

**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF
MADALENA VENTURES INC.**

to be held July 30, 2009

and

INFORMATION CIRCULAR

June 30, 2009

MADALENA VENTURES INC.

**NOTICE OF THE ANNUAL AND SPECIAL MEETING
OF SHAREHOLDERS TO BE HELD
JULY 30, 2009**

TO THE SHAREHOLDERS OF MADALENA VENTURES INC.

Notice is hereby given that the Annual and Special Meeting (the "**Meeting**") of the shareholders (the "**Shareholders**") of Madalena Ventures Inc. (the "**Company**" or "**Madalena**") will be held at the offices of Burnet, Duckworth & Palmer LLP, 1400, 350 – 7 Avenue, S.W., Calgary, Alberta, Canada T2P 3N9 on July 30, 2009 at 10:00 am (Calgary time) for the following purposes:

- (a) to receive the financial statements of the Company for the year ended December 31, 2008 and the auditor's report thereon;
- (b) to fix the number of directors to be elected at the Meeting at six (6) members;
- (c) to elect directors of the Company for the ensuing year;
- (d) to appoint KPMG LLP as the auditors of the Company for the ensuing year and to authorize the directors to fix the auditors' remuneration as such;
- (e) to approve the Company's existing stock option plan;
- (f) to transact such further and other business as may be properly brought before the Meeting or any adjournment thereof.

The nature of the business to be transacted at the Meeting is described in further detail in the accompanying Information Circular.

The record date for the determination of shareholders entitled to receive notice of and to vote at the Meeting is June 30, 2009 (the "**Record Date**"). Shareholders of the Company whose names have been entered in the register of shareholders at the close of business on that date will be entitled to receive notice of and to vote at the Meeting, provided that, to the extent a shareholder transfers the ownership of any of such shareholder's shares after such date and the transferee of those shares establishes that the transferee owns the shares and requests, not later than 10 days before the Meeting, to be included in the list of shareholders eligible to vote at the Meeting, such transferee will be entitled to vote those shares at the Meeting.

A shareholder may attend the Meeting in person or may be represented by proxy. Shareholders who are unable to attend the Meeting or any adjournment thereof in person are requested to date, sign and return the accompanying form of proxy for use at the Meeting or any adjournment thereof. To be effective, the enclosed proxy must be mailed so as to reach or be deposited with the Proxy Department, Alliance Trust Company, 450, 407 – 2nd Street SW, Calgary, Alberta T2P 2Y3 (facsimile: 403-237-6181), not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays in the Province of Alberta) prior to the time set for the Meeting or any adjournment thereof.

The instrument appointing a proxy shall be in writing and shall be executed by the shareholder or the shareholder's attorney authorized in writing or, if the shareholder is a company, under its corporate seal by an officer or attorney thereof duly authorized.

The persons named in the enclosed form of proxy are directors and/or officers of Madalena. Each shareholder has the right to appoint a proxyholder other than such persons, who need not be a shareholder, to attend and to act for such shareholder and on such shareholder's behalf at the Meeting. To exercise such

right, the names of the nominees of management should be crossed out and the name of the shareholder's appointee should be legibly printed in the blank space provided.

In the event of a strike, lockout or other work stoppage involving postal employees, all documents required to be delivered by a Shareholder should be delivered by facsimile to Alliance Trust Company at 403-237-6181

DATED at Calgary, Alberta this 30th day of June, 2009.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) "*Ken Broadhurst*"

President, Chief Executive Officer and Director

MADALENA VENTURES INC.

MANAGEMENT PROXY CIRCULAR
for the Annual and Special Meeting of Shareholders
to be Held on July 30, 2009

Solicitation of Proxies

This information circular - proxy statement is furnished in connection with the solicitation of proxies by or on behalf of the management of Madalena Ventures Inc. ("**Madalena**" or the "**Company**") for use at the annual and special meeting of shareholders (the "**Meeting**") to be held at Burnet, Duckworth & Palmer LLP, 1400, 350 – 7 Avenue, S.W., Calgary, Alberta, Canada T2P 3N9 on July 30, 2009 at 10:00 am (Calgary time), and any adjournment thereof for the purposes set forth in the accompanying Notice of Meeting. Only holders of common shares of the Company ("**Shareholders**") of record on June 30, 2009, are entitled to notice of, to attend and to vote at the Meeting, unless a shareholder has transferred any shares subsequent to that date and the transferee shareholder, not later than 10 days before the Meeting, establishes ownership of the shares and demands that the transferee's name be included on the list of shareholders.

The instrument appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a Company, under your corporate seal or by a duly authorized officer or attorney of the Company.

The persons named in the enclosed instrument of proxy are directors and/or officers of the Company. As a shareholder submitting a proxy you have the right to appoint a person (who need not be a shareholder) to represent you at the Meeting other than the person or persons designated in the instrument of proxy furnished by the Company. To exercise this right you should insert the name of the desired representative in the blank space provided in the instrument of proxy and strike out the other names or submit another appropriate proxy. In order to be effective, the proxy must be mailed so as to be deposited at the office of the Company's transfer agent, Alliance Trust Company, 450, 407 – 2nd Street SW, Calgary, Alberta T2P 2Y3 (facsimile: 403-237-6181) not later than 4:30 p.m. (Calgary time) on the second last business day preceding the date of the Meeting or any adjournment thereof. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date of its execution.

Advice to Beneficial Holders

The information set forth in this section is of significant importance to you if you do not hold your shares in your own name. Only proxies deposited by shareholders whose names appear on the Company's records as the registered holders of shares can be recognized and acted upon at the Meeting. If shares are listed in your account statement provided by your broker, then, in almost all cases, those shares will not be registered in your name on the Company's records. Such shares will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co., the registration name for The CDS Clearing and Depository Services Inc., which acts as nominee for many Canadian brokerage firms. Shares held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your shares.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the Meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your shares are voted at the Meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Capital Financial Solutions Inc. ("**Broadridge**"). If you receive a voting instruction form from Broadridge it cannot be used as a proxy to vote shares directly at the Meeting as the proxy must be returned (or otherwise reported as provided in the voting instruction form) to Broadridge well in advance of the Meeting in order to have the shares voted.

Revocability of Proxy

You may revoke your proxy at any time prior to a vote. If you, or the person you give your proxy, attend personally at the Meeting, you or such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by you or your attorney authorized in writing or, if you are a Company, under your corporate seal or by a duly authorized officer or attorney of the Company. To be effective the instrument in writing must be deposited at the registered office of the Company at Suite 200, 441 - 5th Avenue

SW, Calgary, Alberta, Canada T2P 2V1, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the Meeting on the day of the Meeting, or any adjournment thereof.

Persons Making the Solicitation

This solicitation is made on behalf of management of the Company. The Company will bear the costs incurred in the preparation and mailing of the form of proxy, notice of annual meeting and this information circular - proxy statement. In addition to mailing forms of proxy, proxies may be solicited by personal interviews, or by other means of communication, by directors, officers and employees of the Company who will not be remunerated therefor.

Exercise of Discretion by Proxy

The Common Shares represented by proxy in favour of management nominees will be voted on any poll at the Meeting. Where you specify a choice with respect to any matter to be acted upon, the Common Shares will be voted on any poll in accordance with the specification so made. If you do not provide instructions, your Common Shares will be voted in favour of the matters to be acted upon as set out herein. The persons appointed under the form of proxy that the Company has furnished are conferred with discretionary authority with respect to amendments or variations of those matters specified in the form of proxy and notice of annual meeting and with respect to any other matters which may properly be brought before the Meeting or any adjournment thereof. At the time of printing this information circular - proxy statement, management of the Company knows of no such amendment, variation or other matter.

MATTERS TO BE ACTED UPON AT THE MEETING

Presentation of Financial Statements

At the Meeting, Shareholders will receive the consolidated financial statements of the Company for the fiscal year ended December 31, 2008 and the auditors' report on such statements.

Election of Directors

At the Meeting, shareholders will be asked to elect the proposed directors set forth below to hold office until the next annual meeting or until their successors are elected or appointed. There are presently seven (7) directors of the Company, each of whom retires from office at the Meeting. Mr. James Wilson has informed the Company that he will not present his name to shareholders for re-election at the Meeting. As a result, he will cease to be a member of the Board of Directors of the Company as of the meeting date. It is proposed that the Board will be fixed at six (6) members and the persons in the table below will be nominated at the Meeting.

Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favour of the election as directors of the nominees hereinafter set forth to hold office until the next annual meeting, or until their successors are elected or appointed:

Ken Broadhurst
Dwayne Warkentin
Ray Smith
Mike Lock
Ving Woo
Jay Reid

The names and places of residence of the persons nominated as directors, the number of Common Shares beneficially owned, directly or indirectly, or over which each exercises control or direction, the period served as director and the principal occupation during the last five years of each are as follows:

Name and Country and Province of Residence	Number of Common Shares Beneficially Owned or Controlled, Directly or Indirectly	Director Since	Principal Occupation
Ken Broadhurst Alberta, Canada Director / President / Chief Executive Officer	1,937,500	February 24, 2006	Currently the President and Chief Executive Officer of the Company; formerly President and Chief Executive Officer of privately owned Era Oil & Gas Corp. and Egypt Production Interest Corp. from September, 2001 until joining the Company.
Dwayne Warkentin Alberta, Canada Director / Senior Vice President / Chief Operating Officer	1,600,000	February 24, 2006	Chief Operating Officer of the Company. Prior thereto, Chief Operating Officer from February, 2005 and Vice President, Operations since 1999 at Antrim Energy Inc.
Ray Smith ⁽⁴⁾⁽⁵⁾ California, USA ⁽⁶⁾ Director / Non-Executive Chairman	4,971,500	October 12, 2005	President and Chief Executive Officer of True Energy Trust since January 26, 2009. Prior thereto, President and Chief Executive Officer of Cork Exploration Inc., from June 2007 to November 2007, and Chairman of Cork Exploration Inc. from April 2005 to November of 2007; President and Chief Executive Officer of Meridian Energy Corp. from September 2002 until January 2004, and Chairman of Meridian Energy Corp. from January 2004 to March 2005, President and Chief Executive Officer of Corsair Exploration Inc. from July 1999 to January 2002.
Mike Lock ⁽³⁾⁽⁴⁾⁽⁵⁾ Alberta, Canada Director	310,000 ⁽¹⁾⁽²⁾	December 29, 2005	President of Upsilon Holdings Ltd., a privately owned consulting company and is currently employed by Oilexco Incorporated as a commercial negotiator.
Ving Woo ⁽³⁾⁽⁶⁾ Alberta, Canada Director	725,000 ⁽³⁾	March 10, 2006	Vice President, Operations of True Energy Trust since April 8, 2009. Prior thereto, Executive Vice-President and Chief Operating Officer of Cork Exploration Inc., from June, 2007 to November 2007, and Director of Cork Exploration Inc., from April 2005 to November 2007; Vice President, Engineering for Meridian Energy Corp. from September 2002 until March 2005; Vice President, Engineering for Corsair Exploration Inc. from July 1999 until April 2002.
Jay Reid ⁽⁵⁾ Alberta, Canada Director	Nil	February 13, 2009	Partner at the Calgary based law firm of Burnet, Duckworth & Palmer LLP and has practiced corporate and securities law since 1990. Director of a number of publicly listed issues and currently serves as Corporate Secretary for Advantage Energy Income Fund, Profound Energy Inc., Orleans Energy Ltd. and Garneau Inc., four TSX listed issuers and other private issuers.

Notes:

- (1) Mrs. Kathryn Lock, spouse of Mike Lock, directly holds 500,000 common shares of the Company
- (2) Mr. Mike Lock holds an additional 200,000 common shares in trust for one minor and three adult children.
- (3) Member of the Audit Committee.
- (4) Member of the Corporate Governance Committee.
- (5) Mr. Reid shall be appointed to the Compensation Committee effective as of the date of the Meeting.
- (6) Member of the Reserves Committee.

As at the date hereof, the directors and officers of the Company, as a group, beneficially own or control, directly or indirectly, an aggregate of 10,325,000 Common Shares or approximately 9.24% of the issued and outstanding Common Shares.

The information as to shares beneficially owned or controlled, directly or indirectly, is based upon information furnished to the Company by the Directors. Each of the Directors of the Company is currently a director and was elected to his present term of office by a vote of the Company's shareholders at a meeting of such shareholders, the notice of which was accompanied by an information circular.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Other than as set out below, no proposed director, is as at the date hereof, or has been:

- (a) within 10 years of the date hereof, a director or Chief Executive Officer (“CEO”) or Chief Financial Officer (“CFO”) of any company, including the Corporation, that:
 - (i) while that person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
 - (ii) was subject to an order that resulted, after the director or officer ceased to be a director chief executive officer or chief financial officer of the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days and which resulted from an event that occurred while that person was acting in the capacity as a director, chief executive officer or chief financial officer, or
 - (iii) has, within 10 years before the date of this information circular become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or became 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 proposed director; or
- (b) has, within the 10 years before the date of this information circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

In addition, no proposed director has been subject to: (i) 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 (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

In addition, no proposed director has, within the ten (10) years before the date of this document, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver-manager or trustee appointed to hold its assets.

Mike Lock was Vice President of Land during the period of time that Big Bear Exploration Ltd. and Blue Range Exploration Ltd. filed for court protection pursuant to the Companies' Creditor Arrangement Act. The assets were sold through a court-approved plan of arrangement to Canadian Natural Resources Ltd. and the funds were distributed by the court appointed monitor Price Waterhouse Coopers LLP to the creditors.

Appointment of Auditors

Unless otherwise directed, it is management's intention to vote the proxies in favour of an ordinary resolution to appoint the firm of KPMG LLP, Chartered Accountants, Calgary, Alberta, to serve as auditors of the Company until the next annual meeting of shareholders and to authorize the directors to fix their remuneration as such. KPMG have been the Company's auditors since November 3, 2006.

Approval of Stock Option Plan

The policies of the TSX Venture Exchange require the Company to obtain shareholder approval of the Company's stock option plan (the "**Plan**") on an annual basis. Accordingly, at the Meeting, shareholders will be asked to consider and, if deemed advisable, ratify and approve the Company's Plan.

The Plan includes the following:

1. the total number of Common Shares issuable pursuant to the Plan shall not exceed 10% of the aggregate of the issued and outstanding Common Shares on the date of grant;
2. the number of Common Shares reserved for issuance, within a one-year period, to any one optionee shall not exceed 5% of the number of issued and outstanding Common Shares;
3. the maximum number of Common Shares reserved for issuance pursuant to options ("**Options**") granted to Insiders at any time may not exceed 10% of the number of issued and outstanding Common Shares;
4. the maximum number of Common Shares which may be issued to insiders, within a one-year period, may not exceed 10% of the number of issued and outstanding Common Shares;
5. the maximum number of Common Shares which may be issued to any one insider and the associates of such insider, within a one-year period, may not exceed 5% of the number of issued and outstanding Common Shares; and
6. the exercise price of any Option subject to the Plan shall not be less than the current market price of the Common Shares, which shall mean the most recent closing price per share for Common Shares on the last trading day preceding the date of grant on which there was a closing price on the TSX Venture Exchange (or if the Common Shares are not listed on the TSX Venture Exchange, on such stock exchange as the Common Shares are then traded).

Accordingly, at the Meeting, the following resolution, with or without variation relating to the approval of the Company's Plan will be placed before the shareholders:

"BE IT RESOLVED THAT:

7. the stock option plan of the Company is hereby authorized and approved; and
8. any director or officer of the Company be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents, and any amendments thereto, as may be necessary or advisable in order to give effect to the foregoing resolutions, and to complete all transactions in connection therewith."

In order to be passed, the foregoing resolution must be approved by the affirmative vote of a simple majority of the votes cast by the shareholders who vote in person or by proxy at the Meeting. **The persons named in the accompanying Instrument of Proxy intend, unless otherwise directed, to vote in favour of the resolution approving the Company's Plan.**

As at the date hereof, the following activity in the Plan has taken place:

Total Options authorized for issuance	11,174,370
Options issued	17,005,000
Options exercised	(2,200,000)
Options canceled	(3,875,000)
Options expired	nil
Options available for future grant	<u>244,370</u>

There are currently Options issued to acquire an aggregate of 10,930,000 Common Shares representing approximately 9.78% of the Company's currently issued and outstanding Common Shares.

Voting Shares and Principal Shareholders

The authorized share capital of the Company consists of an unlimited number of Common Shares without nominal or par value. As at the date hereof, there are 111,743,702 Common Shares issued and outstanding.

To the best of the Company's knowledge and based on existing information, as at the date hereof, there are no persons who own or exercise control or direction over, directly or indirectly, more than 10% of the outstanding Common Shares.

STATEMENT OF EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive and Employee Compensation Principles

The Board of Directors recognizes that Madalena's success depends greatly on its ability to attract, retain and motivate superior performing employees at all levels, which can only occur if Madalena has an appropriately structured and executed compensation program. The principal objectives of Madalena's compensation program are as follows:

- (a) to attract and retain qualified officers and employees;
- (b) to align officer and employee interests with those of the shareholders; and
- (c) to reward both demonstration of leadership and performance as measured against specific objectives.

Composition and the Role of the Compensation Committee

The Board has established a Compensation Committee (the "**Committee**") currently comprised of Messrs. Lock and Smith. The Board of Directors shall appoint Mr. Reid to Compensation Committee effective as of the date of the Meeting. The entirety of the Committee is considered "independent" for the purpose of National Policy 58-201 – *Corporate Governance Guidelines*.

The Company's compensation philosophy is aimed at attracting and retaining quality and experienced people which is critical to the success of the Company for the benefit of its shareholders. Employee compensation, including officer compensation, is comprised of three elements: base salary, short-term incentive compensation (cash bonuses) and long-term incentive compensation (Options). The CEO and the Committee review all three components in assessing the compensation of individual officers and of the Company as a whole. Salaries and bonuses are intended to provide current compensation and a short-term incentive for employees to meet the Company's goals, as well as to remain competitive with the industry that possesses a competitive hiring environment, particularly in relation to companies of Madalena's size. The Company's compensation policies have allowed the Company to attract and retain a team of motivated professionals and support staff working towards the common goal of enhancing shareholder value. The CEO together with the Committee and the Board will continue to review compensation policies to ensure that they are competitive within the petroleum and natural gas industry and consistent with the performance of the Company. Options are granted as a long-term incentive and to encourage commitment to the Company.

When determining executive compensation, including the assessment of the competitiveness of the Company's compensation practices, the Committee reviews the compensation information available in the public domain from companies with similar production, operation size and scope as the Company. Some of the salary information available in the public domain with respect to these companies can be outdated and therefore the Company may also obtain industry reports providing salary levels. The industry reports provide general information about levels of compensation in the oil and gas industry or with respect to specific professions and not specific metrics about companies in the Company's peer group. Based on the information available, the Committee believes the total compensation for the Company's officers for 2008 is consistent with companies in the Company's peer group.

The CEO makes recommendations to the Committee with respect to compensation for the officers of the Company including the CEO. If approved by the Committee, the Committee then makes recommendations to the Board for final approval. When making such recommendations, the CEO may analyze a number of factors, including compensation data compiled from the Company's peer groups, corporate performance and individual officer performance. In assessing corporate performance, the Company does not have any pre-determined set targets, but the following factors are considered: (a) the Company's performance relative to its industry peer group; (b) year-over-year growth in production and reserves; (c) cash flow and cash flow per share amounts; (d) total operating costs and total general and administrative costs; and (e) annual finding, development and acquisitions costs. In assessing the performance of individual officers, consideration is given to objective factors such as level of responsibility, experience and expertise, as well as subjective factors such as leadership and performance in such officer's specific role with the Company.

Recommendations for executive compensation, as well as for the Company as a whole, are then made by the Committee to the full Board for approval. As the CEO is also a member of the Committee, other members of the Committee meet in the absence of the CEO to discuss the recommendations made for the CEO's compensation and to determine whether such compensation will be recommended to the full Board of Directors for approval.

Each element of the Company's executive compensation program is described in more detail below.

Base Salaries

The Committee recognizes that the size of the Company prohibits base salary compensation for officers from matching those of larger companies in the petroleum and natural gas industry. The Committee does believe, however, that performance-based compensation plans are an important element in the compensation packages for the Company's officers, and that long-term equity interests, in the form of Options, compensate for lower base salaries. This compensation strategy is similar to the strategies of many other companies in the Company's peer group.

Base salaries for officers, including the CEO, are established by the Committee at levels comparable to base salaries paid by the Company's industry peer group. In assessing comparability, the Company relied upon salary and other remuneration data provided by an independent human resources consulting firm and a review of base salary amounts as disclosed by industry peers in their public disclosure documents. Consideration was given to the time period evaluated in industry surveys and public data and to the business climate applicable at the time with respect to industry demand for experienced personnel. Salaries of officers, including that of the CEO, are reviewed annually.

Bonuses

The Company does not have a formal bonus plan but may award discretionary bonuses. The award of a bonus is recommended, in all cases (excluding the CEO), by the CEO and, if approved by the Committee, then recommended to the Board for final approval. The CEO's bonus is established by the Committee in consultation with the Board. Bonus awards are ultimately at the discretion of the Board upon recommendation of the Committee, based on corporate, departmental and individual performance. The discretionary bonus plan is structured to drive and reward current year results. The amount paid in 2008 was based on the Committee's subjective assessment of the Company's and departmental performance for the year and the employee's contribution thereto. There were no bonuses paid to Named Executive Officers (as defined below) in 2008.

Long-Term Incentive Compensation - Options

Refer to section: "Outstanding Share-Based Awards and Option-based Awards" for a discussion on the Company's approach to issuing Options.

Pension Plans and Retiring Allowances

The Company does not currently provide its officers, including the CEO, with pension plan benefits or retiring allowances.

Option-Based Awards

The Plan permits Madalena to issue Options to its directors, officers, employees and consultants in an aggregate of up to ten (10%) percent of the issued and outstanding share capital of the Company, from time to time, in accordance with the policies of the TSXV.

Options are normally awarded by the Board upon the commencement of employment with the Company based on the level of responsibility within the Company. Additional grants may be made periodically to ensure that the number of Options granted to any particular individual is commensurate with the individual's level of ongoing responsibility within the Company. When determining Options to be allocated to each individual officer a number of factors are considered including the number of outstanding Options held by such officer, the value of such Options held by the officer and the total number of available Options for grant.

Although, as mentioned above, Options are an important means of compensating officers and employees and aligning the interests of officers and employees with the interests of the shareholders, in recent years, Options have not been meeting their objective of providing a form of long-term incentive. As with many companies in the Company's peer group, due to falling stock prices of companies in the oil and gas industry, outstanding Options have little retention value. This factor is taken into consideration by the Committee when evaluating appropriate total executive compensation and in some cases the individual salaries and bonuses are adjusted accordingly in order to continue to attract and retain quality and experienced people.

Option grants and proposed grants for employees and officers are reviewed and discussed from time to time by the Committee and the Board. The Committee, as part of its mandate, administers the Plan approved by the Board in accordance with its terms including a recommendation to the Board of the grant of Options. The Committee also reviews and makes recommendations to the Board pertaining to Options for officers, including the CEO, and members of the Board.

Summary Compensation Table

The following table sets forth for the year ended December 31, 2008 information concerning the compensation paid to our CEO and CFO and the three most highly compensated executive officers (or the three most highly compensated individuals acting in a similar capacity), other than the CEO and CFO, at the end of the year ended December 31, 2008 whose total compensation was more than \$150,000 (each a "Named Executive Officer" or "NEO" and collectively, the "Named Executive Officers" or "NEOs").

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$) ⁽²⁾	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation ⁽³⁾	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Ken Broadhurst ⁽¹⁾ Alberta, Canada Director / President / Chief Executive Officer	2008	160,500	nil	19,120	nil	nil	nil	n/a	179,620
Dwayne Warkentin ⁽¹⁾ Alberta, Canada Director / Senior Vice President / Chief Operating Officer	2008	160,500	nil	19,120	nil	nil	nil	n/a	179,620
Greg Ford ⁽¹⁾ Vice President, Finance and Chief Financial Officer	2008	160,500	nil	19,120	nil	nil	nil	n/a	179,620

Notes:

- (1) For details of significant terms of the Employment Agreements between the Company and the NEOs, see "*Termination and Change of Control Benefits*".
- (2) The amount reflects "options" issued under the Plan during 2008 and is based on the grant date fair value of the applicable reward. The fair value of the award has been determined using the same methodology and assumptions used in calculating the stock-based compensation in the Company's financial statements except that the financial statements only reflect the amortized portion for the year ended December 31, 2008. The amortized portion recorded in the 2008 financial statements is \$680 for each of the above mentioned awards. The balance of \$18,440 will be amortized over the remaining term of the vesting period for financial statement purposes. The Company applies the Black-Scholes option pricing model to determine the fair value of the award. The Company used the following assumptions to determine the value of the award recorded above: Dividend Yield – nil; Expected life – 5 years; Volatility – 155%; Risk Free Interest Rate – 1.61%.
- (3) The value of perquisites received by the above named NEOs (including property and other personal benefits which were not generally available to all employees), was not in total greater than \$50,000 or 10% of the NEOs' total salary for 2008.

Stock Option Plan

Madalena has adopted the Plan pursuant to which Options may be granted to our directors, officers, employees, consultants and other service providers (collectively, "**Madalena Service Providers**").

The purpose of the Plan is to develop the interest of Madalena Service Providers in the growth and development of the Company by providing them the opportunity through Options to acquire an increased proprietary interest in the Company. Options granted pursuant to the Plan have a term not exceeding five years and vest in such manner as determined by the Board.

The total number of Common Shares reserved for issuance pursuant to the Options granted and outstanding under the Plan at any time shall not exceed a number of Common Shares equal to 10% of the aggregate number of issued and outstanding Common Shares.

Options are not transferable or assignable except in accordance with the Plan and the holding of Options shall not entitle the holder to any rights as a security holder.

Pursuant to option agreements entered into in respect of outstanding Options, on a change of control of the Company (as defined therein), the vesting of Options granted thereunder are accelerated. Based on the closing price of the Common Shares at December 31, 2008, none of the Options held by the NEOs were "in the money" at such date. In addition, in the event of certain events such as a liquidation or dissolution of the Company or a reorganization, plan of arrangement or consolidation of the Company with one or more entities as a result of which the Company is not the surviving entity, the Board of Directors may exercise its discretion to permit accelerated vesting of Options on such terms as the Board sees fit and, in the event of an acceleration of vesting, to cause the Options to terminate after the end of the period of accelerated vesting, even if such termination is prior to the end of the normal exercise period. The Plan also provides for (i) termination of all unvested Options upon termination of a Service Provider for any other reason, other than death, and termination of all vested Options at the earlier of dates ranging from 30 days to 90 days (depending on the particular stock option agreement entered into with the Madalena Service Provider) from the date of cessation as a Madalena Service Provider or the end of the applicable exercise period, and (ii) in the case of death, the Madalena Service Provider is entitled to exercise those Options which such person was entitled to exercise on the date of the death within the earlier of ninety days from the date of death of the end of the exercise period. Except as set forth above, the Plan allows for the Committee to amend or discontinue the Plan at any time, provided that no such amendment may, without the consent of optionee, alter or impair any Option previously granted to an optionee under the Plan and provided further that any amendment to the Plan is subject to prior approval of the TSXV, if required, and approval of the shareholders of Madalena, if required.

Outstanding Share-Based Awards and Option-based Awards

The following table sets forth for each Named Executive Officer all option-based awards and share-based awards outstanding at the end of the year ended December 31, 2008.

Name	Option-based Awards ⁽¹⁾				Share-based Awards ⁽³⁾	
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options ⁽²⁾ (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested ⁽³⁾ (\$)
Ken Broadhurst	2,000,000	0.66	Feb 24, 2011	nil	n/a	n/a
	500,000	0.12	Oct 5, 2010	nil		
	100,000	0.60	June 18, 2012	nil		
	200,000	0.105	Nov 28, 2013	nil		
Dwayne Warkentin	2,000,000	0.66	Feb 24, 2011	nil	n/a	n/a
	500,000	0.12	Oct 5, 2010	nil		
	100,000	0.60	June 18, 2012	nil		
	200,000	0.105	Nov 28, 2013	nil		
Greg Ford	500,000	0.73	Mar 21, 2011	nil	n/a	n/a
	500,000	0.85	Nov 3, 2011	nil		
	300,000	0.60	June 18, 2012	nil		
	200,000	0.105	Nov 28, 2013	nil		

Notes:

- (1) All option-based awards and options in the above table are Options.
- (2) Calculated based on the difference between the market price of the securities underlying the Options at December 31, 2008 (\$0.10) and the exercise price of the Options at such date.
- (3) The Company does not have any share-based awards outstanding.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth for each Named Executive Officer, the value of option-based awards and share-based awards which vested during the year ended December 31, 2008 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2008.

Name	Option-based awards – Value vested during the year ⁽¹⁾ (\$)	Share-based awards – Value vested during the year ⁽²⁾ (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Ken Broadhurst	nil	n/a	nil
Dwayne Warkentin	nil	n/a	nil
Greg Ford	nil	n/a	nil

Notes:

- (1) Calculated based on the difference between the market price of the Common Shares underlying the Options on the vesting date and the exercise price of the Options on the vesting date.
- (2) The Company does not have any share-based awards outstanding.

Pension Plans and Retiring Allowances

The Company does not currently provide its executive officers, including the Chief Executive Officer, with pension plan benefits or retiring allowances.

Termination and Change of Control Benefits

At December 31, 2008 Madalena had employment agreements (the "**Employment Agreements**") and stock option agreements (the "**Option Agreements**") with Messrs. Broadhurst, Warkentin, and Ford.

The Employment Agreements provide that the Employment Agreement, and the Executives employment, may be terminated by the Company (for reason other than "just cause") at any time upon the payment of a "retiring allowance", and upon the execution of a release by the executive in favor of the Company (the "**Release**").

The retiring allowance is equal to the sum of;

- (i) one hundred and fifty percent (150%) of the combined amount of the executive's annual base salary as at the termination date and any annual bonus received by the executive in the twelve month period immediately preceding the termination date,
- (ii) plus 20% of the executives annual base salary as at the termination date to compensate the Executive for the loss of executive benefits.

The Release releases Madalena from any claims which are related to the employment relationship including the termination of the employment relationship, or are in any way related to the *Alberta Employment Standards Code* or the *Alberta Human Rights, Citizenship and Multiculturalism Act*.

The Employment Agreement also provides that the executive may elect to terminate the Employment Agreement during the six months following any one of the following events:

- (b) a change of control (as such term is defined in the Employment Agreements);
- (c) if the executive's duties, powers, rights or salary are fundamentally diminished;
- (d) upon any failure by the Company to continue to provide the Executive with any, or reasonably equivalent, benefit, bonus, profit sharing, incentive, remuneration or compensation plan, stock ownership or purchase plan, stock option plan, warrant ownership rights, life insurance, disability plan, pension plan or retirement plan in which the executive was entitled to participate in, or if the Company has taken any action which adversely affects the executive's rights or participation in any such plans.

If the executive elects to terminate the Employment Agreement on the occurrence of any of the above events, the Executive is entitled to the above mentioned retiring allowance.

Compensation and payment levels in the Employment Agreements were based primarily on compensation information available in the public domain from companies with similar production, operation size and scope as the Company along with subjective factors such as leadership and performance in such officer's specific role with the Company.

The Option Agreements provide for termination and change of control benefits as describe above under the heading “*Stock Option Plan*”.

Assuming the above mentioned triggering events were effective December 31, 2008 each NEO would receive an amount equal to \$272,850 and would be allowed to immediately exercise their outstanding Options. Based on the closing price of the Common Shares at December 31, 2008, none of the Options held by the NEOs were in the money at such date.

Pursuant to the Employment Agreements, the salary paid to each executive is subject to an annual salary review. Each executive is entitled to participate in and receive rights and benefits under the Stock Option Plan and the executive is also entitled to participate in the executive bonus plan.

Director Compensation

Directors of Madalena were not paid any compensation in 2008 Directors were also reimbursed for out-of-pocket expenses incurred in carrying out their duties as directors. Each of the Company's non-management directors also participated in the Company's stock option plan.

Directors' Summary Compensation Table

The following table sets forth for the year ended December 31, 2008, information concerning the compensation paid to our directors other than directors who are also Named Executive Officers.

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards (\$) ⁽¹⁾	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Ray Smith	nil	n/a	2,390	n/a	n/a	n/a	2,390
Mike Lock	nil	n/a	2,390	n/a	n/a	n/a	2,390
Ving Woo	nil	n/a	2,390	n/a	n/a	n/a	2,390
Jeff Lawson ⁽³⁾	nil	n/a	2,390	n/a	n/a	n/a	2,390
James Wilson ⁽²⁾	nil	n/a	2,390	n/a	n/a	n/a	2,390

Notes:

- (1) The amount reflects “options” issued under the Plan during 2008 and is based on the grant date fair value of the applicable reward. The fair value of the award has been determined using the same methodology and assumptions used in calculating the stock-based compensation in the Company’s financial statements. The Company applies the Black-Scholes option pricing model to determine the fair value of the award. The Company used the following assumptions to determine the value of the award recorded above: Dividend Yield – nil; Expected life – 5 years; Volatility – 155%; Risk Free Interest Rate – 1.61%.
- (2) Mr. Wilson has informed the Company that he will not present his name to shareholders for re-election at the Meeting. As a result, he will cease to be a member of the Board of Directors of the Company and the Audit Committee as of the Meeting date.
- (3) Mr. Lawson resigned from the Board in 2009.

Directors' Outstanding Option-Based Awards and Share-Based Awards

The following table sets forth for each of our directors other than directors who are also Named Executive Officers, all option-based awards and share-based awards outstanding at the end of the year ended December 31, 2008.

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options ⁽¹⁾ (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
Ray Smith	200,000	0.60	June 18, 2012	nil	n/a	n/a
	25,000	0.105	Nov 28, 2013	nil	n/a	n/a
Mike Lock	300,000	0.41	Dec 29, 2010	nil	n/a	n/a
	200,000	0.60	June 18, 2012	nil	n/a	n/a
	25,000	0.105	Nov 28, 2013	nil	n/a	n/a
Ving Woo	300,000	0.66	March 13, 2011	nil	n/a	n/a
	200,000	0.60	June 18, 2012	nil	n/a	n/a
	25,000	0.105	Nov 28, 2013	nil	n/a	n/a
Jeff Lawson ⁽²⁾	300,000	0.66	March 31, 2011	nil	n/a	n/a
	200,000	0.60	June 18, 2012	nil	n/a	n/a
	25,000	0.105	Nov 28, 2013	nil	n/a	n/a
James Wilson	500,000	0.60	June 18, 2012	nil	n/a	n/a
	25,000	0.105	Nov 28, 2013	nil	n/a	n/a

Notes:

- (1) Calculated based on the difference between the market price of the Common Shares underlying the Options at December 31, 2008 and the exercise price of the Options.
- (2) Jeff Lawson resigned from the Board in 2009.

Directors' Incentive Plan Awards – Value Vested or Earned During the Year

During 2008 the above named Directors were each granted Options to acquire 25,000 common shares of the Company at an exercise price of \$0.105 per share. The Options vested immediately, however because the exercise price and the market price at the vesting date were identical, there was no value associated with the option based awards that vested in 2008. There were no share-based awards which vested during the year ended December 31, 2008 nor any non-equity incentive plan compensation earned during the year ended December 31, 2008 by any of our directors that are not also Named Executive Officers.

Securities Authorized for Issuance Under Equity Compensation Plans

The following sets forth information in respect of securities authorized for issuance under our equity compensation plans as at December 31, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) ⁽¹⁾ (c)
Common Shares under our Stock Option Plan approved by security holders	11,155,000	\$0.57	nil
Equity compensation plans not approved by security holders	nil	nil	nil
Total	11,155,000	\$0.57	nil

Note:

- (1) Represents the maximum number of Common Shares issuable under the Plan based upon the number of Common Shares and Exchangeable Shares outstanding as at December 31, 2008. See "Stock Option Plan".

CORPORATE GOVERNANCE DISCLOSURE

Set forth below is a description of the Company's current corporate governance practices, as prescribed by Form 58-101F2, which is attached to National Instrument 58-101 entitled "Disclosure of Corporate Governance Practices". The requirements of Form 58-101F2 are set out below in italics:

Board of Directors

Disclose the identity of directors who are independent.

James Wilson, Ray Smith, Mike Lock, Ving Woo and Jay Reid are independent directors. Mr. Wilson has informed the Company that he will not present his name to shareholders for re-election at the Meeting. As a result, he will cease to be a member of the Board of Directors and the Audit Committee as of the Meeting date.

Disclose the identity of directors who are not independent, and describe the basis for that determination.

Ken Broadhurst and Dwayne Warkentin are not independent directors as they are executive officers of the Company.

Directorships

If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.

Certain directors of the Company are presently directors or trustees of other reporting issuers, as set forth below:

<u>Name</u>	<u>Name of Reporting Issuer</u>
Raymond G. Smith	True Energy Trust
Jay Reid	One Exploration Inc.
James Wilson	Rock Energy Inc. Ironhorse Oil and Gas Inc.
Mike Lock	n/a
Ken Broadhurst	n/a
Dwayne Warkentin	n/a

Orientation and Continuing Education

Describe what steps the board takes to orient new board members, and describe any measures the board takes to provide continuing education for directors.

While the Company does not currently have a formal orientation and education program for new recruits to the Board, the Company has historically provided such orientation and education on an informal basis. As new directors join the Board, management will provide these individuals with corporate policies, historical information about the Company, as well as information on the Company's performance and its strategic plan with an outline of the general duties and responsibilities entailed in carrying out their duties. The Board believes that these procedures will prove to be a practical and effective approach in light of the Company's particular circumstances, including the size of the Company, limited changes to members of the Board and the experience and expertise of the members of the Board.

Ethical Business Conduct

Describe what steps the Board of Directors takes to encourage and promote a culture of ethical business conduct.

The Board has adopted a Code of Conduct and Conflict of Interest Guideline for directors and officers of the Company. Directors and Officers are required to sign acknowledgements that they have read and understand the Code. A copy of the Code of Conduct and Conflict of Interest Guideline can be found on SEDAR at www.SEDAR.com.

Nomination of Directors

Describe what steps, if any, are taken to identify new candidates for board nomination, including (i) who identifies new candidates and; (ii) the process of identifying new candidates.

Pursuant to their mandate, the Board of Directors has the responsibility of recruiting and recommending new members to the Board. It is expected that any new candidates will be identified having regard to: (i) the competence and skills that the Board considers to be necessary for the Board, as a whole, to possess; (ii) the competence and skills that the Board considers each existing director to possess; (iii) the competencies and skills that each new nominee will bring to the boardroom; and (iv) whether or not each new nominee can devote sufficient time and resources to his or her duties as a member of the Board. The Board of Directors reviews on a periodic basis the composition of the Board to ensure that an appropriate number of independent directors sit on the Board, and analyze the needs of the Board and recommend nominees who meet such needs.

Compensation

Disclose what steps, if any, are taken to determine compensation for the directors and CEO, including (i) who determines compensation; and (ii) the process of determining compensation.

The Board of Directors is responsible for (i) evaluating senior management; and (ii) developing appropriate compensation policies for the senior management and directors of the Company, including the Plan. The initial grant of options is made at the time of recruitment and reviewed annually.

Other Board Committees

If the Board of Directors has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.

The Board has a Reserves Committee, which is composed of three directors, each of whom is independent.

The Committee is responsible for reviewing the independent engineering reserves report and meeting with the independent engineers to review the methodology used in estimating the reserves. The Reserves Committee reviews the adequacy of the information available to the independent engineers and the co-operation of management in making such information available. The members of the Reserves Committee have direct access to the independent engineers of the Company. The Committee will also review and/or approve any other matters specifically delegated to the Committee by the Board.

Assessments

Disclose what steps, if any, the Board of Directors takes to satisfy itself that the Board of Directors, its committees, and its individual directors are performing effectively.

The Board makes annual assessments regarding the effectiveness of the Board itself, committees and individual directors in fulfilling their responsibilities.

AUDIT DISCLOSURE

The Audit Committee of the Board of Directors of the Company is a committee of the Board of Directors established for the purpose of overseeing the accounting and financial reporting process of the company and annual external audits of the consolidated financial statements. The committee has set out its responsibilities and composition requirements in fulfilling

its oversight in relation to the company's internal accounting standards and practises, financial information, accounting systems and procedures, which procedures are set out below in the Company's audit committee mandate attached as Schedule A.

Audit Committee Members

James Wilson, Mike Lock and Ving Woo are the current members of the Company's Audit Committee. Messrs. Wilson, Lock and Woo are each independent directors. Mr. Wilson has informed the Company that he will not present his name to shareholders for re-election at the Meeting. As a result, he will cease to be a member of the Board of Directors and the Audit Committee as of the Meeting date. The Company intends to determine a replacement for Mr. Wilson and his position on the Audit Committee in due course.

All members of the audit committee are financially literate, and their qualifications and experience are as follows:

Name and Municipality of Residence	Independent	Financially literate	Relevant Education and Experience
James Wilson ⁽¹⁾	Yes	Yes	Mr. Wilson is currently a Director of Rock Energy Inc. Vice President, Corporate Secretary and Director of Ironhorse Oil and Gas Inc., and Vice-President Finance and Chief Financial Officer of Grizzly Resources Ltd. (a private corporation). Previously Mr. Wilson has held the position of Vice-President, Finance and Chief Financial Officer of Ironhorse Oil and Gas Inc. and Vice-President, Finance and Chief Financial Officer of Archean Energy Ltd. Mr. Wilson is a Chartered Accountant with over 30 years of financial management experience. He has provided strategic planning, tax and audit advice in senior management capacities in the private and public oil and gas sectors, including extensive involvement in international operations in South America and Africa.
Mike Lock	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 companies and is currently employed by Oilexco Incorporated as a commercial negotiator. 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.
Ving Woo	Yes	Yes	Mr. Woo is currently Vice President, Operations of True Energy Trust. Previously, Mr. Woo has held the positions of Executive Vice-President and Chief Operating Officer, and Director of Cork Exploration Inc., Vice President, Engineering for Meridian Energy Corp., Corsair Exploration Inc., and New Cache Petroleum Inc. 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.

Note:

- (1) Mr. Wilson has informed the Company that he will not present his name to shareholders for re-election at the Meeting. As a result, he will cease to be a member of the Board of Directors and the Audit Committee as of the Meeting date.

Audit Committee Oversight – *If, at any time since the commencement of the issuer's most recently completed financial year, a recommendation of the audit committee to nominate or compensate an external auditor was not adopted by the board of directors, state that fact and explain why.*

Not applicable.

Reliance on Certain Exemptions – *If, at any time since the commencement of the issuer's most recently completed financial year, the issuer has relied on (i) the exemption in section 2.4 (De Minimis Non-audit Services), or (ii) an exemption from this Instrument, in whole or in part, granted under Part 8 (Exemptions), state that fact.*

Not applicable.

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.

External Auditor Fees

The Audit Committee shall review and pre-approve all non-audit services to be provided to the Company by its external auditors.

Audit Service Fees

The following table discloses fees billed to the Company for the last two fiscal years by the Company's independent auditors, KPMG:

Type of Service Provided	2008	2007
Audit Fees:	\$85,000	\$103,500
Audit-Related Fees:	\$2,850	\$3,500
Tax Fees:	nil	nil
All Other Fees:	nil	nil
Total	\$87,850	\$107,000

Exemptions

The Company relies on section 6.1 of Multilateral Instrument 52-110 as the Company is a "venture issuer" under that instrument.

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

Management of the Company is not aware of any material interest of any director or nominee for director, or senior officer or any one who has held office as such since the beginning of the Company's last financial year or of any associate or affiliate of any of the foregoing in any matter to be acted on at the Meeting other than the election of directors and as disclosed herein.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of directors or executive officers of the Company, any shareholder who beneficially owns, directly or indirectly, or exercise control or direction over more than 10% of the outstanding Common Shares, or any other Informed Person (as defined in National Instrument 51-102) or any known associate or affiliate of such persons, in any transaction since the commencement of the last completed financial year of the Company or in any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries.

There are potential conflicts of interest to which the directors and officers of the Company will be subject in connection with the operations of the Company. In particular, certain of the directors and officers of the Company are involved in managerial and/or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of the Company or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of the Company. See "*Directors and Officers of the Company*". Conflicts, if any, will be subject to the procedures and remedies available under the *Business Companies Act* (Alberta) (the "**ABCA**"). The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

OTHER MATTERS COMING BEFORE THE MEETING

Management of the Company knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Meeting accompanying the Information Circular. However, if any other matter properly comes before the Meeting, the forms of proxy furnished by the Company will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy.

DIRECTORS' APPROVAL

The contents and the sending of this circular have been approved by the Board.

ADDITIONAL INFORMATION

Financial information is provided in the Company's comparative audited consolidated financial statements and related management's discussion and analysis for the year ended December 31, 2007. To receive a copy of the Company's financial statements and related management's discussion and analysis please contact the Company at Suite 200, 441 - 5th Avenue SW, Calgary, Alberta, Canada T2P 2V1, Attention: Greg Ford, Vice President Finance and Chief Financial Officer. If you wish, this information and additional information relating to Madalena, may also be accessed on Madalena's website at www.madalena-ventures.com or on SEDAR at www.sedar.com. None of the information available on Madalena's website or on SEDAR is deemed to be incorporated by reference herein.

SCHEDULE "A"

AUDIT COMMITTEE MANDATE

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

1. The membership of the Audit Committee will be as follows:
 - (a) 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.
 - (b) The Board will elect, by a majority vote, one member as chairperson.
 - (c) 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:

2. Frequency of Meetings
 - (a) Meet quarterly or as often as may be deemed necessary or appropriate in its judgment, either in person or telephonically.
 - (b) Meet with the independent auditor at least quarterly, either in person or telephonically.
3. Reporting Responsibilities
 - (a) Provide to the Board of Directors proper Committee minutes.
 - (b) Report Committee actions to the Board of Directors with such recommendations as the Committee may deem appropriate.
 - (c) Provide a report for the Company's Annual Information Circular.
4. Charter Evaluation
 - (a) Annually review and reassess the adequacy of this Charter and recommend any proposed changes to the Board of Directors for approval.
5. Whistleblower Mechanisms
 - (a) 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.
6. Independent Auditor
 - (a) Nominate annually the independent auditor to be proposed for shareholder approval.
 - (b) Approve the compensation of the independent auditor, and evaluate the performance of the independent auditor.
 - (c) Establish policies and procedures for the engagement of the independent auditor to provide non-audit services.
 - (d) 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.
 - (e) 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.

7. Hiring Practices

- (a) 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.

8. Independence Test

- (a) 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 take, appropriate action to oversee the independence of the independent auditor.

9. Audit Committee Meetings

- (a) 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.
- (b) Keep minutes of its meetings and report to the Board for approval of any actions taken or recommendations made.

10. Restrictions

- (a) Ensure no restrictions are placed by management on the scope of the auditors' review and examination of the Company's accounts.
- (b) 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

1. Scope

(a) Consider, in consultation with the independent auditor, the audit scope and plan of the independent auditor.

2. Review Process and Results

(a) 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.

(b) 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.

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

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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

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

- (a) 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.
- (b) 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.