables and accounts payable and accrued liabilities are categorized as other financial liabilities; all of which are recorded at amortized cost. The Company has designated its investments in discount notes issued by Canadian chartered banks, which are included in cash and cash equivalents, as held-for-trading financial assets. The fair value of these assets has been determined at December 31, 2008 based on trading prices issued by the chartered banks for these instruments. The difference between fair value and cost of the notes is recorded as interest income.

The following table provides information on the foreign currency denominated financial instruments held by the Company at December 31, 2008:

	Balanced denominated in		Total CAD$
	USD	ARS	equivalent
Cash and cash equivalents	3,650,629	1,293,523	4,894,542
Accounts receivable	-	293,798	101,772
Accounts payable and accrued liabilities	288,109	889,762	659,131

The following table provides information for the discount notes held by the Company at December 31, 2008:

	Cost	Maturity value	Yield	Fair value	Interest income
CDN$ note due January 12, 2009	$ 2,811,256	$ 2,815,000	1.43%	$ 2,813,601	$2,345

5. Property and equipment

As at December 31, 2008	Cost	Accumulated depletion and depreciation	Net book value
Canadian petroleum and natural gas properties	$ 10,515,860	$ (8,320,341)	$ 2,195,519
Argentina pre-production costs	7,798,917	-	7,798,917
Tunisia pre-production costs	5,645,649	-	5,645,649
Furniture and fixtures	114,213	(67,307)	46,906
	$ 24,074,639	$ (8,387,648)	$ 15,686,991

As at December 31, 2007	Cost	Accumulated depletion and depreciation	Net book value
Canadian petroleum and natural gas properties	$ 10,348,904	$ (7,168,341)	$ 3,180,563
Argentina pre-production costs	2,453,162	-	2,453,162
Tunisia pre-production costs	2,387,886	-	2,387,886
Furniture and fixtures	114,073	(36,571)	77,502
	$ 15,304,025	$ (7,204,912)	$ 8,099,113

At December 31, 2008 the cost centers for Argentina and Tunisia were considered to be in the pre-production stage and all costs directly attributable to these centers were capitalized and excluded from costs subject to depletion and depreciation. The amounts capitalized in 2008 include $865,143 of Value Added Tax (“VAT”) (2007 - $18,860). VAT is payable on goods and services supplied to the Company and is not recoverable from the Government of Argentina, however the Company is allowed to retain VAT on any sales that it collects to the extent of the VAT recorded and paid on previous expenditures. Net revenue received from preliminary testing of an Argentina well totaling $142,867 has been credited against the Argentina pre-production cost pool for the year ended December 31, 2008 (2007 – nil). There has been no commercial or significant testing revenue to date from the Tunisian cost center.

General and administrative expenses and stock-based compensation totaling $379,329 and $88,370, respectively, directly related to exploration and development activities were capitalized in the year ended December 31, 2008 (2007 – $263,000 and $60,478, respectively). The depletion calculation for Canadian petroleum and natural gas properties for the year ended December 31, 2008 includes future development costs of proved reserves of $441,250 (2007 - $380,000).

At December 31, 2008 and 2007, a ceiling test calculation was performed to determine if the Canadian cost center carrying values were impaired. In undertaking the ceiling test calculation the Company relied on the net present value of expected future cash flows from proved plus probable reserves discounted at a risk free interest rate of 3.75% (5% for 2007) and calculated using forecast prices as determined by independent petroleum consultants as of March 31, 2009. As a result of the ceiling test calculations, the Company reduced the carrying value of the Canadian cost center to its expected present value of $2,195,519 at December 31, 2008 (2007 - $3,181,563) and included the resulting write-down totaling $795,000 in 2008 depletion expense (2007 - $3,630,000).

The forecast benchmark prices as of March 31, 2009 used in the ceiling test calculations for 2008 are as follows:

		Alberta Natural Gas Liquids (Then Current Dollars)$Cdn/bbl				
Year	**Light, Sweet Crude Oil (40 API, 0.3%S) at Edmonton Then Current $Cdn/bbl**	**Edmonton Condensate**	**Edmonton Butane**	**Edmonton Propane**	**Edmonton Ethane**	**Alberta Natural Gas AECO/NIT Spot Then Current $Cdn/mmbtu)**
2009	65.82	66.48	52.66	39.49	16.31	5.30
2010	72.25	72.98	57.80	43.35	21.27	6.83
2011	78.24	79.03	62.60	46.95	24.05	7.69
2012	87.56	88.44	70.05	52.54	25.16	8.04
2013	89.31	90.21	71.45	53.59	25.67	8.20
2014	91.10	92.01	72.88	54.66	26.18	8.36
2015	92.92	93.85	74.34	55.75	26.70	8.53
2016	94.78	95.73	75.82	56.87	27.24	8.70
2017	96.68	97.64	77.34	58.01	27.78	8.88
2018	98.61	99.60	78.89	59.17	28.34	9.05
2019	100.58	101.59	80.47	60.35	28.91	9.24
2020	102.59	103.62	82.07	61.56	29.48	9.42
2021	104.65	105.69	83.72	62.79	30.07	9.61
2022	106.74	107.81	85.39	64.04	30.67	9.80
2023	108.87	109.96	87.10	65.32	31.29	10.00
2024	111.05	112.16	88.84	66.63	31.91	10.20
2025	113.27	114.40	90.62	67.96	32.55	10.40
2026	115.54	116.69	92.43	69.32	33.20	10.61
2027+	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr

6. Income taxes

The amount of income taxes computed by applying the combined Canadian federal and provincial income tax rates to income before taxes differs from the amount recorded in the financial statements. The differences are summarized as follows:

For the years ended December 31,	2008	2007
Net loss before income taxes	$ (1,833,791)	$ (6,033,587)
Combined federal and provincial tax rate	29.50%	32.12%
Computed "expected" income tax recovery	(540,968)	(1,937,988)
Non taxable differences on foreign operations	(118,877)	-
Effect of foreign tax rates	34,298	-
Stock-based compensation	191,442	514,541
Change in valuation allowance	381,505	878,857
Canadian tax rate adjustments on temporary balances	43,933	537,090
Other	8,667	7,500
	$ -	$ -

The components of the Company's future tax assets and liabilities at December 31, 2008 and 2007 are as follows:

As at December 31,	2008	2007
Canada		
Future income tax assets (liabilities):		
Foreign exchange	$ (263,928)	$ (39,653)
Non capital loss carryforwards	2,163,928	1,625,187
Share issue costs	172,795	261,362
Asset retirement obligations	25,022	28,728
Property and equipment	643,456	621,573
Valuation allowance	(2,741,273)	(2,497,197)
	-	-
Argentina		
Losses	132,328	-
Valuation allowance	(132,328)	-
	-	-
Tunisia		
Losses	5,101	-
Valuation allowance	(5,101)	-
	-	-
Total future tax assets (liabilities)	$ -	$ -

At December 31, 2008 the Company had the following non-capital loss carryforwards:

	Expiry Dates	
Canada	2009 - 2028	$ 8,656,000
Argentina	2013	378,000
Barbados	2017	204,000
		$ 9,238,000

7. Asset retirement obligations

Asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At December 31, 2008, the estimated total undiscounted amount of cash flows required to settle the Company's asset retirement obligations are approximately $220,000 (2007 - $229,000) in Canada, $900,000 USD (2007 - $0) in Argentina (2007 - $0), and $270,000 USD in Tunisia (2007 - nil). These costs are expected to be incurred over the next 15 years in Canada and over the next 25 years in each of Argentina and Tunisia. A credit-adjusted risk-free rate of 8% and an inflation rate of 2% was used to calculate the fair value of the asset retirement obligations in Canada, a credit adjusted risk-free interest rate of 8% and an inflation rate of 7.85% was used to calculate the fair value of the asset retirement obligations in Argentina, and a credit-adjusted risk-free interest rate of 8% and an inflation rate of 4% was used to calculate the fair value of the asset retirement obligation in Tunisia. A reconciliation of the total asset retirement obligations is provided below:

Year ended December 31,	2008	2007
Balance, beginning of year	$ 114,913	$ 80,262
Obligations accrued	256,290	-
Accretion expense	5,810	5,844
Costs incurred	(20,635)	(2,214)
Adjustment to estimate of accrued obligations	-	31,021
Balance, end of year	$ 356,378	$ 114,913

8. Share capital and warrants

Authorized

The authorized share capital of the Company consists of an unlimited number of common shares without nominal or par value.

Issued and outstanding

The following table provides a summary of the issued and outstanding common shares and warrant activity for the year ended December 31, 2008:

	Common shares		Warrants			
	Number	Amount ($)	Number	Weighted average exercise price ($)	Amount ($)	Share capital & warrants ($)
Balance - December 31, 2006	106,391,449	28,648,893	15,071,690	0.89	2,541,700	31,190,593
Options exercised	500,000	102,550	-		-	102,550
Warrants exercised	477,250	290,325	(477,250)	(0.50)	(51,700)	238,625
Warrants expired	-	-	(2,016,815)	(0.91)	(70,000)	(70,000)
Warrants extended	-	-	-		480,000	480,000
Balance - December 31, 2007	107,368,699	29,041,768	12,577,625	0.90	2,900,000	31,941,768
Private placement	4,375,003	2,450,000	-		-	2,450,000
Warrants expired	-	-	(12,577,625)	(0.90)	(2,900,000)	(2,900,000)
Balance - December 31, 2008	111,743,702	31,491,768	-	-	-	31,491,768

On April 4, 2008 the Company closed a non-brokered private placement for the issuance 4,375,003 common shares at $0.56 per share for total proceeds of $2,450,000, with no associated issue costs.

On May 2, 2008 all outstanding warrants expired.

Stock options

Under the Company's stock option plan, directors, officers, employees and consultants are eligible to receive options to acquire common stock. The exercise price of each stock option is the average market price of the Company's stock for the five trading days prior to the grant date. Total options granted cannot exceed 10% of the issued and outstanding common shares of the Company.

Options granted to directors vest immediately. Options granted to officers, employees, and consultants vest equally over three years on each anniversary of the grant date. All options expire five years from the grant date.

The following table presents the Company's stock option activity:

Year ended December 31,	2008		2007	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding - beginning of year	10,150,000	0.62	8,400,000	0.59
Granted	1,055,000	0.105	2,250,000	0.60
Exercised	-	-	(500,000)	(0.12)
Forfeited	(50,000)	(0.85)	-	-
Outstanding - end of year	11,155,000	0.57	10,150,000	0.62
Exercisable - end of year	7,608,333	0.58	5,200,000	0.55

The following table presents the estimated remaining life of outstanding stock options and the number of shares that may be issued at December 31, 2008:

	Outstanding		
	Number of options	Weighted average remaining life (years)	Number of options exercisable
$ 0.105	1,025,000	4.91	125,000
$ 0.12	1,000,000	1.76	1,000,000
$ 0.41	330,000	2.18	300,000
$ 0.60	2,150,000	3.47	1,583,333
$ 0.66	4,300,000	2.15	2,966,667
$ 0.70	100,000	3.80	33,333
$ 0.73	1,100,000	2.22	833,333
$ 0.85	1,150,000	2.79	766,667
	11,155,000	2.71	7,608,333

Stock-based compensation and contributed surplus

The Company accounts for its stock-based compensation using the fair value method. The fair value of each stock option granted is estimated using the Black-Scholes option pricing model with the following weighted average assumptions at December 31, 2008: risk free interest rate of 3.37% (2007 – 4.20%), expected life of 3.59 years (2007 – 4.40 years), expected volatility of 79.6% (2007 – 50.0%) and 0% dividend yield (2007 – 0%). The grant date weighted average fair value of stock options granted in the year ended December 31, 2008 was $0.10 per option (granted in 2007 - $0.26 per option). The fair value, estimated at the grant date for options issued to directors, officers and employees and the measurement date for options issued to consultants, is expensed on a straight-line basis over the vesting terms of the options.

The following table presents the Company's stock-based compensation and continuity of contributed surplus:

Year ended December 31,	2008	2007
Balance - beginning of year	$ 3,071,925	$ 1,382,406
Stock-based compensation expensed	648,956	1,601,591
Stock-based compensation capitalized	88,370	60,478
Balance transferred on expiration of warrants	2,900,000	70,000
Exercise of stock options	-	(42,550)
Balance - end of year	$ 6,709,251	$ 3,071,925

9. Segmented information

The Company has determined its three operating segments to be Canada, Tunisia and Argentina. Financial information pertaining to these operating segments is presented in the following tables:

	Year ended December 31, 2008			
	Canada	Argentina	Tunisia	Total
Gross revenue, including interest	$ 1,029,090	$ -	$ 88	$ 1,029,178
Net loss and other comprehensive loss	$ (1,716,666)	$ (2,827)	$ (114,298)	$ (1,833,791)

	Year ended December 31, 2007			
	Canada	Argentina	Tunisia	Total
Gross revenue, including interest	$ 1,594,257	$ -	$ -	$ 1,594,257
Net loss and other comprehensive loss	$ (6,033,587)	$ -	$ -	$ (6,033,587)

	As at and for the year ended December 31, 2008			
	Canada	Argentina	Tunisia	Total
Property and equipment, net	$ 2,242,425	$ 7,798,917	$ 5,645,649	$ 15,686,991
Property and equipment expenditures	167,097	5,053,741	3,205,116	8,425,954
Total assets	$ 9,431,467	$ 8,771,874	$ 5,671,606	$ 23,874,947

	As at and for the year ended December 31, 2007			
	Canada	Argentina	Tunisia	Total
Property and equipment, net	$ 3,258,064	$ 2,453,162	$ 2,387,887	$ 8,099,113
Property and equipment expenditures	1,111,461	1,917,543	2,331,592	5,360,596
Total assets	$ 16,705,007	$ 2,453,162	$ 2,387,886	$ 21,546,055

10. Supplemental cash flow information

Changes in non-cash working capital items are comprised of the following:

Year ended December 31,		2008		2007
Accounts receivable	$	71,007	$	(27,218)
Prepaid expenses		(32,625)		(35,031)
Accounts payable and accrued liabilities		733,892		(841,796)
Foreign exchange		51,351		-
Change in non-cash working capital		823,625		(904,045)
Attributable to:				
Operating activities		301,178		(129,169)
Investing activities		522,447		(774,876)
	$	823,625	$	(904,045)

11. Commitments

The Company entered into a lease agreement for its Calgary office premises which expires June 15, 2011. The minimum rentals payable including estimated operating costs at December 31, 2008 are:

2009	$	129,000
2010		129,000
2011		59,000
Total	$	317,000

The Company has entered into a lease for office space in Argentina which expires in May of 2011. The minimum lease rentals, excluding operating costs, at December 31, 2008 are:

		USD
2009	$	27,000
2010		27,000
2011		11,000
Total	$	65,000

The Company also has two leases for rental accommodations in Argentina which expire in October 2009 and December 2009. The minimum lease rentals payable under the leases at December 31, 2008 is $18,000 USD.

The Company agreed to work programs in the Province of Neuquen in Argentina for three exploration blocks granted by the Province. The work programs require the Company to undertake specific activities on each block. At December 31, 2008 the Company's share of the remaining minimum work commitments is approximately $5,627,800 USD. The Company has until November 2010 to complete these remaining work commitments. If the Company does not meet its work commitments it will forfeit its rights on the exploration blocks.