

**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF**

**MADALENA VENTURES INC.**

**to be held June 16, 2011**

**May 9, 2011**

**MADALENA VENTURES INC.**

**NOTICE OF THE ANNUAL AND SPECIAL MEETING  
OF SHAREHOLDERS TO BE HELD  
JUNE 16, 2011**

**TO THE SHAREHOLDERS OF MADALENA VENTURES INC.**

Notice is hereby given that the Annual and Special Meeting (the "**Meeting**") of the holders (the "**Shareholders**") of common shares ("**Common Shares**") of Madalena Ventures Inc. (the "**Corporation**" 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 June 16, 2011 at 3:00 pm (Calgary time) for the following purposes:

- (a) to receive and consider the financial statements of the Corporation for the year ended December 31, 2010 and the auditor's report thereon;
- (b) to fix the number of directors to be elected at the Meeting at eight (8) members;
- (c) to elect directors of the Corporation for the ensuing year;
- (d) to appoint KPMG LLP as the auditors of the Corporation for the ensuing year and to authorize the directors to fix the auditors' remuneration as such;
- (e) to approve the Corporation's stock option plan, as amended; and
- (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 May 9, 2011 (the "**Record Date**"). Shareholders 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 Common Shares after such date and the transferee of such shares establishes that the transferee owns such 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 such 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 – 2<sup>nd</sup> 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 9th day of May, 2011.

**BY ORDER OF THE BOARD OF DIRECTORS**

(signed) *"Dwayne Warkentin"*  
President, Chief Executive Officer and a Director

**MADALENA VENTURES INC.**

**MANAGEMENT PROXY CIRCULAR  
for the Annual and Special Meeting of Shareholders  
to be Held on June 16, 2011**

**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 "**Corporation**") for use at the annual and special meeting (the "**Meeting**") of holders (the "**Shareholders**") of common shares ("**Common Shares**") of the Corporation to be held at Burnet, Duckworth & Palmer LLP, 1400, 350 – 7 Avenue, S.W., Calgary, Alberta, Canada T2P 3N9 on June 16, 2011 at 3:00 pm (Calgary time), and any adjournment thereof for the purposes set forth in the accompanying Notice of Meeting. Only Shareholders of record on May 9, 2011, are entitled to notice of, to attend and to vote at the Meeting, unless a Shareholder has transferred any Common Shares subsequent to that date and the transferee Shareholder, not later than 10 days before the Meeting, establishes ownership of such 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 the Shareholder or its attorney authorized in writing or, if the Shareholder is a company, under its 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 Corporation. A Shareholder submitting a proxy has 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 Corporation. To exercise this right a Shareholder 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 Corporation's transfer agent, Alliance Trust Company, 450, 407 – 2<sup>nd</sup> 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 many Shareholders, as a substantial number of the Shareholders do not hold Common Shares in their own names.** Shareholders who do not hold their Common Shares in their names ("**Beneficial Shareholders**") should note that only proxies deposited by Shareholders whose names appear on the records of the Corporation as the registered holders of Common Shares can be recognized and acted upon at the Meeting. If Common Shares are listed in an account statement provided to a Shareholder by a broker, then in almost all cases those Common Shares will not be registered in the Shareholder's name on the records of the Corporation. Such Common Shares will more likely be registered under the name of the Shareholder's broker or an agent of that broker. In Canada, the vast majority of such Common Shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities Limited, which acts as nominees for many Canadian brokerage firms). Common Shares held by brokers or their nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Shareholder. Without specific instructions, the broker/nominees are prohibited from voting Common Shares for their clients. The Corporation does not know for whose benefit the Common Shares registered in the name of CDS & Co. are held. Therefore, Beneficial Shareholders cannot be recognized at the Meeting for the purposes of voting the Common Shares in person or by way of proxy except as set forth below.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of Shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. Often, the form of proxy supplied to a Beneficial Shareholder by its broker is identical to the form of proxy provided to registered Shareholders; however, its purpose is limited to instructing the registered Shareholder how to vote on behalf of the Beneficial Shareholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. (formerly ADP Investor Communication Services) ("**Broadridge**") in the United States and Canada. Broadridge typically applies a special sticker to proxy forms, mails those forms to the Beneficial Shareholders and requests the Beneficial Shareholders to return the proxy forms to Broadridge. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting. **A Beneficial Shareholder receiving a proxy from Broadridge cannot use that proxy to vote Common Shares directly at the Meeting as the proxy must be returned as directed by Broadridge well in advance of the Meeting in order to have the Common Shares voted.**

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

#### **Revocability of Proxy**

A Shareholder may revoke its proxy at any time prior to a vote. If a Shareholder, or the person such Shareholder gives its proxy, attend personally at the Meeting, 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 a Shareholder or its attorney authorized in writing or, if it is a company, under its 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 head office of the Corporation 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 Corporation.** The Corporation 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 Corporation 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 a Shareholder does not provide instructions, its 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 Corporation 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 Corporation 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 and consider the consolidated financial statements of the Corporation for the fiscal year ended December 31, 2010 and the auditors' report on such statements.

### Election of Directors

Directors will be elected at the Meeting. It is proposed that the board of directors of the Corporation (the "**Board**" or the "**Board of Directors**") will be fixed at eight (8) members, and 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 eight (8) directors of the Corporation, each of whom retires from office 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:

Barry Larson  
Mike Lock  
Keith Macdonald  
Anthony Potter  
Jay Reid  
Ray Smith  
Dwayne Warkentin  
Ving Woo

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 For Preceding Five Years
Barry Larson <sup>(6)</sup> Alberta, Canada Director	Nil	July 21, 2010	Currently the Vice President Operations and Chief Operating Officer of Parex Resources Inc. Prior thereto Vice President Operations and Chief Operating Officer of Petro Andina Resources Inc. from 2005 to 2009.
Mike Lock <sup>(4)(5)</sup> Alberta, Canada Director	960,000 <sup>(1)(2)</sup>	December 29, 2005	Currently President of Upsilon Holdings Ltd., a privately owned consulting company.
Keith Macdonald <sup>(4)(5)(6)</sup> Alberta, Canada Director	440,000 <sup>(3)</sup>	June 22, 2010	President of Bamako Investment Management Ltd., a private holding and financial consulting company, since July 1994. Chairman, President and Chief Executive Officer of EFL Overseas, Inc. since March 2011.

Name and Country and Province of Residence	Number of Common Shares Beneficially Owned or Controlled, Directly or Indirectly	Director Since	Principal Occupation For Preceding Five Years
Anthony Potter Alberta, Canada Director / Vice-President, Finance and Chief Financial Officer	50,000	June 22, 2010	Currently the Vice President, Finance and Chief Financial Officer of the Corporation since February 1, 2010. Prior thereto, Chief Financial Officer at Antrim Energy Inc., from 2003 to August, 2008.
Jay Reid <sup>(4)</sup> Alberta, Canada Director	Nil	February 13, 2009	Currently Partner at the Calgary based law firm of Burnet, Duckworth & Palmer LLP and has practiced corporate and securities law since 1990. Corporate Secretary of a number of publicly listed issuers, including Advantage Oil & Gas Ltd., TriOil Resources Ltd., Orleans Energy Ltd., Pinecrest Energy Inc. and Longview Oil Corp. and Corporate Secretary for other private issuers.
Ray Smith <sup>(4)</sup> California, USA Director / Chairman	4,971,500	October 12, 2005	Currently Chairman of the Board of the Corporation and President, Chief Executive Officer and Director of Bellatrix Exploration Ltd. Chairman of the Board of Online Energy Inc. since January 2011. 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.
Dwayne Warkentin Alberta, Canada Director / President / Chief Executive Officer	2,100,000	February 24, 2006	Currently President and Chief Executive Officer of the Corporation. Prior thereto, Executive Vice President and Chief Operating Officer of the Company. Prior thereto, Chief Operating Officer from February, 2005 to June 4, 2010.
Ving Woo <sup>(5)(6)</sup> Alberta, Canada Director	1,325,000	March 10, 2006	Currently Vice President, Engineering and Chief Operating Officer of Bellatrix Exploration Ltd. Prior thereto, Vice President Operations of Bellatrix Exploration Ltd. since April 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.

*Notes:*

- (1) Mrs. Kathryn Lock, the spouse of Mike Lock, directly holds 500,000 Common Shares.
- (2) Included in this total are 100,000 Common Shares held by Mr. Mike Lock in trust for one minor and three adult children.
- (3) Bamako Investment Management Ltd., a company over which Mr. Macdonald exercises control, directly holds 300,000 of such Common Shares.
- (4) Member of the Corporate Governance and Compensation Committee.
- (5) Member of the Audit Committee.
- (6) Member of the Reserves Committee.

As at the date hereof, the directors and officers of the Corporation, as a group, beneficially own or control, directly or indirectly, an aggregate of 9,846,500 Common Shares or approximately 3.8% 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 Corporation by the Directors. With the exception of Mr. Larson, each of the proposed directors was elected to his present term of office by a vote of the Corporation'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 order or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect 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 order or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect 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, CEO or CFO, 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) 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.
- (c) within the 10 years before the date of this Information Circular 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.

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 PricewaterhouseCoopers 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 ("**KPMG**"), to serve as auditors of the Corporation until the next annual meeting of Shareholders and to authorize the directors to fix their remuneration as such. KPMG have been the Corporation's auditors since November 3, 2006.



### Approval of Stock Option Plan

The policies of the TSX Venture Exchange ("**TSXV**") require the Corporation to obtain Shareholder approval of the Corporation'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 Plan, a copy of which is attached hereto as Schedule "A".

The Plan includes the following characteristics:

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 pursuant to the exercise of options ("**Options**"), 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 exercise of 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 TSXV (or if the Common Shares are not listed on the TSXV, on such stock exchange as the Common Shares are then traded).

The Plan was last approved by Shareholders at the Corporation's last annual and special meeting held on June 22, 2010. Subsequent to the last annual and special meeting of Shareholders, the Plan was amended to implement certain "housekeeping" amendments, namely:

1. the Plan now provides for an automatic extension of the options for ten business days following the expiry of a blackout period – this is intended to address the issue of options expiring during blackout periods and is an accepted practice by the TSXV; and
2. the Plan now includes a tax withholding section to deal with changes to the *Income Tax Act* (Canada) that were implemented in 2010.

The Plan, as revised, was sent to the TSXV for review and was approved. The Corporation adopted the Plan, as revised and at the Meeting it will be considered by Shareholders.

Accordingly, at the Meeting, the following resolution, with or without variation relating to the approval of the Plan, as amended, will be placed before the Shareholders:

"BE IT RESOLVED THAT:

- (a) the stock option plan of the Corporation is hereby authorized and approved; and

- (b) any director or officer of the Corporation 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 Plan.**

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

Total Options approved	25,999,552
Options issued	29,265,000
Options exercised	(6,342,965)
Options expired	(2,000,000)
Options canceled	(7,966,667)
Options available for future grant	<u>13,044,184</u>

There are currently Options issued to acquire an aggregate of 12,955,368 Common Shares representing approximately 5.0% of the Corporation's currently issued and outstanding Common Shares.

### **Voting Shares and Principal Shareholders**

The authorized share capital of the Corporation consists of an unlimited number of Common Shares without nominal or par value. As at the date hereof, there are 259,995,517 Common Shares issued and outstanding.

Except as disclosed below, to the best of the Corporation'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.

Front Street Investment Management Inc. owns or exercises control or direction over 39,044,158 Common Shares which equals approximately 15% 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 Corporate Governance and Compensation Committee (the "**Committee**") currently comprised of Messrs. Lock, Macdonald, Reid and Smith. Each member of the Committee is considered "independent" for the purpose of National Policy 58-201 – *Corporate Governance Guidelines*.

The Corporation's compensation philosophy is aimed at attracting and retaining quality and experienced people which is critical to the success of the Corporation for the benefit of the Shareholders. Employee compensation, including officer compensation, is comprised of three elements: base salary, short-term incentive compensation (in the form of cash bonuses) and long-term incentive compensation (in the form of the issuance of Options). The CEO and the Committee review all three components in assessing the compensation of individual officers and of the Corporation as a whole. Salaries and bonuses are intended to provide current compensation and a short-term incentive for employees to meet the Corporation'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 Corporation's compensation policies have allowed the Corporation 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 Corporation. Options are granted as a long-term incentive and to encourage commitment to the Corporation.

When determining executive compensation, including the assessment of the competitiveness of the Corporation'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 Corporation. Some of the salary information available in the public domain with respect to these companies can be outdated and therefore the Corporation 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 Corporation's peer group. Based on the information available, the Committee believes the total compensation for the Corporation's officers for 2010 is consistent with companies in the Corporation's peer group.

The CEO makes recommendations to the Committee with respect to compensation for the officers of the Corporation 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 Corporation's peer groups, corporate performance and individual officer performance. In assessing corporate performance, the Corporation does not have any pre-determined set targets, but the following factors are considered: (a) the Corporation'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 Corporation.

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

#### ***Base Salaries***

The Committee recognizes that the size of the Corporation 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 Corporation'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 Corporation's peer group.

Base salaries for officers, including the CEO, are established by the Committee at levels comparable to base salaries paid by the Corporation's industry peer group. In assessing comparability, the Corporation relied upon 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 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 Corporation 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 reward historical performance and drive current year results. Bonuses of \$75,000 and \$75,000 were earned and paid to Mr. Broadhurst and Mr. Warkentin, respectively, in 2010.

### ***Long-Term Incentive Compensation - Options***

The Corporation provides long-term incentive compensation in the form of the issuance of Options pursuant to the Plan. 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 Corporation, 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 Corporation based on the level of responsibility within the Corporation. 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 Corporation. 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 always met their objective of providing a form of long-term incentive. With significant volatility in the share price of many companies in the Company's peer group, a market or industry wide decrease in stock prices could result in outstanding Options having 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.

The Corporation does not currently provide its officers with pension plan benefits or retiring allowances other than in certain circumstances as discussed in "*Termination and Change of Control Benefits*", below.

### **Summary Compensation Table**

The following table sets forth for the years ended December 31, 2010, 2009 and 2008, respectively, 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 years ended December 31, 2010, 2009 and 2008, respectively, 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 <sup>(1)</sup>	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$) <sup>(2)</sup>	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation <sup>(3)</sup>	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Ken Broadhurst <sup>(4)</sup> Alberta, Canada Director / President / Chief Executive Officer	2010	126,923	nil	129,225	75,000	nil	nil	33,087	364,235
	2009	160,500	nil	nil	nil	nil	nil	n/a	160,500
	2008	160,500	nil	19,120	nil	nil	nil	n/a	179,620
Dwayne Warkentin <sup>(5)</sup> Alberta, Canada Director / President / Chief Executive Officer	2010	250,000	nil	1,922,065	75,000	nil	nil	n/a	2,247,065
	2009	160,500	nil	nil	nil	nil	nil	n/a	160,500
	2008	160,500	nil	19,120	nil	nil	nil	n/a	179,620
Greg Ford <sup>(6)</sup> Vice President, Finance and Chief Financial Officer	2010	13,375	nil	nil	nil	nil	nil	5,632	19,007
	2009	160,500	nil	nil	nil	nil	nil	n/a	160,500
	2008	160,500	nil	19,120	nil	nil	nil	n/a	179,620
Anthony Potter <sup>(7)</sup> Director / Vice President, Finance / Chief Financial Officer	2010	192,500	nil	684,640	nil	nil	nil	n/a	877,140
	2009	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2008	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

*Notes:*

- (1) For details of significant terms of the Employment Agreements between the Corporation and the NEOs, see *"Termination and Change of Control Benefits"*.
- (2) The Corporation applies the Black-Scholes option pricing model to determine the fair value of the award. The Corporation used the following assumptions to determine the value of the award recorded above: Dividend Yield – nil; Expected life – 4.5 years; Volatility – 122%; Risk Free Interest Rate – 2.22%. An aggregate of 6,100,000 Options were granted to the above named NEO's in 2010.
- (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 2010.
- (4) Mr. Broadhurst resigned as President and Chief Executive Officer of the Corporation effective June 3, 2010. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Broadhurst during the year-ended December 31, 2010 in his capacity as President and Chief Executive Officer of the Corporation.
- (5) Mr. Warkentin was promoted to the office of President and Chief Executive Officer of the Corporation effective June 4, 2010. Prior thereto, Mr. Warkentin was the Senior Vice President and Chief Operating Officer of the Corporation. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Warkentin during the year-ended December 31, 2010 in his capacity as President and Chief Executive Officer of the Corporation and as Senior Vice President and Chief Operating Officer of the Corporation.
- (6) Mr. Ford resigned as Vice President, Finance and Chief Financial Officer of the Corporation effective February 1, 2010. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Ford during the year-ended December 31, 2010.
- (7) Mr. Potter was appointed Vice President, Finance and Chief Financial Officer of the Corporation effective February 1, 2010. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Potter during the year-ended December 31, 2010.

## **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 Corporation by providing them the opportunity through Options to acquire an increased proprietary interest in the Corporation. 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 Corporation (as defined therein), the vesting of Options granted thereunder are accelerated. Based on the closing price of the Common Shares at December 31, 2010, 3,433,333 Options held by the NEOs at December 31, 2010 were vested and "in the money" at such date. In addition, in the event of certain events such as a liquidation or dissolution of the Corporation or a reorganization, plan of arrangement or consolidation of the Corporation with one or more entities as a result of which the Corporation 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 or 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, 2010.

Name	Option-based Awards <sup>(1)</sup>			Share-based Awards <sup>(3)</sup>		
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options <sup>(2)</sup> (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested <sup>(3)</sup> (\$)
Ken Broadhurst <sup>(4)</sup>	2,000,000	0.66	Feb 24, 2011	320,000	n/a	n/a
	100,000	0.60	June 18, 2012	22,000		
	200,000	0.105	Nov 28, 2013	143,000		
	750,000	0.21	Jan 28, 2015	457,500		
Dwayne Warkentin	2,000,000	0.66	Feb 24, 2011	320,000	n/a	n/a
	100,000	0.60	June 18, 2012	22,000		
	200,000	0.105	Nov 28, 2013	143,000		
	750,000	0.21	Jan 28, 2015	457,500		
	2,800,000	0.79	Dec 21, 2015	84,000		
Anthony Potter <sup>(6)</sup>	1,000,000	0.21	Feb 1, 2015	610,000	n/a	n/a
	800,000	0.79	Dec 21, 2015	24,000		

*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, 2010 (\$0.82) and the exercise price of the Options at such date.
- (3) The Corporation does not have any share-based awards outstanding.
- (4) Mr. Broadhurst resigned as President and Chief Executive Officer of the Corporation effective June 3, 2010. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Broadhurst during the year-ended December 31, 2010 in his capacity as President and Chief Executive Officer of the Corporation. Mr. Broadhurst continues to provide services to the Corporation under a Consulting Agreement dated July 5, 2010 and at December 31, 2010 the option-based awards above remained outstanding.
- (5) Mr. Ford resigned as Vice President, Finance and Chief Financial Officer of the Company effective February 1, 2010. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Ford during the year-ended December 31, 2010. In 2010, Mr. Ford exercised 66,667 options and 1,433,333 options were cancelled.
- (6) Mr. Potter was appointed Vice President, Finance and Chief Financial Officer of the Corporation effective February 1, 2010. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Potter during the year-ended December 31, 2010.

***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, 2010 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2010.

Name	Option-based awards – Value vested during the year <sup>(1)</sup> (\$)	Share-based awards – Value vested during the year <sup>(2)</sup> (\$)	Non-equity incentive plan compensation – Value earned during the year <sup>(3)</sup> (\$)
Ken Broadhurst <sup>(4)</sup>	47,000	n/a	75,000
Dwayne Warkentin	47,000	n/a	75,000
Greg Ford <sup>(5)</sup>	nil	n/a	nil
Anthony Potter <sup>(6)</sup>	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 Corporation does not have any share-based awards outstanding.
- (3) Includes cash bonus earned by the NEO in respect of the last completed financial year.
- (4) Mr. Broadhurst resigned as President and Chief Executive Officer of the Corporation effective June 3, 2010. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Broadhurst during the year-ended December 31, 2010 in his capacity as President and Chief Executive Officer of the Corporation.
- (5) Mr. Ford resigned as Vice President, Finance and Chief Financial Officer of the Corporation effective February 1, 2010. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Ford during the year-ended December 31, 2010.
- (6) Mr. Potter was appointed Vice President, Finance and Chief Financial Officer of the Corporation effective February 1, 2010. The amounts in the table reflect compensation actually awarded to, earned by, paid to, or payable to Mr. Potter during the year-ended December 31, 2010.

***Pension Plans and Retiring Allowances***

The Corporation 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, 2010 Madalena had employment agreements (the "**Employment Agreements**") and stock option agreements (the "**Option Agreements**") with Messrs. Warkentin and Potter. Mr. Broadhurst resigned as President and Chief Executive Officer of the Corporation effective June 3, 2010.

The Employment Agreements provide that such agreements, and the executives' employment, may be terminated by the Corporation (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 favour of the Corporation (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; and
- (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 Agreements also provides that the executive may elect to terminate the Employment Agreement during the six months following any one of the following events:

- (a) a change of control (as such term is defined in the Employment Agreements);
- (b) if the executive's duties, powers, rights or salary are fundamentally diminished; and
- (c) upon any failure by the Corporation 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 Corporation 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 Corporation along with subjective factors such as leadership and performance in such officer's specific role with the Corporation.

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, 2010, in aggregate NEO's would receive an amount equal to \$909,500 and would be allowed to immediately exercise their outstanding Options. Based on the closing price of the Common Shares at December 31, 2010, 7,650,000 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 2010. Directors were reimbursed for out-of-pocket expenses incurred in carrying out their duties as directors. Each of the Corporation's non-management directors also participated in the Corporation's stock option plan.

#### ***Directors' Summary Compensation Table***

The following table sets forth for the year ended December 31, 2010, information concerning the compensation paid to our directors other than directors who are also Named Executive Officers.

<b>Name</b>	<b>Fees earned (\$)</b>	<b>Share-based awards (\$)</b>	<b>Option-based awards (\$)<sup>(1)</sup></b>	<b>Non-equity incentive plan compensation (\$)</b>	<b>Pension value (\$)</b>	<b>All other compensation (\$)</b>	<b>Total (\$)</b>
Ray Smith	nil	n/a	406,300	n/a	n/a	n/a	406,300
Mike Lock	nil	n/a	217,935	n/a	n/a	n/a	217,935
Ving Woo	nil	n/a	234,932	n/a	n/a	n/a	234,932
Jay Reid	nil	n/a	243,547	n/a	n/a	n/a	243,547
Keith Macdonald	nil	n/a	295,004	n/a	n/a	n/a	295,004
Barry Larson	nil	n/a	269,580	n/a	n/a	n/a	269,580

*Note:*

- (1) The amount reflects "options" issued under the Plan during 2010 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 Corporation's financial statements. The Corporation applies the Black-Scholes option pricing model to determine the fair value of the award. The Corporation used the following assumptions to determine the value of the award recorded above: Dividend Yield – nil; Expected life – 4.5 years; Volatility – 122%; Risk Free Interest Rate – 2.22%.

**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, 2010.

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 <sup>(1)</sup> (\$)	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	44,000	n/a	n/a
	25,000	0.105	Nov 28, 2013	17,875	n/a	n/a
	500,000	0.21	28 Jan 2015	305,000	n/a	n/a
	500,000	0.79	21 Dec 2015	15,000	n/a	n/a
Mike Lock	200,000	0.60	June 18, 2012	44,000	n/a	n/a
	25,000	0.105	Nov 28, 2013	17,875	n/a	n/a
	150,000	0.21	28 Jan 2015	91,500	n/a	n/a
	300,000	0.79	21 Dec 2015	9,000	n/a	n/a
Ving Woo	300,000	0.66	March 13, 2011	48,000	n/a	n/a
	200,000	0.60	June 18, 2012	44,000	n/a	n/a
	25,000	0.105	Nov 28, 2013	17,875	n/a	n/a
	100,000	0.21	28 Jan 2015	61,000	n/a	n/a
	340,000	0.79	21 Dec 2015	10,200	n/a	n/a
Jay Reid	300,000	0.125	May 29, 2014	22,500	n/a	n/a
	150,000	0.21	28 Jan 2015	91,500	n/a	n/a
	340,000	0.79	21 Dec 2015	10,200	n/a	n/a
Keith Macdonald	300,000	0.21	28 Jan 2015	183,000	n/a	n/a
	380,000	0.79	21 Dec 2015	11,400	n/a	n/a
Barry Larson	300,000	0.32	21 Jul 2015	150,000	n/a	n/a
	300,000	0.79	21 Dec 2015	9,000	n/a	n/a

*Note:*

- (1) Calculated based on the difference between the market price of the Common Shares underlying the Options at December 31, 2010 and the exercise price of the Options.

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

There were no share-based awards which vested during the year ended December 31, 2010 nor any non-equity incentive plan compensation earned during the year ended December 31, 2010 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, 2010.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<sup>(1)</sup> (c)</b>
Common Shares under our Stock Option Plan approved by security holders	16,565,000	0.57	9,163,589
Equity compensation plans not approved by security holders	nil	nil	Nil
Total	16,565,000	0.57	9,163,589

*Note:*

- (1) Represents the maximum number of Common Shares issuable under the Plan based upon the number of Common Shares outstanding as at December 31, 2010. See "*Stock Option Plan*".

### CORPORATE GOVERNANCE DISCLOSURE

Set forth below is a description of the Corporation's current corporate governance practices, as prescribed by Form 58-101F2, of National Instrument 58-101 – *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.*

Barry Larson, Mike Lock, Keith Macdonald, Jay Reid, Ray Smith and Ving Woo are independent directors.

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

Anthony Potter and Dwayne Warkentin are not independent directors as they are executive officers of the Corporation.

#### **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 Corporation are presently directors or trustees of other reporting issuers, as set forth below:

<u>Name</u>	<u>Name of Reporting Issuer</u>
Barry Larson	Parex Resources Inc.
Mike Lock	N/A
Keith Macdonald	Bellatrix Exploration Ltd. Cordy Oilfield Services Inc. Mountainview Energy Ltd. Rocky Mountain Dealerships Inc. Stratabound Minerals Corp. Surge Energy Inc. Holloman Energy Corporation EFL Overseas, Inc. WCSB Oil and Gas Royalty Income Funds ( General Partner)
Anthony Potter	N/A
Jay Reid	N/A
Raymond G. Smith	Bellatrix Exploration Ltd. Online Energy Inc.
Dwayne Warkentin	N/A
Ving Woo	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 Corporation does not currently have a formal orientation and education program for new recruits to the Board, the Corporation 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 Corporation, as well as information on the Corporation'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 Corporation's particular circumstances, including the size of the Corporation, 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 Corporation. 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](http://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 Corporation, 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 Corporation. 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 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 Corporation's audit committee mandate attached as Schedule "B".

### **Audit Committee Members**

Mike Lock, Keith Macdonald and Ving Woo are the current members of the Corporation's Audit Committee. Messrs. Lock, Macdonald and Woo are each independent directors. 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
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. Previously Mr. Lock was employed by Oilexco Incorporated as a commercial negotiator. Mr. Lock has over 30 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.
Keith Macdonald	Yes	Yes	Mr. Macdonald graduated from the University of Calgary in 1978 with a Bachelor of Commerce in Accounting. Articling with a predecessor to KPMG LLP, he received the Chartered Accountant designation in 1980. Over his career, he founded and was President of New Cache Petroleum Ltd. and has served as a director of several public companies. Currently a director and chair/member of Audit Committee of Surge Energy Inc., Bellatrix Exploration Ltd., Mountainview Energy Ltd., Holloman Energy Corporation, WCSB Oil and Gas Royalty Income Funds (General Partner), Rocky Mountain Dealerships Inc., Cordy Oilfield Services Inc. and Stratabound Minerals Corp. During the past five years, Mr. Macdonald has been the President of Bamako Investment Management Ltd., a private holding and consulting company and Chairman, President and Chief Executive Officer of EFL Overseas, Inc. since March 2011.
Ving Woo	Yes	Yes	Mr. Woo is currently Vice President, Engineering and Chief Operating Officer of Bellatrix Exploration Ltd. Prior thereto, Vice President Operations of Bellatrix Exploration Ltd. since April 2009. 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 over 40 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.

**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 Policies and Procedures of the Audit Committee***

The Corporation will not engage the Corporation's independent auditors, 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 Corporation 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 Corporation'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 Corporation by its external auditors.

**Audit Service Fees**

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

<b>Type of Service Provided</b>	<b>2010</b>	<b>2009</b>
Audit Fees:	\$88,000	\$89,000
Audit-Related Fees:	\$33,500	\$16,000
Tax Fees:	nil	nil
All Other Fees:	nil	nil
Total	\$121,500	\$105,000

## **Exemptions**

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

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

Management of the Corporation 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 Corporation's last financial year or of any associate or affiliate of any of the foregoing in any matter to be acted on at the Meeting 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 Corporation, 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 Corporation or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries.

There are potential conflicts of interest to which the directors and officers of the Corporation will be subject in connection with the operations of the Corporation. In particular, certain of the directors and officers of the Corporation 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 Corporation or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of the Corporation. See "*Directors and Officers of the Corporation*". 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 Corporation 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 Corporation 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 information circular have been approved by the Board.

## **ADDITIONAL INFORMATION**

Financial information is provided in the Corporation's comparative audited consolidated financial statements and related management's discussion and analysis for the year ended December 31, 2010. To receive a copy of the Corporation's financial statements and related management's discussion and analysis please contact the Corporation at Suite 200, 441 - 5th Avenue SW, Calgary, Alberta, Canada T2P 2V1, Attention: Anthony J. Potter, 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](http://www.madalena-ventures.com) or on SEDAR at [www.sedar.com](http://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"**  
**MADALENA VENTURES INC.**  
**OPTION PLAN**

1. **Purpose of the Plan**

1.1 The purpose of the Plan is to provide certain directors, officers and key employees and consultants of the Corporation or a Subsidiary with an opportunity to purchase Shares and to benefit from the appreciation thereof. This will provide an increased incentive for these directors, officers, key employees and consultants to contribute to the future success and prosperity of the Corporation, thus enhancing the value of the Shares for the benefit of all the shareholders and increasing the ability of the Corporation to attract and retain individuals of exceptional skill.

2. **Defined Terms**

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

- (a) **"Blackout Period"** means the period of time when, pursuant to any policies of the Corporation, any securities of the Corporation may not be traded by certain persons as designated by the Corporation, including any holder of an Option;
- (b) **"Board"** means the board of directors of the Corporation;
- (c) **"Change of Control"** means any of the following:
  - (i) the purchase or acquisition of any Voting Shares or Convertible Securities by a Holder which results in the Holder beneficially owning, or exercising control or direction over, Voting Shares or Convertible Securities such that, assuming only the conversion of Convertible Securities beneficially owned or over which control or direction is exercised by the Holder, the Holder would beneficially own, or exercise control or direction over, Voting Shares carrying the right to cast more than 50% of the votes attaching to all Voting Shares, but excluding any issue or sale of Voting Shares of the Corporation to an investment dealer or group of investment dealers as underwriters or agents for distribution to the public either by way of prospectus or private placement; or
  - (ii) the approval by the shareholders of the Corporation of an amalgamation, arrangement, merger or other consolidation or combination of the Corporation with another corporation which requires approval of the shareholders of the Corporation pursuant to its statute of incorporation and pursuant to which the shareholders of the Corporation immediately thereafter do not own shares of the successor or continuing corporation, which would entitle them to cast more than 50% of the votes attaching to all shares in the capital of the successor or continuing corporation, which may be cast to elect directors of that corporation; or
  - (iii) the election at a meeting of the Corporation's shareholders of that number of persons which would represent a majority of the Board, as directors of the Corporation who are not included in the slate for election as directors proposed to the Corporation's shareholders by the Corporation; or
  - (iv) approval by the shareholders of the Corporation of the liquidation, dissolution or winding-up of the Corporation; or
  - (v) approval by the shareholders of the Corporation of the sale, lease or other disposition of all or substantially all of the assets of the Corporation; or

- (vi) the completion of any transaction or the first of a series of transactions which would have the same or similar effect as any transaction or series of transactions referred to in subsections (i), (ii), (iii), (iv) and (v) referred to above; or
  - (vii) a determination by the Board that there has been a change, whether by way of a change in the holding of the Voting Shares of the Corporation, in the ownership of the Corporation's assets or by any other means, as a result of which any person or group of persons acting jointly or in concert is in a position to exercise effective control of the Corporation;
- (d) "**Convertible Securities**" means any securities convertible or exchangeable into Voting Shares or carrying the right or obligation to acquire Voting Shares;
- (e) "**Corporation**" means Madalena Ventures Inc., and includes any successor corporation thereof;
- (f) "**Exchange**" means the TSX Venture Exchange, Inc. or, if the Shares are not then listed and posted for trading on the TSX Venture Exchange, on such stock exchange in Canada on which such shares are listed and posted for trading as may be selected for such purpose by the Board;
- (g) "**Exercise Price**" means the price per share at which Shares may be purchased under the Option, as the same may be adjusted in accordance with Articles 4 and 6 hereof;
- (h) "**Holder**" means a person, a group of persons or persons acting jointly or in concert or persons associated or affiliated, within the meaning of the Business Corporations Act (Alberta), with any such person, group of persons or any of such persons acting jointly or in concert;
- (i) "**Insider**" means an insider as defined in subsection 1(aa) of the *Securities Act* (Alberta) and includes an associate of such Insider, as defined in subsection 1(c) of the *Securities Act* (Alberta), as such provisions are from time to time amended, varied or re enacted, of any insider;
- (j) "**Investor Relations Activities**" means any activities, by or on behalf of the Corporation or a shareholder of the Corporation, that promote or reasonably could be expected to promote the purchase or sale of securities of the Corporation, but does not include:
- (i) the dissemination of information provided, or records prepared, in the ordinary course of business of the Corporation:
    - (A) to promote the sale of products or services of the Corporation; or
    - (B) to raise public awareness of the Corporation;

that cannot reasonably be considered to promote the purchase or sale of securities of the Corporation;
  - (ii) activities or communications necessary to comply with the requirements of:
    - (A) applicable securities laws; or
    - (B) Exchange Requirements (as defined in the policies of the Exchange) or the by-laws, rules or other regulatory instruments of any other self regulatory body or exchange having jurisdiction over the Corporation;
  - (iii) communications by a publisher of, or writer for, a newspaper, magazine or business or financial publication, that is of general and regular paid circulation, distributed only to subscribers to it for value or to purchasers of it, if:
    - (A) the communication is only through the newspaper, magazine or publication; and

- (B) the publisher or writer receives no commission or other consideration other than for acting in the capacity of publisher or writer; or
- (iv) activities or communications that may be otherwise specified by the Exchange.
- (k) "**Market Price**" on any date, shall be the closing trading price of the Shares on the Exchange (as reported by such exchange) on the last trading day prior to such date or, in the absence of a closing price on such date, on the most recent date (not exceeding 10 days) prior to such date or, if the Shares are not listed on the Exchange, on such other stock exchange as the Board may designate and, otherwise, shall be as determined by the Board or, such price allowed by the applicable regulatory body or exchange;
- (l) "**Option**" means an option to purchase Shares granted by the Board to certain directors, officers, key employees or consultants of the Corporation or a Subsidiary, subject to the provisions contained herein;
- (m) "**Participants**" means certain directors, officers, *bona fide* employees or *bona fide* consultants of the Corporation or a Subsidiary to whom Options are granted and which Options or a portion thereof remain unexercised;
- (n) "**Plan**" means the stock option plan of the Corporation, as the same may be amended or varied from time to time;
- (o) "**Shares**" means the common shares in the capital of the Corporation or, in the event of an adjustment contemplated by Article 6 hereof, such other Shares to which a Participant may be entitled upon the exercise of an Option as a result of such adjustment;
- (p) "**Subsidiary**" means a person or company considered to be a subsidiary entity of another person or company as described in section 4 of the *Securities Act* (Alberta);
- (q) "**Take-over Proposal**" means (i) any proposal or offer by a third person, whether or not subject to a due diligence condition and whether or not in writing, to acquire in any manner, directly or indirectly, beneficial ownership of or control or direction over more than 50% of the Corporation's outstanding voting shares whether by way of arrangement, amalgamation, merger, consolidation or other business combination, including any single or multi-step transaction or series of related transactions that is structured to permit such third person to acquire in any manner, directly or indirectly, more than 50% of its outstanding voting shares, or (ii) any proposal, offer or agreement for a merger, consolidation, amalgamation, arrangement, recapitalization, liquidation, dissolution, reorganization into a royalty trust or income fund or similar transaction or other business combination involving the Corporation; and
- (r) "**Voting Shares**" means any securities of the Corporation ordinarily carrying the right to vote at elections of directors.

### 3. Administration of the Plan

3.1 The Plan shall be administered by the Board. The Corporation shall effect the grant of Options under the Plan, in accordance with determinations made by the Board pursuant to the provisions of the Plan as to:

- (a) the directors, officers, key employees and consultants of the Corporation and, if applicable, any Subsidiaries to whom Options will be granted; and
- (b) the number of Shares which shall be the subject of each Option;

by the execution and delivery of instruments in writing in form approved by the Board.

3.2 The Board may, from time to time, adopt such rules and regulations for administering the Plan as it may deem proper and in the best interests of the Corporation and may, subject to applicable law, delegate its powers hereunder to administer the Plan to a committee of the Board.

#### 4. **Granting of Options**

4.1 The Board from time to time shall grant Options to certain directors, officers, key employees and consultants of the Corporation or a Subsidiary. The grant of Options will be subject to the conditions contained herein and may be subject to additional conditions determined by the Board from time to time.

4.2 The aggregate number of Shares that may be issued pursuant to the exercise of Options awarded under the Plan and all other share compensation arrangements of the Corporation is 10% of the Shares outstanding from time to time, subject to the following limitations:

- (a) the aggregate number of Shares reserved for issuance to any one person under the Plan, together with all other share compensation arrangements of the Corporation, must not exceed 5% of the outstanding issue of Shares (on a non diluted basis);
- (b) the aggregate number of Shares reserved for issuance to any one Insider and such Insider's associates pursuant to the Plan, together with all other share compensation arrangements of the Corporation, must not exceed 5% of the outstanding issue of Shares; and
- (c) the aggregate number of Shares reserved for issuance to Insiders pursuant to the plan, together with all other share compensation arrangements of the Corporation, within a one-year period, must not exceed 10% of the outstanding issue of Shares;
- (d) the aggregate number of Shares reserved for issuance to any one Participant employed to provide Investor Relations Activities in a 12 month period, must not exceed 2% of the outstanding issue of Shares;
- (e) the aggregate number of Shares reserved for issuance to consultants pursuant to the Plan, together with all other share compensation arrangements of the Corporation, shall not exceed 2% of the outstanding issue of Shares;
- (f) the aggregate number of Shares reserved for issuance to any single consultant under the Plan, together with all other share compensation arrangements of the Corporation, within a one-year period, shall not exceed 1% of the outstanding issue of Shares.

The Shares in respect of which Options are not exercised shall be available for subsequent Options. The "reloading" of Options, as described in the Toronto Stock Exchange Staff Notice #2004 0002 is permitted under the Plan. This prescribed maximum may be subsequently increased to any other specified amount, provided the change is authorized by a vote of the shareholders of the Corporation. If any Options granted under this Plan shall expire, terminate or be cancelled for any reason without having been exercised in full, any unpurchased Shares to which such Options relate shall be available for the purposes of the granting of further Options under this Plan. No fractional shares may be purchased or issued hereunder.

4.3 Subject to the policies of the Exchange, the Exercise Price of any Option shall be fixed by the Board when such Option is granted, provided that such price shall not be less than the Market Price of the Shares. The Exercise Price as calculated above is intended to be the fair market value of the Shares at the date of grant and, subject to the approval of the Board, the Exchange and the shareholders of the Corporation (where required), the Exercise Price may be adjusted if necessary to achieve that result. Disinterested Shareholder approval will be required for the reduction of the Exercise Price of any Options held by persons who are Insiders of the Corporation at the time of the proposed amendment.

4.4 The term of Options granted shall be determined by the Board in its discretion, to a maximum of five years from the date of the grant of the Option. The vesting period or periods within this period during which an

Option or a portion thereof may be exercised by a Participant shall be determined by the Board. In the absence of any determination by the Board as to vesting, vesting shall be as to one-third on each of the first, second and third anniversaries of the date of grant. Further, the Board may, in its sole discretion at any time or in the Option agreement in respect of any Options granted, accelerate or provide for the acceleration of, vesting of Options previously granted.

4.5 If the normal expiry date of any Option falls within any Blackout Period or within 10 business days (being a day other than a Saturday, Sunday or other than a day when banks in Calgary, Alberta are not generally open for business) following the end of any Blackout Period (the "**Restricted Options**"), then the expiry date of such Restricted Options shall, without any further action, be extended to the date that is 10 business days following the end such Blackout Period. The foregoing extension applies to all Options whatever the date of grant and shall not be considered an extension of the term of the Options as referred to in Section 10.2 hereof.

## 5. **Exercise of Option**

5.1 Subject to the Plan, an optionee (or his or her legal personal representative) may exercise from time to time by delivery to the Corporation, at its head office in Calgary, Alberta, of a written notice of exercise ("**Exercise Notice**") specifying the number of Shares with respect to which the Option is being exercised and accompanied by payment in full of the purchase price of the Shares then being purchased and payment in full of any amount required to be paid by the optionee pursuant to Section 14. Upon exercise of the Option, the Corporation will cause to be delivered to the optionee a certificate or certificates, representing such Shares in the name of the optionee or the optionee's legal personal representative or otherwise as the optionee may or they may in writing direct.

## 6. **Adjustments in Shares**

6.1 Appropriate adjustments in the number of Shares subject to the Plan and, as regards Options granted or to be granted, in the number of Shares optioned and in the Exercise Price, shall be made by the Board to give effect to adjustments in the number of Shares resulting from subdivisions, consolidations or reclassifications of the Shares, the payment of stock dividends by the Corporation (other than dividends in the ordinary course) or other relevant changes in the authorized or issued capital of the Corporation, which changes occur subsequent to the approval of the Plan by the Board.

6.2 Options granted to Participants hereunder are non assignable and non transferable, except in the case of the death of a Participant (which is provided for in Section 8), and are exercisable only by the Participant to whom the Option has been granted.

## 7. **Decisions of the Board**

7.1 All decisions and interpretations of the Board respecting the Plan or Options granted thereunder shall be conclusive and binding on the Corporation and the Participants and their respective legal personal representatives and on all directors, officers, employees and consultants eligible under the provisions of the Plan to participate therein.

## 8. **Termination of Employment/Death**

8.1 Unless otherwise provided in the agreement evidencing the grant of Options, Options shall terminate at the earlier of: (i) the close of business 90 days after the Optionee ceasing (other than by reason of death but including termination with or without cause) to be at least one of an officer, director, employee (in active employment carrying out regular and normal duties), or consultant of the Corporation or a Subsidiary of the Corporation, as the case may be, (ii) the close of business 90 days after the optionee has been provided with written notice of dismissal related to (i) above; and (iii) the expiry date of the Option.

8.2 If an optionee ceases to be eligible for a grant of Options under the Plan by reason of retirement pursuant to an established retirement policy of the Board, all options held by the retiring optionee will become vested and exercisable, to the extent not already vested and exercisable, immediately prior to retirement and continue to be exercisable until the original expiry date.

8.3 If before the expiry of an Option in accordance with the terms thereof a Participant ceases to be an employee, officer, director or consultant by reason of the death of the Participant, any unvested portion of such Option shall immediately vest. In addition, such Option may, subject to the terms thereof and any other terms of the Plan, be exercised by the legal personal representative(s) of the Participant's estate or at any time before 5:00 p.m. Calgary time up to one year after the date of death of the Participant, or until the Expiry date of the Option, if earlier.

8.4 The Plan does not confer upon a Participant any right with respect to continuation of employment by the Corporation or any Subsidiary, nor does it interfere in any way with the right of the Participant, the Corporation or the Subsidiary to terminate the Participant's employment at any time.

8.5 Options shall not be affected by any change of employment of the Participant where the Participant continues to be employed by the Corporation or any of its Subsidiaries.

## 9. **Change Of Control**

9.1 In the event of a Change of Control occurring, all Options which have not otherwise vested in accordance with their terms shall immediately vest and be exercisable, notwithstanding the other terms of the Options, for a period of time ending on the earlier of the expiry time of the Option and the thirtieth (30th) day following the Change of Control.

9.2 Options may provide that, in the event of the sale by the Corporation of all or substantially all of the property and assets of the Corporation as an entirety (an "**Asset Sale**") prior to the expiry time of an Option, such Option may be exercised, as to all or any of the Shares in respect of which such Option has not previously been exercised (including in respect of the right to purchase Shares not otherwise vested at such time) by the Participant (the "**Sale Acceleration Right**"). The Sale Acceleration Right shall commence at such time as determined by the Board, provided that if the Board approves the Sale Acceleration Right but does not determine commencement and termination dates regarding same, the Sale Acceleration Right shall commence on the day following the closing of the Asset Sale and end on the earlier of the expiry time of the Option and the thirtieth (30th) day following the closing of the Asset Sale. Notwithstanding the foregoing, the Sale Acceleration Right may be extended for such longer period as the Board may resolve.

9.3 If approved by the Board, Options may provide that, whenever the Corporation's shareholders receive a Take-over Proposal, such Option may be exercised as to all or any of the Shares in respect of which such Option has not previously been exercised (including in respect of Shares not otherwise vested at such time) by the Participant (the "**Take-over Acceleration Right**"), but any such Option not otherwise vested and deemed only to have vested in accordance with the foregoing may only be exercised for the purposes of tendering to such Take-Over Proposal. If for any reason any such Shares are not so tendered or, if tendered, are not, for any reason taken up and paid for by the offeree pursuant to the Take-Over Proposal, any such Shares so purchased by the Participant shall be and shall be deemed to be cancelled and returned to the treasury of the Corporation, and shall be added back to the number of Shares, if any, remaining unexercised under the Option (and shall thus be available for exercise of the Option in accordance with the terms thereof) and upon presentation of the Corporation of share certificates representing such Shares properly endorsed for transfer back to the Corporation, the Corporation shall refund to the Participant all consideration paid by him or her in the initial purchase thereof. The Take-over Acceleration Right shall commence at such time as is determined by the Board, provided that, if the Board approves the Take-over Acceleration Right but does not determine commencement and termination dates regarding same, the Take-over Acceleration Right shall commence on the date of the Take-over Proposal and end on the earlier of the expiry time of the Option and the tenth (10th) day following the expiry date of the Take-over Proposal. Notwithstanding the foregoing, the Take-over Acceleration Right may be extended for such longer period as the Board may resolve.

10. **Amendment Or Discontinuance Of Plan**

10.1 The Board may amend or discontinue the Plan at any time without the consent of the Participants provided that such amendment shall not alter or impair any Option previously granted under the Plan except as permitted by the provisions of Article 6 hereof and that such amendment or discontinuance has been approved, if required, by the Exchange.

10.2 The Board may make any amendment to the Plan or grant of Options hereunder without shareholder approval provided however that the Plan may not be amended without shareholder approval in the case of the following amendments: (A) an amendment to the Plan to increase the percentage of Shares issuable on exercise of options in excess of the 10% limit currently prescribed; (B) to reduce the exercise price of any outstanding options held by Insiders; (C) to extend the term of any outstanding Option held by an Insider beyond the original expiry date of the Options; (D) to make any amendment to the Plan that permits a Participant to transfer assigned options to a new beneficial Participant other than in the case of the death of the Participant; or (E) to amend the amending provision of the Plan.

10.3 Disinterested shareholder approval will be obtained for any reduction in the exercise price of an Option held by an Insider at the time of the proposed amendment.

11. **Government Regulation**

11.1 The Corporation's obligation to issue and deliver Shares under any Option is subject to:

- (a) the satisfaction of all requirements under applicable securities laws in respect thereof and obtaining all regulatory approvals as the Corporation shall determine to be necessary or advisable in connection with the authorization, issuance or sale thereof;
- (b) the admission of such Shares to listing on any Exchange on which such Shares may then be listed; and
- (c) the receipt from the Participant of such representations, agreements and undertakings as to future dealings in such Shares as the Corporation determines to be necessary or advisable in order to safeguard against the violation of the securities laws of any jurisdiction.

In this connection, the Corporation shall take all reasonable steps to obtain such approvals and registrations as may be necessary for the issuance of such Shares in compliance with applicable securities laws and for the listing of such Shares on any Exchange on which such Shares are then listed.

12. **Participants' Rights**

12.1 A Participant shall not have any rights as a shareholder of the Corporation until the issuance of a certificate for Shares upon the exercise of an Option or a portion thereof, and then only with respect to the Shares represented by such certificate or certificates.

13. **Option Agreement**

13.1 The Option agreement between the Corporation and each Participant to whom an Option is granted hereunder will be in writing and will set out the number of Shares subject to option, the Exercise Price, the vesting dates, the expiry date and any other terms approved by the Board, all in accordance with the provisions of this Plan. The agreement will be in such form as the Board may from time to time approve or authorize the officers of the Corporation to enter into and may contain such terms as may be considered necessary in order that the Option will comply with any provisions respecting options in the income tax or other laws in force in any country or jurisdiction of which the person to whom the Option is granted may from time to time be a resident or citizen or the rules of any regulatory body having jurisdiction over the Corporation.

#### 14. Tax Withholding

14.1 The Corporation shall have the power and the right to deduct or withhold, or require (as a condition of exercise), an optionee to remit to the Corporation, the required amount to satisfy, in whole or in part, federal, provincial, and local taxes, domestic or foreign, required by law or regulation to be withheld in respect to any taxable event arising as a result of the Plan, including the grant or exercise of Options granted under the Plan. With respect to required withholding, the Corporation shall have the irrevocable right to (and the optionee consents to) the Corporation setting off any amounts required to be withheld, in whole or in part, against amounts otherwise owing by the Corporation to such optionee (whether arising pursuant to the optionee providing services on an ongoing basis to the Corporation or otherwise), or may make such other arrangements as are necessary to satisfy the required remittance amount. In addition, the Corporation may elect in its sole discretion, to satisfy the withholding requirement, in whole or in part, by withholding such number of Shares as it determines are required to be sold by the Corporation, as trustee to satisfy the withholding obligation net of selling costs (which costs shall be the responsibility of the optionee and which shall be and are authorized to be deducted from the proceeds of the sale). The optionee consents to such sale and grants to the Corporation an irrevocable power of attorney to effect the sale of such Shares and acknowledges and agrees that the Corporation does not accept responsibility for the price obtained on the sale of Shares. Any reference in this Plan to the issuance of Shares or a payment of cash is expressly subject to Section 14.

#### 15. No Guarantee Regarding Tax Treatment

15.1 Optionees (or their beneficiaries) shall be responsible for all taxes with respect to any Option under the Plan, whether arising as a result of the grant or exercise of Options or otherwise. The Corporation and the Board make no guarantees to any person regarding the tax treatment of an Option or payments made under the Plan and none of the Corporation or any of its employees or representatives shall have any liability to an optionee with respect thereto.

#### 16. Independent Advice

16.1 Participants are encouraged to seek tax advice in respect of the grant and exercise of Options and the issuance of the resulting Shares. **Participants who are not employees, officers or directors of the Corporation (i.e. consultants and other service providers) should be aware that the tax consequences of being granted and exercising Options and selling Shares may be materially less favourable than the consequences to employees, officers and directors of the Corporation who are granted stock options as such and receive the benefit of the "stock option rules" under the *Income Tax Act* (Canada).**

#### 17. Approvals

17.1 The Plan shall be subject to acceptance by the Exchange.

17.2 Any Options granted prior to such approval and acceptance shall be conditional upon such approval and acceptance being given and no such Options may be exercised unless such approval and acceptance is given.



## **SCHEDULE "B"**

### **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 Corporation, (2) compliance by the Corporation with legal and regulatory requirements related to financial reporting, (3) qualifications, independence and performance of the Corporation's independent auditors, and (4) performance of the Corporation'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 Corporation, 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 Corporation, 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 Corporation'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 Corporation'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 Corporation'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 Corporation'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 Corporation's own policies.

#### **MEMBERSHIP**

##### **1. Membership**

- (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 Corporation'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 Corporation, and may not be an affiliated person of the Corporation 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 Corporation'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 Corporation'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 Corporation;
  - 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 Corporation or an affiliate, is hired by the Corporation 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 Corporation, 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 Corporation's accounts.
- (b) Ensure that no Officer or Director attempts to fraudulently influence, coerce, manipulate or mislead any accountant engaged in auditing of the Corporation'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 Corporation's audited financial statements and related notes;
  - the Corporation'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 Corporation'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 Corporation.
- (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 Corporation and industry accounting and regulatory financial reporting proposals that may have a significant impact on the Corporation'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 Corporation'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 Corporation's financial statements or accounting policies.

- (i) Review with the Corporation's General Counsel legal matters that may have a material impact on the financial statements, the Corporation'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 Corporation'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 Corporation'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.