

2007 Operations Review

In 2007 significant progress was made by the Company in acquiring, developing and evaluating exploration opportunities in South America and Tunisia. Following extensive negotiations and evaluation of prospective opportunities during 2007, Madalena announced the acquisition of three exploration blocks in the Neuquen Province of Argentina. The Neuquen Basin is the most prolific oil and gas producing basin in Argentina and contains a number of fields with oil and natural gas reserves ranging as high as 25 trillion cubic feet of gas and 800 million barrels of oil.

The acquisition of the first block, known as the Cortadera Block, was announced in a press release on September 17th 2007. Madalena has a 70% working interest in this block which carries an initial three year exploration term with a work commitment of \$US 2.5 million in exploration expenditures including seismic and the drilling of at least one exploration well. The Cortadera Block is situated along the western thrust belt area of the Neuquen Basin and is approximately 500 km² (123,500 acres) in size. Madalena has access to 400 km's (250 miles) of existing seismic data located on the Block which has identified several exciting features with multi-zone potential. Two wells drilled on the block during the 1970s had gas shows indicating the presence of hydrocarbon potential on the block. The work program will commence immediately with a baseline environmental study, and the design and implementation of the seismic programs, required to further delineate the leads identified on the existing seismic data base.

Negotiations on the second and third exploration blocks were ongoing throughout the third quarter, resulting in an announcement on October 3rd 2007 that negotiations and work commitments had been finalized on the blocks. These blocks, known as the Curamhuele and Coiron Amargo Blocks, also carry initial three year exploration terms with work commitments of \$US 3.0 million and \$US 5.0 million respectively in exploration expenditures, including seismic and the drilling of at least one exploration well on each block. Madalena will have a minimum 70% working interest, and a maximum 90% working interest in these blocks dependent upon an option election to be made by a third party on or before March 1st, 2008.

The Curamhuele Block is situated along the eastern edge of the north south running thrust belt on the western side of the Neuquen Basin and is approximately 227 km² (56,000 acres) in size. This is an increase of approximately 33% in acreage size since the acquisition of the block was first announced on October 3rd, 2007. The block has the potential for 4 different play types targeting both oil and natural gas and ranging in depths from 1700 meters (5,500 feet) to 3600 meters (11,800 feet). The block is in close proximity to a number of prolific fields along this trend, as described by the National Secretary of Energy of Argentina, including the Filo Morado field which is located only 5 km (3 miles) from the block and has produced 62 million barrels of oil equivalent, comprised of approximately 50% natural gas and 50% light oil and condensates. The El Porton field is also located on the same trend 20 kilometers (12 miles) to the north, and has estimated recoverable reserves of 45 million barrels of oil and 282 billion cubic feet of natural gas producing from a depth of approximately 1700 meters (5,500 feet). Only three wells have been drilled on this expansive block of acreage, all during the 1990's. Two of the three wells tested oil and gas. Two lower zones in one of the prospective wells tested a combined 63 million cubic feet of gas and 2,600 bbls of 51° API condensate over a 12 day period under various choke sizes. The other prospective well flowed 147 barrels oil per day of 37° API oil over a one day test through a 2" choke. Madalena's initial development plans for this block will include an investigation of the integrity of these wells for suitability to perform further pressure and testing analysis in order to estimate the productivity potential of these wells over the longer term. Madalena has access to approximately 2000 km's (1,200 miles) of existing seismic data located on the block and will conduct additional seismic on the block to further delineate existing leads for drilling locations.

The Coiron Amargo Block is situated along the eastern side of the Neuquen Basin and is approximately 400 km² (100,000 acres) in size. This block also has the potential for 4 different play types targeting oil and natural gas ranging in depths from 2200 meters (7,200 feet) to 3600 meters (11,800 feet). The Coiron Amargo Block is in close proximity to a number of prolific fields including Borde Montuos with reserves of 12 million barrels of oil equivalent, Charco Bayo/ Piedras Blancas with reserves of 250 million

barrels of oil equivalent, and Loma de la Lata with reserves of 1.7 billion barrels of oil equivalent, all located within 20 km's (12 miles) of the Block. Two recently drilled wells offsetting the Block are currently producing oil at rates of approximately 400 barrels of oil per day. Since the initial announcement of the acquisition of the block, Madalena has acquired access to a 375 km² (92,500 acres) 3D seismic program conducted over the Block, which the Company is currently reprocessing. This seismic is in addition to approximately 900 km's (550 miles) of 2D seismic data located on the Block which indicates the continuation of the fault trends from the offsetting producing block extending across Coiron Amargo. The Company has several prospects mapped on the block and will commence the immediate evaluation of the top drilling candidates.

Exploration progress continued to be made on our operations in Tunisia during 2007. Seismic evaluation resulted in the announcement by the Company to participate in an exploration well to be drilled on the Remada Sud onshore exploration block. Drilling began on the well on March 28, 2008. The Remada Sud Block contains over 4,800 km² (1.2 million acres) in the highly prospective Ghadames basin of southern Tunisia and has exploratory potential in the Ordovician, Silurian Acacus and Triassic Ras Hamia formations. All three zones are proven commercially productive from adjoining blocks in Libya or Tunisia with significant reserves potential. The 2D seismic program conducted over the Block during Q2 2007 has also delineated additional prospective structures which are under review by the Company for future drilling consideration. Madalena will pay 30% of the well costs to earn a 15% working interest in approximately 2,400 km² (600,000 acres) in the block. The first exploration well to be drilled by Madalena on the block will primarily target the Ordovician formation. Madalena will retain the option to drill a second test well on the block to earn an additional 2,400 km² (600,000 acres) and the right to participate in all further development of the block.

Progress was also made on the Hammamet offshore block in Tunisia during 2007. The extensive 3D offshore seismic programs were completed with highly encouraging results, outlining several prospective drilling opportunities. The Hammamet offshore block is directly offset by the Oudna field which was placed on production in December 2006 at rates in excess of 20,000 barrels of oil per day. The 3D and 2D seismic programs were designed to evaluate the potential reactivation of the Tazerka field located on the block, evaluate three large untested structures previously recognized on the block, and high-grade the most prospective test well location on the block. Interpretation of the data is currently underway and nearing completion.