

**ANNUAL INFORMATION FORM FOR THE YEAR ENDED
DECEMBER 31, 2007**

**Calvalley Petroleum Inc.
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Dated March 31, 2008

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DEFINITIONS, ABBREVIATIONS AND CONVERSIONS

References to “dollars” and “\$” set forth in this AIF are to the currency of the United States unless otherwise indicated and words importing the singular number only shall include plural and vice versa and words importing the masculine gender shall include the feminine and neuter gender and vice versa.

Definitions

In this AIF, the capitalized terms set forth below have the following meanings:

“**AIF**” means this Annual Information Form dated March 31, 2008 of Calvalley Petroleum Inc. for the year ended December 31, 2007.

“**Block 9**” means a 2,234 square kilometre parcel of land located in the Shabwah/Hadramaut region of central Yemen.

“**Board**” means the board of directors of Calvalley.

“**Calvalley**” or “**Company**” means Calvalley Petroleum Inc.

“**Calvalley Cyprus**” means Calvalley Petroleum (Cyprus) Ltd., a wholly owned subsidiary of Cangulf.

“**Cangulf**” means Cangulf Exploration Inc., a wholly owned subsidiary of Calvalley.

“**CBCA**” means the *Canada Business Corporations Act*.

“**Common Shares**” means the Class “A” common voting shares in the capital of the Company.

“**C\$**” means Canadian dollars.

“**December 2003 Private Placement**” means the private placement on December 10, 2003 of 13,447,420 units, each unit consisting of one Common Share and one half of a Common Share purchase warrant.

“**HoodOil**” means HoodOil Ltd.

“**HoodOil Agreement**” means the agreement dated October 29, 2001 between Calvalley and HoodOil.

“**JOA**” means the joint operating agreement dated November 1, 2001 among Calvalley Cyprus, HoodOil and Yemen Co., as amended by the joint operating agreement dated January 8, 2002 among Calvalley, HoodOil, Yemen Co. and Reliance.

“**March 2005 Private Placement**” means the private placement on March 24, 2005 of 8,142,857 Common Shares.

“**Ministry**” means the Ministry of Oil and Minerals of the Government of Yemen.

“**Participation Agreement**” means the participation agreement dated January 8, 2002

among Calvalley Cyprus, HoodOil and Reliance.

“**PSA**” means the production sharing agreement dated February 23, 1997, as amended, among the Ministry of Oil and Mineral Resources of Yemen, as it then was, Calvalley, and a subsidiary of the Yemen Oil and Gas General Corporation.

“**Reliance**” means Reliance Industries Limited.

“**Safer**” means the Safer Exploration and Production Operations Co.

“**TSX**” means the Toronto Stock Exchange.

“**Yemen**” means the Republic of Yemen.

Abbreviations

In this AIF, the abbreviations set forth below have the following meanings:

“**bbl**” means barrel, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons.

“**bopd**” means barrels of oil per day.

Conversions

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

To Convert From	To	Multiply By
cubic feet	cubic meters	0.028
cubic metres	cubic feet	35.301
Bbls	cubic meters	0.159
cubic metres	Bbls	6.290
Feet	Meters	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.4047

At year-end, Canadian dollar amounts for monetary assets and monetary liabilities were converted at the year-end exchange rate of \$1.0194 US dollars per Canadian dollar.

Forward-Looking Statements

This AIF contains certain forward-looking statements. Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks of the Company may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic, political and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof.

Forward-looking statements and other information contained herein concerning the oil and gas industry and Calvalley's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Calvalley believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Calvalley is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors. See "Risk Factors."

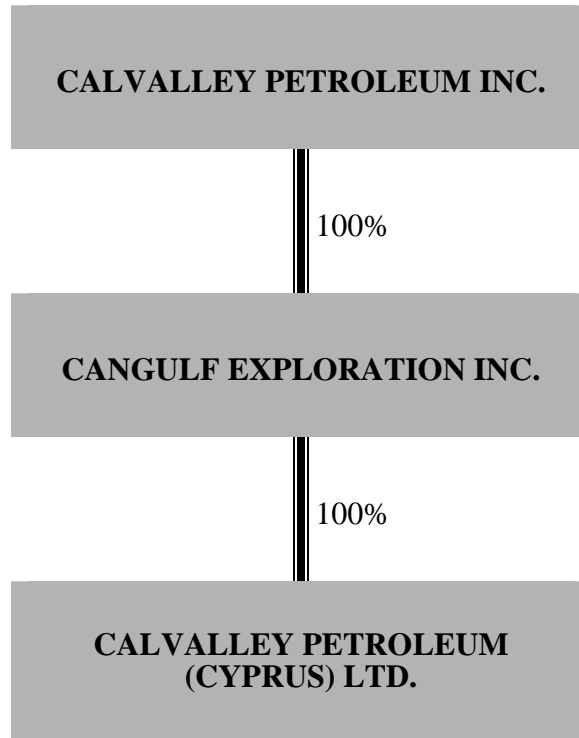
CORPORATE STRUCTURE OF CALVALLEY PETROLEUM INC.

Name, Address and Incorporation

Calvalley is a corporation amalgamated under the CBCA. Calvalley has as its charter the Articles of Amalgamation dated July 1, 1996, as amended by Articles of Amendment dated July 24, 1996. The principal office of Calvalley is located at 700, 600 - 6th Avenue SW, Calgary, Alberta, T2P 0S5 and its registered office is located at 3700, 400 - 3rd Avenue SW, Calgary, Alberta, T2P 4H2.

Intercorporate Relationships

Pursuant to a corporate reorganization completed on March 31, 2005, Calvalley has one direct wholly-owned subsidiary and one indirect wholly-owned subsidiary. The direct wholly-owned subsidiary is Cangulf, a corporation incorporated under the laws of Barbados. The indirect wholly-owned subsidiary, Calvalley Cyprus, is a corporation incorporated under the laws of Cyprus and is a direct wholly-owned subsidiary of Cangulf



GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

2005

On March 31, 2005, a material reorganization took place in respect of the Company and its two subsidiaries Calvalley Cyprus and Cangulf. The resulting structure from this reorganization is as set forth above.

In the first quarter ended March 31, 2005, the Company completed the March 2005 Private Placement and issued 8,142,857 Common Shares for cash consideration of \$23,427,000. The net proceeds from the offering totaled \$21,915,000 after deduction of legal and regulatory fees, as well as commissions paid to a syndicate of underwriters. In addition to the cash commission, the underwriters of the March 2005 Private Placement received warrants equivalent to 5% of the shares issued, exercisable until March 24,

2006 at a price of C\$3.90 per Common Share purchase warrant in connection with the offering.

During the quarter ended June 30, 2005, the Company issued 8,724,513 Common Shares for cash consideration of \$11,173,000 upon the exercise of warrants, such warrants expiring on June 10, 2005 and originally being issued as part of the December 2003 Private Placement.

During the year ended December 31, 2005, 676,700 stock options were exercised for total proceeds of \$610,000 pursuant to the Company's stock option plan.

During 2005, the Government of Yemen approved the declaration of commerciality for Block 9 and, in December 2005, the Company started producing crude oil from the Hiswah field.

2006

In January and February of 2006, the Company issued 407,143 Common Shares for cash consideration of \$1,378,000 upon the exercise of warrants, such warrants expiring on March 14, 2006 and originally issued as part of the March 2005 Private Placement. In addition, 270,000 stock options were exercised for proceeds of \$187,000 pursuant to the Company's stock option plan.

On February 21, 2006, the Company completed a bought deal private placement of 9,000,000 Common Shares at a price of C\$6.50 per share for total gross proceeds of \$50,895,000 and net proceeds of \$47,749,000.

During 2006, the Company significantly increased its crude oil production volumes and, in the ordinary course of business, exported its share of crude oil pursuant to three spot sales contracts.

2007

Calvalley produced oil predominantly from the Hiswah field at an average daily rate of 5,278 bopd. In 2007, the Company entered into a long term marketing arrangement for its crude oil with Reliance Industries (Middle East) dmcc ("RIME") (see "Description of the Business – Marketing Arrangements"). This agreement was extended in March, 2008 until June 30, 2009.

During the year, 423,333 stock options were exercised for proceeds of \$216,000 pursuant to the Company's stock option plan.

Recent Developments

During the first quarter of 2008, Calvalley completed drilling the Qarn Qaymah 2 well into the granite basement and encountered fractures containing hydrocarbons. The Company will test the well to determine whether further drilling is warranted into the structure. 2008 is expected to be a key year for the transition of Calvalley to the next phase in its growth. Major milestones are subject to factors noted the Risk Factors

section of this AIF. Major milestones planned for 2008 include the following:

- Delineate discoveries on Block 9 through appraisal and development wells;
- Complete reservoir simulation study of the Hiswah pool and implement a pressure maintenance program in an effort to increase production;
- Drill additional development producing wells in Hiswah and Al Roidhat fields in an effort to increase production;
- Drill additional exploration wells based on interpretations of new seismic data shot in 2006 and 2007 and reprocessed vintage data;
- Upgrade heavy crude facility and finalize marketing arrangements for heavy oil to commence initial production of an estimated 3,000 bopd of heavy oil from existing wells; and
- Conclude key negotiations and finalize engineering for construction of a 145 kilometer pipeline.

Calvalley intends to leverage its experience operating internationally by focusing its attention toward acquiring additional exploration concessions in the Middle East and North Africa. The Company is currently assessing opportunities in the areas of geographic interest.

DESCRIPTION OF THE BUSINESS

General

Calvalley's principal business is oil and gas exploration, development, production and sale from its 50% working interest in Block 9 in Yemen, for which Calvalley serves as the operator (see "Description of the Business – The Joint Operating Agreement and Participation Agreement in Respect of Block 9"). The Company's only operations, other than administrative functions undertaken at the Company's head office in Calgary, Alberta, are in Yemen, where it has established itself as a prudent and cost effective operator. At present, substantially all of the operating assets of the Company are located in Yemen and Calvalley is economically dependent upon its foreign operations in Yemen.

Calvalley's concession is 90 kilometres from the currently producing Nexen Inc. and Total Blocks with 225,000 and 25,000 bopd of production respectively. Most of Calvalley's operations are focused on the development and production of its crude oil reserves from which all production is exported into highly competitive global markets for prices at or near Brent crude oil reference prices. During 2007 Calvalley realized revenues of \$47.2 million from sales of crude oil.

Calvalley is currently constructing permanent production facilities and gathering pipelines to improve efficiency and reduce operating costs. Currently, the Company trucks all of its crude oil production more than 250 kilometres to a receiving facility at Block 18, from which the crude oil is transported by pipeline to a marine terminal facility for export. To increase its crude oil transportation capacity from the current 10,000 bopd, the Company has retained the services of Veco Engineering in Abu Dhabi to conduct an the pipeline design and feasibility study for a 145 km pipeline to transport oil from Block 9. The ongoing costs related to the pipeline are expected to be significantly lower than the cost of trucking.

Through its ongoing development drilling program, Calvalley intends to increase the number of producing oil wells in its principal oil field at Hiswah as well as other oil and gas discoveries in the immediate vicinity of the production facilities under construction at Hiswah. During 2008, the Company also plans to drill several development wells in the Al Roidhat field, from which any production will be trucked to Hiswah for blending and processing. Appraisal wells are planned for several previously discovered reservoirs, including the Qarn Qaymah condensate and natural gas field. If successful in appraising the Qarn Qaymah discovery, Calvalley intends to produce condensate for blending with heavy oil from the Al Roidhat field and to evaluate the feasibility of using the associated natural gas production for electricity generation and heating requirements in Block 9 operations.

Calvalley is continuing to acquire seismic data to identify exploration leads and to define previously identified prospects within Block 9. Starting with its most promising exploration opportunities, Calvalley intends to drill exploratory wells to confirm and expand the prospective production potential of Block 9. Calvalley intends to continue maintaining a prudent balance between exploration and development drilling activity.

There is significant competition for oil field services and supplies worldwide and Calvalley has established good working relationships with various suppliers in the Middle East in order to ensure that operational requirements do not experience undue operational or construction delays. Calvalley has a diversified procurement strategy to source a significant amount of oil field equipment from global suppliers to avoid being dependent solely on Middle Eastern suppliers.

The Block 9 Production Sharing Agreement

The Company has the right to explore for and to produce oil and natural gas on the Malik Block concession (Block 9) in the Shabwah/Hadramaut region of central Yemen. Those rights are defined under the PSA that was ratified by Presidential Decree No. 21 on April 3, 1997. Under the terms of that PSA, the fiscal arrangements between the Company and the Government of Yemen are established, as are the conditions and procedures to convert from the original "exploration period", as extended, into the current twenty year "development period" that started on June 10, 2005.

By mutual agreement between Calvalley and the Government of Yemen, the first exploration period under the PSA for Block 9 was extended during the third quarter of 1999 for a period of two years ending April 4, 2002. In early 2002, the Government of Yemen granted Calvalley an additional one year extension for the first exploration period to April 4, 2003. In 2003, the Government of Yemen granted Calvalley an additional one year extension for the first exploration period to April 4, 2004 which was subsequently extended to October 4, 2004. In October 2004, the Company entered into the second exploration period under the PSA, at which time Calvalley relinquished 25% of the original surface area of Block 9, thereby reducing its land holdings to 3,546 km² from the original 4,728 square kilometre parcel.

In June 2005, the Government of Yemen approved the declaration of commerciality for Block 9, thereby concluding the second exploratory period and commencing the twenty year development period. Concurrently, the rights to a further 1,312 km² of land holdings were relinquished, reducing the remaining land holdings to 2,234 km² that will be retained by the Company until the term of the PSA expires.

The Joint Operating Agreement and Participation Agreement in Respect of Block 9

In 2001 the Company entered into a the HoodOil agreement dated October 29, 2001 with HoodOil, an unrelated party, whereby the Company assigned 40% of its interest in the PSA to HoodOil. In exchange for this assignment, the Company received a letter of guarantee in the amount of \$10,000,000 in relation to the commitment by HoodOil to finance future exploratory costs under the PSA to a maximum amount of \$10,000,000 over both the first and second exploration periods. Pursuant to the terms of the HoodOil Agreement, Calvalley was entitled to an incentive fee of 50% of the amount by which the funds expended on the drilling program were less than the \$10,000,000 agreed cost.

As of November 1, 2001, the Company entered into the JOA in relation to the ongoing exploration and development under the PSA, whereby the Company was designated operator. In January, 2002, the HoodOil Agreement relating to the PSA with the Government of Yemen was amended. Pursuant to the Participation Agreement, 50% of the 40% interest in the PSA was transferred from HoodOil to Reliance. On January 8, 2002, the terms and conditions of the JOA were also amended to take this into consideration and Reliance was added as a party to the JOA. In January of 2002, HoodOil and Reliance were also granted options to increase their respective interests by 5% each. In 2004, each of HoodOil and Reliance exercised their options to increase their respective interests by 5% for \$2,500,000 respectively. As at December 31, 2004, the Company retained a 50% working interest and operatorship of Block 9.

Marketing Arrangements

In Yemen, producers of oil negotiate sales contracts directly with oil purchasers, at selling prices that are generally derived from benchmark crude oil reference prices such as Brent and West Texas Intermediate. Actual selling prices may vary from posted benchmark selling prices to reflect factors such as oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance.

On January 16, 2007, Calvalley, along with its joint venture partners, entered into a long-term crude oil purchasing agreement with RIME, a company based in Dubai, United Arab Emirates and an affiliate of Reliance. That oil sales agreement contains "take or pay" provisions, which require RIME to purchase substantially all of the joint venture's share of oil production from Block 9 during the term of the contract. The selling price under the contract is based on the official selling price ("OSP") posted by the Government of Yemen less \$0.50 per barrel. The OSP is approximately equal to the Brent crude oil reference price. In March, 2008, the parties extended the agreement until June 30, 2009. It may be further extended at the option of the parties.

Future Commitments

Calvalley has no hedging commitments or option contracts which were outstanding at December 31, 2005, December 31, 2006 or December 31, 2007.

Employees, Consultants and Contractors

The Company possesses specialized skills and knowledge necessary to operate effectively in Yemen. The Company has operated in Yemen since 1997 and has

developed significant operating expertise in this region. Calvalley's management has established an excellent working relationship with officials in the Ministry. Calvalley's Yemen General Manager is an engineer, with more than 30 years experience, who is fluent in both Arabic and English.

Calvalley uses the services of established contractors in connection with its drilling operations, facility and pipeline construction projects, trucking of oil production, well servicing and other operations.

With the onset of commercial production, Calvalley has increased its work force in order to properly staff crude oil production operations and infrastructure construction projects. Under the PSA, Calvalley is committed to actively promote indigenization of its Company's work force in Yemen. While hiring a majority of Yemeni nationals in connection with its operations, the Company continues to hire expatriates and third country nationals in key positions.

Calvalley had 129 employees as of December 31, 2007 based in both Calgary and Yemen. Calvalley continues to hire both ex-patriate and local staff in an effort to expand its workforce within Canada and internationally.

Canadian Oil & Gas Properties

Effective December 31, 2003, the Company disposed of its last remaining - operated Canadian oil and gas property. The remaining Canadian properties are not material to the overall financial position and results of operations of the Company. In 2006 and 2007, 100% of the Company's remaining non-operated Canadian crude oil production was sold by the property operator at market prices. Calvalley no longer operates any oil properties in Canada.

Legislation and Regulations

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government in jurisdictions which have oil and gas operations. Outlined below are some of the more significant aspects of legislation, regulations and agreements to which the Company must adhere. All current legislation is a matter of public record and the Company is unable to predict what, if any, additional legislation or amendments thereto may be enacted.

Royalties and Incentives

In Yemen, the Company's royalties and taxes are determined based on the PSA. The share of crude oil production allocated to the Government of Yemen under the PSA is analogous to royalties in Canada's Western Canadian Sedimentary Basin and other hydrocarbon fiscal systems around the world. The Government of Yemen's share of crude oil production includes a royalty on gross oil production, a share of profit oil (allocated after cost oil is taken by the Company) and an override on the Company's share of profit oil. The Company's share of profit oil is subject to income taxes (currently at the rate of 35%) to the Government of Yemen which are paid out of the Government's share of profit oil noted above. The Company is obligated to pay production bonuses at the inception of commercial production and, in the future, when production rates

increase (in increments of 25,000 bopd).

Environmental Regulation

Globally, the oil and gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation in each of the countries where oil and gas operations are active. In emerging nations, such as Yemen, where environmental regulations and legislation are evolving, many oil and gas exploration and production companies operate in accordance with standards prevailing in established oil and gas producing jurisdictions, such as Canada. Since Block 9 is predominately an arid desert area, the environmental impact associated with exploration and production activity is significantly less than is typical for production located in more temperate or tropical environments.

The Company is committed to conducting its operations in Yemen in accordance with environmental standards used by other major international oil and gas exploration and production companies. Generally, such standards meet or exceed those imposed by legislation and regulations in Yemen.

In most countries, environmental legislation includes restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and natural gas industry operations. Such legislation can affect the location and operation of wells and facilities and the extent to which exploration and development is permitted. In addition, typical legislation requires that well and facilities sites are abandoned and reclaimed to the satisfaction of regulatory authorities. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders.

In many jurisdictions, new legislation, environmental standards and compliance for releases, site restoration and reporting are becoming stricter and more onerous. Also, the range of enforcement actions available and the severity of penalties have also been significantly increased. These trends may be followed in Yemen.

RISK FACTORS

Calvalley is exposed to a number of risks inherent in exploring for, developing and producing oil and gas. This section describes the risks and other matters that would be most likely to influence an investor's decision to purchase securities of Calvalley.

Calvalley manages a number of risks in its business in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks.

An investment in Calvalley should be considered speculative due to the nature of Calvalley's activities and the present stage of its development. Calvalley's operations are subject to all of the inherent risks normally associated with development and other operations conducted in respect of oil and natural gas properties as well as the inherent risks attributable to companies dependent upon foreign operations, including the following which investors should carefully consider:

Commodity Risk

Calvalley's principal business is the production and sale of crude oil. Revenues,

earnings and cash flows from the sale of crude oil are sensitive to change in market prices, over which the Company has little or no control. The Company has the ability to address its price-related exposures through the limited use of options, future and forward contracts, but generally does not enter into such arrangements.

Currency Fluctuations

Calvalley undertakes transactions in currencies other than the United States dollar. The Company's primary foreign exchange risk is to changes in the value of the Canadian dollar relative to the United States dollar. Fluctuations in exchange rates between the United States dollar and other currencies will give rise to foreign currency exposure, either favourable or unfavourable, which may have material effects on the Company's operations and financial condition. The Company has the ability to address its currency related exposures through the use of foreign exchange contracts. It generally does not enter into such arrangements.

Changes in Legislation

There can be no assurance that laws and regulations relating to the oil and gas industry will not be changed in a manner which would adversely affect the operations of the Company. Under the PSA, the Company is not obligated to comply with regulatory changes that are inconsistent with the provisions of the PSA. Further, the PSA stipulates that the interests, rights and obligations of the Government and the Company shall be solely governed by the provisions of the PSA unless altered or amended by mutual agreement. In particular, the PSA requires that the Government of Yemen pay profit taxes on the Company's behalf, out of the Government's share of profit oil.

Reserve Estimates

Proven and probable reserve estimates are determined based on professional evaluations provided by internal or external qualified persons. Reserve estimates should not be interpreted as assurances of the life or of the profitability of current or future operations. Estimates of the reserves may change based on additional knowledge gained subsequent to the assessment date. This may include additional data available from continuing exploration and development, results from the reconciliation of actual production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. The estimation of reserves is a subjective process, all of which are subject to numerous uncertainties and various interpretations.

Reserve Additions

Calvalley's future crude oil reserves and production, and therefore its operating cash flows and results of operations, are highly dependent upon the Company's success in exploiting its current reserve base and acquiring or discovering additional reserves. Without reserve additions through exploration, development or acquisitions, the Company's reserves and production will decline over time as reserves are produced. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, Calvalley's ability to make the necessary capital investments to maintain and expand its oil and reserves will be impaired.

Interest Rates

The Company has no interest-bearing debt. The Company invests surplus cash balances in short-term investments with highly-rated financial institutions. Fluctuations in interest rates, either favourable or unfavourable, which may have material effects on the Company's interest income on short-term cash investments.

Lack of Additional Financing

To the extent that external sources of capital become limited, unavailable or on terms not considered favourable to Calvalley, Calvalley's ability to make the necessary capital investments to maintain or expand its oil and gas reserves may be impaired.

Competition

There is strong competition relating to all aspects of the oil and gas industry. Calvalley actively competes for skilled industry personnel, which are in high demand, particularly at its Canadian headquarters, with a substantial number of other oil and gas companies, many of which have significantly greater financial and other resources than Calvalley.

Credit Risk and Concentration of Sales Risk

As described in "Description of the Business – Marketing Arrangements," the Company entered into a long-term crude oil marketing agreement under which the Company will sell all of its crude oil production to a single customer for a period of eighteen months. The customer is a subsidiary of Reliance Industries Limited, India's largest business enterprise, which is a party to the JOA and has guaranteed the customer's obligations under the crude oil marketing agreement. Reliance Industries Limited has been assigned credit ratings of Baa2 Stable Outlook by Moody's and BBB Stable Outlook by S&P (above Sovereign Rating). The current contract expires in June, 2009 but can be extended for additional twelve month periods if agreed by the Company and the customer.

Credit risk also relates to the risk that joint venture partners may not fulfill their contractual obligations for financial contributions towards the exploration, development, appraisal and production operations.

During the initial agreement negotiations and ratification, these risks are considered and incorporated into the terms of the contracts. Furthermore, cash calls can be made in advance of incurring costs to help ensure costs are recovered. However, it is possible that the interest of Calvalley and its joint venture partners are not aligned resulting in project delays, additional costs or disagreements, which could adversely affect business results.

Insurable Risk

Calvalley employs risk management practices to reduce and mitigate operational risks and other hazard risks and exposures, although it is impossible to completely protect its operations from all such risks. The Company places types and an amount of insurance

that it considers consistent with industry practice to the extent coverage is available and cost effective. Such coverage includes third-party liability insurance and property and business interruption insurance.

The Company may become liable for damages arising from unforeseen events which it cannot insure or chooses to self-insure. Costs incurred to repair such uninsured damage or to pay associated liabilities may have a material effect on the financial condition of the Company.

Concentration of Producing Assets

Substantially all of Calvalley's production is generated from highly productive individual wells in Yemen. The production and sale of crude oil in Yemen involves the use of central production facilities, oil pipelines, and export terminals, either operated by the Company or by third parties. As significant production is generated from each of these assets, any single event causing an interruption to any one of these operations could result in the loss of production.

Exploration, Development and Production Risks

Acquiring, developing and exploring for oil and natural gas involves many risks. These include: encountering unexpected formations or pressures; premature declines of reservoirs; blow-outs, well bore collapse, equipment failures and other accidents; craterings and sour gas releases; uncontrollable flows of oil, natural gas or well fluids; and environmental risks.

In most oil and natural gas producing countries, oil and gas properties, together with related production and transportation infrastructure, are often situated in remote areas. In addition to the operational risks described above, oil and gas properties in these countries may be vulnerable to premeditated acts which have the potential to cause significant damage to oil and gas operations. The Company relies on the Government of Yemen's support in providing appropriate security for crude oil operations in Block 9.

Calvalley may not be fully insured against all of these risks. Losses resulting from the occurrence of these risks could have a material impact on the Company's financial results.

Environmental, Health, Safety and Regulatory Approvals

Environmental, health and safety laws and regulations are continually evolving. Compliance with such laws and regulations can require significant expenditures which may materially affect the Company's financial condition or results of operations.

Expansion of existing operations and the development of new operating sites generally require approval of regulatory authorities. If such approvals are delayed or not achieved, the Company's ability to meet project schedule or cost objectives or to operate at expanded or existing levels could be materially impacted.

Workplace health and safety risks for workers arise from the inherent nature of the operations.

DIVIDENDS

The Company has not declared or paid any dividends on any of its shares since incorporation. It is not expected that the Company will pay any dividends in the near future and Management expects that future earnings will be retained to finance further expansion of the business and operations of the Company. Any decision to pay dividends on any class of shares will be made by the Board on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

DESCRIPTION OF CAPITAL STRUCTURE

General

Calvalley is authorized to issue an unlimited number of Common Shares. These shares, in addition to having a voting right, are entitled to receive and to be paid, by the Company, in money, in shares or in property by the Company, out of the monies of the Company applicable to the declaration and the payment of dividends, any amount of declared dividend, if, as and when declared by the Board of the Company. Further, the holders of the Common Shares are entitled to receive the remaining assets of the Company upon its liquidation, dissolution, wind-up of the Company or any other distribution of its assets for the purpose of winding-up its affairs.

MARKET FOR SECURITIES

Calvalley's Common Shares are listed for trading on the TSX under the symbol "CVI.A." The following table sets out the price range and trading volume of the Common Shares on a monthly basis for the year ending December 31, 2007, and for the months of January 2008 and February 2008, as reported by the TSX.

	Year	Month	High (\$)	Low (\$)	Volume
	2007	January	\$7.97	\$6.40	4,245,137
		February	\$7.58	\$6.61	2,911,220
		March	\$7.40	\$6.42	3,138,354
		April	\$7.41	\$6.20	6,428,416
		May	\$7.94	\$5.71	8,180,016
		June	\$7.81	\$6.93	4,833,466
		July	\$7.40	\$6.53	2,569,599
		August	\$7.24	\$4.05	8,576,446
		September	\$4.57	\$3.90	4,566,669
		October	\$6.70	\$4.18	5,597,239
		November	\$6.84	\$5.14	2,707,233
		December	\$6.65	\$4.64	2,649,624
	2008	January	\$6.35	\$4.26	3,489,954
		February	\$5.18	\$4.26	4,515,069
		March	\$5.00	\$4.10	3,988,843

DIRECTORS AND OFFICERS

General

As at December 31, 2007, the directors and senior executives of the Company, together with particulars related to them, are provided in the table below. The term of office for each director is from the date of the meeting at which he is elected until the annual meeting next following or until his or her successor is elected or appointed.

Name, Address and Position or Office with Company	Principal Occupation During Last Five Years	Director or Senior Executive Officer Since	Number of Shares Beneficially Owned or Controlled
Edmund M. Shimoon (Chairman of the Board, Chief Executive Officer and Director) <i>Alberta, Canada</i>	Chief Executive Officer of the Company	October, 1989	210,400 ⁽¹⁾
Thomas E. Lester (Director) <i>Alberta, Canada</i>	President Jenerin Corp.,	June, 1998	210,000
Gary Robertson (Director) <i>Quebe, Canadac</i>	President Robertson Financial Services	June, 2004	350,000
David A. Williams (Director) <i>Ontario, Canada</i>	President Roxborough Holdings Limited	August, 2004	150,000
Thomas H. Skupa (Director) <i>Alberta, Canada</i>	President Cattom Enterprises Ltd.	June, 2005	54,714
Kenneth M. Stephenson (Director) <i>Alberta, Canada</i>	President Kenaco Capital Services Inc.	May, 2006	55,000
Thomas E. Valentine (Director, Corporate Secretary) <i>Alberta, Canada</i>	Partner Macleod Dixon LLP	May, 2006 (Director); November, 2004 (Corporate Secretary)	Nil
<i>Bill Cummins C.A.</i> (Chief Financial Officer) <i>Alberta, Canada</i>	Chief Financial Officer of the Company; Vice President, Corporate Finance, Leede Financial Markets, Inc.	November 19 2007	Nil
<i>James Terrance McCoy</i> (Vice President Exploration)	Vice President Exploration	July 4, 2007	Nil

Alberta, Canada

Grant Harms
(Vice President,
Engineering and
Operations)
Alberta, Canada

Vice President Engineering
and Operations

October 22, 2007

Nil

Note: 1) The only entity exercising beneficial ownership or control over more than 10% of the Common Shares of the Company is Calvalley Financial Inc. The voting shares of Calvalley Financial Inc. are held equally by Mr. Shimoon, Chairman of the Board and Chief Executive Officer of the Company, Deborah Shimoon, Mr. Shimoon's spouse, and the Shimoon Family Trust. As at December 31, 2007, Calvalley Financial Inc. beneficially owned 20,365,059" Common Shares, being 20% of the outstanding Common Shares. As at March 1, 2008, the beneficial ownership of Common Shares of the Company by Calvalley Financial Inc. remained the same, equating to 20% of the outstanding Common Shares of the Company.

Edmund Shimoon, was President, Chief Executive Officer and a director of O.R.I. Energy Inc., since its incorporation, and held a similar position with the predecessor corporation to Calvalley Petroleum Inc. since 1995 and held the same positions with the Company until December 31, 1997. Since January 1, 1998, Mr. Shimoon has held the positions of Chairman of the Board, Chief Executive Officer and President of the Company. He is also President of the subsidiary companies Calvalley Petroleum (International) Inc. and Calvalley Cyprus.

Thomas E. Lester, B. A., M. B. A., was employed by Energy and Mines and Resources Canada from 1975 to 1985. In 1985 he joined the Independent Petroleum Association of Canada as Manager of Crude Oil Affairs. From 1987 to 1995 he was Vice President – Producer, Services and NGL Marketing for Northridge Petroleum Marketing Inc. Since 1995, Mr. Lester has been involved in a variety of business and not for profit endeavours, including the founding of two TSX Venture Exchange listed companies.

Gary Robertson, C.A., is a chartered accountant by training. Mr. Robertson has worked for the past 25 years as President of Robertson Financial Services, where he has provided financial services in several areas. He has been particularly active in private equity formations, including a number in the oil and gas industry. Mr. Robertson is one of the original shareholders of Calvalley and its predecessor corporations and was also a Director of the Company from May 1994 to February 2000.

David A. Williams holds a Masters of Business Administration degree from Queen's University and is the recipient of a Doctor of Civil Laws from Bishop's University. From 1969 to 1994, Mr. Williams held senior management positions with Beutel, Goodman where his responsibilities included institutional portfolio management. During his 25 year history he was instrumental in building the firm's managed asset base to over \$11.6 billion. Since 1995, Mr. Williams has continued to manage the investments of Roxborough Holdings Limited of which he is President and is a director of a number of private and public companies, including RoaDor Industries, Resin Systems, Atlantis Systems and Western Copper.

Thomas H. Skupa graduated, with a B.A.Sc. in Chemical Engineering, from the University of British Columbia and, with an M.B.A., from the University of Alberta. As president of Cattom Enterprises Ltd., Mr. Skupa currently provides business and project development services to the engineering, procurement and construction industries,

specializing in oil & gas production, petroleum refining and petrochemicals. His 40 plus years of industry experience include ten years as Executive Director, Marketing for Fluor Daniel Canada, seven years as General Manager, Natural Gas Liquids for Petro-Canada and three years as Manager, Offshore & International Joint Ventures for Petro-Canada. Prior to that, Mr. Skupa was employed in management and engineering positions with Pacific Petroleum, Esso Chemical Canada and Imperial Oil Limited. Mr. Skupa is one of the original shareholders of Calvalley and of its predecessor corporations. As well, he was also a director of the Company, from July 1995 to May 1998.

Thomas E. Valentine is a partner with Macleod Dixon LLP, where he has practiced as both a barrister and a solicitor, with a focus on energy work, for nearly 20 years. Mr. Valentine returned to Calgary in 2003 from Doha, Qatar where he held the position of Senior Counsel (Projects) with Qatar Petroleum, the national oil and gas company for the State of Qatar. Mr. Valentine is currently involved in a number of international energy projects, including projects in Qatar, Oman, Iran, Turkmenistan and the United Arab Emirates. His work experience includes liquefied natural gas, gas-to-liquids and petrochemicals, as well as conventional oil and gas transactions. Mr. Valentine holds a B.A. from the University of British Columbia, a LL.B. from Dalhousie University, and a LL.M. from the London School of Economics.

Kenneth M. Stephenson is a graduate in Civil Engineering from the University of Saskatchewan. He is the owner of Kenaco Capital Services Inc. which holds private investments in several junior oil and gas companies, controlling interest in NARSTCO Inc., a steel railway tie manufacturer in Texas, a major shareholder in Hiltap Fittings Ltd. a manufacturer of high tech fittings, Mercado Capital Corporation a national equipment leasing company and Creative Door Services Ltd., Western Canada's largest garage and industrial door supplier. He has held private ownerships, directorships, and in some cases the position of Chief Executive Officer in the oil and gas industry in contract drilling, exploration and development, pipeline construction, manufacturing, heavy construction, gas processing and oilfield camp and catering. During his career, Mr. Stephenson has held a number of diverse commercial/industrial interests and directorships in both private and public companies.

Bill Cummins, CA. is a Chartered Accountant with over 20 years of experience. His international background has spanned 10 years, including 7 years as senior financial executive of an international joint venture which grew to over 75,000 bopd. For the past 6 years, Mr. Cummins was the Vice President, Corporate Finance and Director of an independently owned brokerage firm. During this period, he focused on raising capital for public and private companies, primarily in the oil and gas sector. Mr. Cummins also provided advisory services which assisted in the evaluation and acquisition of petroleum exploration permits in various countries.

Grant Harms has 26 years of experience in the oil and gas industry. His domestic experience includes a wide range of engineering, operations, management and business development experience in gas, conventional oil and heavy oil. Most recently Mr. Harms co-founded and acted as the Chief Operating Officer and Vice President of Production for Los Altares Resources Ltd., a private company that grew from a start-up to 500 barrels of oil equivalent per day in western Canada prior to its merger with Compass Petroleum. Mr. Harms also brings over seven years of international experience in Indonesia, Russia and Kazakhstan to Calvalley, where he

held roles involving both technical and executive management responsibilities. Mr. Harms has a Bachelor of Science degree in Mechanical Engineering from the University of Waterloo.

Terry McCoy holds a Bachelor of Science, Geology from the University of Calgary and (brings over 37 years of senior oil and gas executive experience to Calvalley. Mr. McCoy has held the position of Vice President of Exploration and Land at Murphy Oil Company as well as Vice President of Exploration and Land at POCO Petroleum Ltd. and Burlington Resources Canada Ltd. Mr. McCoy also held the title of President of Burlington Resources Canada Ltd. Prior to 1990, Mr. McCoy held executive positions at Columbia Gas Development of Canada Ltd., Conwest Exploration Co. Ltd., Union Oil Co. of Canada and Amoco Canada Resources.

2007 Shareholdings of the Board

As at December 31, 2007, the directors and officers of the Company collectively owned or controlled 1,030,114 Common Shares in the aggregate, being 0.9% of the outstanding Common Shares excluding the 20,365,059 Common Shares owned by Calvalley Financial Inc. as noted in note (1) above. Total shareholdings by directors and officers including those held by Calvalley Financial Inc is 21,395,173 Common Shares, being 21.1% of the outstanding Common Shares

As at March 1, 2008, the directors and officers of the Company collectively own or control 1,030,114 Common Shares in the aggregate, being 1.0% of the outstanding Common Shares as at March 1, 2008 excluding the 20,365,059 Common Shares owned by Calvalley Financial Inc. as noted in note (1) above. Total shareholdings by directors and officers including those held by Calvalley Financial Inc is 21,395,673 Common Shares, being 21.1% of the outstanding Common Shares (based on 101,450,498 issued and outstanding Common Shares).

Committees of the Board

Audit Committee

The Audit Committee of Calvalley is comprised of Gary Robertson (Chairman), David Williams and Thomas Skupa. All members of the Audit Committee are independent and financially literate (as determined by Multilateral Instrument 52-110, *Audit Committees* ("MI 52-110")). The Audit Committee reviews the Company's interim unaudited consolidated financial statements and annual audited consolidated financial statements and certain corporate disclosure documents including the annual information form, and management's discussion and analysis before they are approved by the Board. The Committee reviews and makes a recommendation to the Board in respect of the appointment and compensation of the external auditor and it monitors accounting, financial reporting, control and audit functions.

The Audit Committee meets to discuss and review the audit plans of external auditors and is directly responsible for overseeing the work of the external auditor with respect to preparing or issuing the auditor's report or the performance of other audit, review or attest services, including the resolution of disagreements between management and the external auditor regarding financial reporting. The Audit Committee questions the external auditor independently of management and reviews a written statement of its

Compensation Committee

On September 27, 2005, the Board of Calvalley approved the creation of a Compensation Committee. The Compensation Committee's mandate was approved by the Board on March 21, 2006. The Compensation Committee of the Board has been established to address compensation matters and is comprised of a majority of independent directors. As at December 31, 2007, the current Compensation Committee is comprised of Tom Valentine (Chairman), David Williams and Ken Stephenson.

With respect to compensation matters, the Compensation Committee has been mandated, among other things: (a) to recommend to the Board the terms for the compensation of directors, the Chief Executive Officer (the "CEO"), and such other employees of the Company or any subsidiary of the Company as may be identified to the Committee by the Board (collectively, the "Designated Employees") of the Company that adequately reflect the responsibilities they are assuming; (b) to review, revise and approve the position description of the CEO and recommend in conjunction with the participation of the CEO annual performance goals, objectives and criteria for the CEO, evaluate the performance of the CEO against such position description and applicable performance goals, objectives and criteria and make recommendations to the Board with respect to the CEO's level of compensation based on this evaluation; (c) to review the CEO's evaluation of the performance of the other officers of the Company appointed by the Board and Designated Employees and review the CEO's recommendations with respect to the amount of compensation to be provided to the Designated Employees; (d) to review and assess the competitiveness and appropriateness of and approve the compensation package of the CEO and each of the Designated Employees; (e) to review and approve any employment contracts or arrangements with the CEO and each of the Designated Employees, including any retiring allowance arrangements, severance payments or any similar arrangements to take effect in the event of a termination of employment and any change of control agreements; (f) to review and recommend to the Board compensation policies and processes and any new incentive compensation and equity compensation plans of the Company or changes to such plans and in particular, the compensation policies, processes and plans respecting the CEO and the Designated Employees; (g) to review and recommend to the Board the overall parameters of the Company's multi-year incentive plans, if any, including recommending who should be eligible to participate under these plans and changes to such plans; and (h) to review and recommend to the Board the Designated Employees to be included as participants in the Company's stock option plan.

Reserves Committee

The Reserves Committee is comprised of Ken Stephenson (Chairman), Tom Lester and Tom Skupa. The Reserves Committee mandate was approved by the Board on March 21, 2006 and amended November 7, 2006. As the majority of the Committee members are independent directors, the requirements established by National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* are met. The Reserves Committee is responsible for ensuring that management has designed and implemented effective reserves programs, controls and reporting systems. The Reserves Committee's mandate also includes reviewing the independent reserves evaluation of the Company and any public disclosure of reserves and other oil and gas information and reviewing and approving any proposals to change the evaluating engineers. The Reserves

Committee communicates regularly with management to ensure that all reserves evaluations and reports have been properly handled and reported.

Disclosure Committee

From May 10, 2006 until November 7, 2006, the Disclosure Committee was comprised of Ed Shimon (Designated Spokesperson), Tom Lester and Tom Skupa. On November 7, 2006, the Committee was reconstituted, with Mr. Lester and Mr. Skupa stepping down and Tom Valentine being added, along with such other members of management, select employees of the Company and/or members of the Board as might be appropriate. The Board approved the Company's Disclosure Policy on March 21, 2006. The Disclosure Committee oversees the Company's disclosure practices and is responsible for all regulatory disclosure. Further, the Committee is responsible for designing and implementing appropriate systems, processes and controls for disclosure and reviews all news releases and material disclosure documents prior to their release or filing.

Corporate Governance Committee

The Corporate Governance Committee is comprised of David Williams (Chairman), Tom Valentine and Ken Stephenson, thereby ensuring the Committee is constituted by a majority of independent directors. The Committee is responsible for overseeing and assessing the functioning of the Board and the committees of the Board and for the development, recommendation to the Board, implementation and assessment of effective corporate governance principles and guidelines.

The Committee's responsibilities also include identifying candidates for director and recommending that the Board select qualified director candidates for election at the next Annual Meeting of shareholders. The Committee shall undertake on behalf of the Board such other corporate governance initiatives as may be necessary or desirable to enable the Board to provide effective corporate governance for the Company and contribute to the success of the Company and enhance shareholder value.

Cease Trading Orders, Bankruptcies, Penalties or Sanctions

David Williams was a director of Octagon Industries Inc. ("Octagon") when, on May 29, 2001, a cease trade order was issued against Octagon, a reporting issuer in the jurisdictions of British Columbia and Alberta, by the British Columbia Securities Commission for failure to file an annual report for Octagon's fiscal year ended December 31, 2000. The cease trade order was revoked on August 28, 2001. The British Columbia Securities Commission issued another cease trade order on June 2, 2004 and the Alberta Securities Commission issued a cease trade order on June 8, 2004 in respect of Octagon. Both Commissions sought a cease trade order due to Octagon's failure to meet the required standards relating to the filing of financial statements.

On June 21, 2001, the trustee of Octagon sent a proposal to unsecured creditors of Octagon (the "Proposal") pursuant to the *Bankruptcy and Insolvency Act* (Canada). A majority of the unsecured creditors approved the Proposal at a general meeting of the unsecured creditors held June 25, 2001. Mr. Williams was a director of Octagon at the time of the approval of the Proposal. Octagon has since been dissolved by the British Columbia Ministry of Finance effective August 15, 2003.

On June 3, 2004, Octagon was suspended from the TSX Venture Exchange as a result of the June 2, 2004 cease trade order, and was subsequently de-listed from the NEX on September 29, 2004 for failure to pay the required sustaining fees. Mr. Williams continued to be a director of Octagon during this time.

On April 12, 2002, the Ontario Securities Commission issued a cease trade order against Krystal Bond Inc. and was suspended from the TSX Venture Exchange as a result. Mr. Williams contends he was not a director of Krystal Bond Inc. at this time but a lack of documentary evidence relating to Mr. Williams' resignation has necessitated disclosure in this AIF pursuant to National Instrument 51-102 – *Continuous Disclosure Obligations*.

Conflicts of Interest

The directors and officers of Calvalley may be engaged in other activities in the oil and natural gas industry and, as a result of these and other activities, the directors and officers of Calvalley may become subject to conflicts of interest. Directors, Officers and employees must ensure that no conflict exists between their personal interests and those of the Company. Directors, officers and employees are to avoid placing themselves in positions that may be perceived as conflicts. In the event that a director, officer or employee has an interest in a contract or proposed contract or agreement, the director, officer or employee shall disclose his interest in such contract or agreement and shall refrain from participating in any matter in respect of such contract or agreement unless otherwise agreed to by the Chief Executive Officer of the Company. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the CBCA. The business of Calvalley is subject to other risks and matters, which may fall outside of the control of the directors, officers and employees of the Company.

LEGAL PROCEEDINGS

The Company has been named in a claim filed in the Commercial Court of Yemen by a Saudi Arabian company. The claimant alleges that, pursuant to an agency agreement entered into in 1996, it is entitled to a percentage of the net profit attributable to the Company. The matter was heard and a ruling was made which awarded the claimant 10% of the Company's profit oil, calculated as being the oil produced in excess of the production that the Company is entitled to for cost recoveries as defined in the PSA, from the production of Block 9 from the date of commercial production to February 13, 2008.

The decision of the Commercial Court of Yemen is now under appeal by both parties. The Company's legal advisors in Sana'a and Calgary are pursuing the appeal jointly. The outcome of the action in the Yemen Commercial Court of Appeal is undeterminable at this time. No amounts have been accrued in the financial statements for the year ended December 31 2007 as the ultimate resolution is uncertain. The Company will record any amounts due once the outcome of the contingency is likely and estimable.

As the ruling now stands, management does not anticipate a material impact on the Company. Both parties have appealed the ruling and the final decision of the Yemen Commercial Court of Appeal could vary significantly from the ruling of the lower court.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

During 2006, the Company incurred costs of \$343,240 (C\$400,000) payable to a corporation controlled by a family member of the Chief Executive Officer for assistance with an equity financing completed in the year.

With the exception of the above, no director or executive officer of Calvalley, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over more than 10% of the outstanding Common Shares and no associate or affiliate of any of the foregoing persons or companies, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect Calvalley or its subsidiaries.

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal offices in Calgary, Alberta and Toronto, Ontario.

MATERIAL CONTRACTS

Other than as set forth below, there are no material contracts entered into by Calvalley or its subsidiaries during the most recently completed financial year or since January 1, 2002 and which are still in effect, other than contracts entered into in the ordinary course of business.

1. Production Sharing Agreement, dated February 23, 1997 (see "Description of the Business – International Operations – The Production Sharing Agreement in Respect of Block 9").
2. Joint Operating Agreement, dated November 1, 2001 (see "Description of the Business – International Operations - The Joint Operating Agreement and Participation Agreement in Respect of Block 9").
3. Participation Agreement, dated January 8, 2002 (see "Description of the Business – International Operations – The Joint Operating Agreement and Participation Agreement in Respect of Block 9").

INTERESTS OF EXPERTS

As at the date of this AIF, principals of McDaniel & Associates Consultants Ltd., independent petroleum consultants to Calvalley, personally disclosed in certificates of qualification that they neither owned nor expected to receive any of the outstanding Common Shares as compensation. The auditors of the Company, Deloitte & Touche LLP, are independent with respect to the Company, in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information relating to Calvalley may also be found on SEDAR at www.sedar.com.

Additional information, including that related to directors' and officers' remuneration and indebtedness, principal holders of Calvalley's securities, options to purchase Calvalley's securities and interest of insiders in material transactions, where applicable, is contained in the Company's information circular prepared in respect of the Annual General Meeting of Shareholders to be held on May 20, 2008. Additional financial information is provided in the Company's comparative financial statements for the year ended December 31, 2007 and related Management Discussion and Analysis, which can be found in the Company's 2007 Annual Report to Shareholders.

Copies of the information circular, the financial statements, including any interim financial statements, and additional copies of this AIF may be obtained from the Corporate Secretary of the Company at the registered office of Calvalley, 3700, 400 – 3rd Avenue SW, Calgary, Alberta, T2P 4H2, telephone (403) 267-8222, facsimile (403) 264-5973.

SCHEDULE A-1

CALVALLEY PETROLEUM INC.

FORM 51-101F1

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Statements in this document may contain forward-looking information. Estimates provided for 2008 and beyond are based on assumptions of future events and actual results could vary significantly from these estimates. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of Calvalley Petroleum Inc. (the "Company" or "Calvalley") as outlined below. The reader is cautioned not to place undue reliance on this forward-looking information. All dollar values in this report are expressed in United States currency.

Relevant Dates

Date of Statement and Statement Information

This Statement of Reserves Data and Other Oil and Gas Information (the "**Statement**") is dated March 25, 2008. The effective date of the information provided in the Statement is December 31, 2007 unless otherwise indicated. The information was prepared between December 31, 2007 and March 25, 2008.

Disclosure of Reserves Data

The following is a summary of the oil and natural gas reserves and the net present values of future net revenue of the Company as evaluated by McDaniel & Associates Consultants Ltd. ("McDaniel") who are independent qualified reserves evaluators appointed by Calvalley pursuant to National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). Substantially all of the Company's oil and gas properties were independently evaluated by McDaniel, who has provided the Company with a report dated March 25, 2008 regarding the Company's estimates of its oil and natural gas reserves as at December 31, 2007 (the "McDaniel Report") and has consented in writing to the inclusion of information contained in the McDaniel Report.

The Company determines and reports reserves information in accordance with NI 51-101, using terminology and definitions prescribed therein. The Company believes that the reserve quantities are reasonable estimates consistent with current knowledge of the characteristics and extent of the productive formations. In the future, the Company may revise its estimates based on additional information including the performance of producing reservoirs, technological improvements and changes in economic conditions.

The Company's disclosure of reserves or resources is consistent with the reserves and resources terminology and categories set out in the COGE Handbook. Disclosure of reserves or of sales of oil, gas or associated by-products has been made only in respect

of marketable quantities, reflecting prices for the product in the condition (upgraded or not upgraded, processed or unprocessed) in which it is to be, or was, sold.

The estimated future net revenue figures contained in the following tables do not necessarily represent the fair market value of the Company's reserves. There is no assurance that the forecast price and cost assumptions contained in the McDaniel Report will be attained and variances could be material. Other assumptions relating to costs and other matters are included in the McDaniel Report. The recovery and reserves estimates attributed to the Company's properties described herein are estimates only. The actual reserves attributed to the Company's properties may be greater or less than those calculated.

The determination of oil and gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved, probable, and possible reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery. The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions. These concepts are presented and discussed in greater detail within the guidelines in Section 5.5 of the COGE Handbook.

The following definitions apply to both estimates of individual reserves entities and the aggregate of reserves for multiple entities:

"Reserves" are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions, which are generally accepted as being reasonable, and which are disclosed.

Reserves are classified according to the degree of certainty associated with the estimates:

- "Proved reserves" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- "Probable reserves" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- "Possible reserves" are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining

quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in Section 5.5 of the COGE Handbook.

Development and Production Status

Each of the reserves categories (proved, probable and possible) may be divided into developed and undeveloped categories:

- “Developed reserves” are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
- “Developed producing reserves” are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- “Developed non-producing reserves” are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- “Undeveloped reserves” are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator’s assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserves entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest-level sum of individual entity estimates for which reserves estimates are presented).

Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- at least a 90 percent probability that the quantities actually recovered will equal

or exceed the estimated proved reserves;

- at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves; and
- at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in Section 5.5.3 of the COGE Handbook.

Significant Factors or Uncertainties

Aside from the potential impact of material fluctuations in commodity prices and foreign exchange rates, other significant factors or uncertainties that may affect either the Company's reserves or the future net revenue associated with such reserves include:

- Certain newly drilled or developed properties may be considered less predictable insofar as estimating reserves and future net revenue are concerned until more historical production performance data is available; and
- Changes to existing taxation, fiscal terms, and regulations may occur in the future.

Reserves Data - Forecast Prices and Costs

The following table discloses, in the aggregate, the Company's gross and net reserves, estimated using forecast prices and costs, by product type classified as to proved, probable and possible categories. "Forecast prices and costs" means future prices and costs used by McDaniel in the McDaniel Report that are generally accepted as being a reasonable outlook of the future, or fixed or currently determinable future prices or costs to which the Company is bound.

Table 2.1.1 Summary of Oil Reserves As At December 31, 2007 Forecast Prices and Costs (Thousands of Barrels)						
	Light and Medium Oil		Heavy Oil		Total	
	Gross	Net	Gross	Net	Gross	Net
Proved						
Developed producing	2,346	1,470	-	-	2,346	1,470
Developed non-producing	282	177	-	-	282	177
Undeveloped	1,718	652	3,718	1,967	5,436	2,618
Total proved	4,347	2,299	3,718	1,967	8,065	4,265
Probable	6,489	2,857	1,915	714	8,403	3,571
Total proved plus probable	10,835	5,156	5,633	2,680	16,468	7,836
Possible	4,975	2,099	1,942	796	6,917	2,895
Total	15,810	7,255	7,575	3,476	23,385	10,731
(1) Gross reserves are based on the Company's working interest, before Government share of production. Net reserves represent the Company's expected share of gross reserves under the terms of the Production Sharing Agreement.						

The following table discloses, in the aggregate, the net present value of the Company's future net revenue attributable to the reserves categories in the previous table, estimated using forecast prices and costs, and calculated without discount and using discount rates of 5%, 10%, 15% and 20%.

Table 2.1.2					
Net Present Value of Future Net Revenue					
As At December 31, 2007					
Forecast Prices and Costs					
(Thousands of Dollars)					
	0%	5%	10%	15%	20%
Before Income Taxes					
Proved					
Developed producing	71,700	64,279	58,279	53,347	49,230
Developed non-producing	4,495	3,691	3,091	2,633	2,277
Undeveloped	126,886	107,717	93,352	82,288	73,560
Total proved	203,081	175,687	154,722	138,267	125,067
Probable	208,984	162,175	129,899	106,764	89,619
Total proved and probable	412,065	337,863	284,621	245,031	214,686
Possible	175,296	128,227	98,063	77,685	63,295
Total	587,361	466,089	382,684	322,716	277,980
After Income Taxes					
Proved					
Developed producing	59,553	53,475	48,539	44,465	41,054
Developed non-producing	3,076	2,497	2,068	1,743	1,492
Undeveloped	85,250	73,269	64,234	57,228	51,662
Total proved	147,879	129,241	114,841	103,436	94,208
Probable	135,267	104,844	83,786	68,651	57,415
Total proved and probable	283,146	234,085	198,626	172,087	151,623
Possible	113,563	83,113	63,540	50,296	40,940
Total	396,709	317,198	262,166	222,383	192,563

The following table discloses, in the aggregate, certain elements of the Company's future net revenue attributable to its proved reserves, estimated using constant prices and costs.

Table 2.1.3 Total Future Net Revenue As at December 31, 2007 Forecast Prices and Costs (Thousands of Dollars)			
	Proved	Proved and Probable	Proved Probable and Possible
Undiscounted:			
Cost oil revenue ⁽¹⁾	194,597	279,548	343,444
Profit oil revenue ⁽²⁾	157,722	368,340	544,721
Operating costs	97,602	134,012	175,668
Abandonment and reclamation costs	914	1,649	2,059
Development costs	48,471	97,011	119,252
Bonus payments	2,250	3,150	3,825
Future net revenue before income taxes	203,081	412,065	587,361
Income taxes ⁽³⁾	55,203	128,919	190,652
Future net revenue after income taxes	147,879	283,146	396,709
Future net revenue before income taxes, discounted at 10% per annum			
Light and medium oil	83,386	187,266	258,722
Heavy oil	71,336	97,355	123,962
Total	154,722	284,620	382,684
Unit Value before income taxes (discounted at 10% per annum)			
\$/bbl	36.28	36.32	35.66
Light and medium oil	36.28	36.32	35.66
Heavy oil			
Notes			
1) Revenues are based on the Company's working interest, after deducting the Government's share of production, but before income tax withheld by the Government.			
2) The pre-tax profit revenue is net of royalties.			
3) The income tax is paid by the Government of Yemen out of Calvalley's share of profit revenues. The pretax revenues were grossed up by the deemed income taxes.			

Item 2.3 Reserves Disclosure

The Company has a 50% working interest in Block 9, Republic of Yemen, and the interest is held 100% by the Company's wholly-owned subsidiary.

The Company has no overrides, encumbrances or minority interests other than a commitment to pay \$1.25 per barrel of production attributed to the Company, up to a maximum of \$5.125 million.

Item 2.4 Future Net Revenue Disclosure

All of the Company's properties are held by the Company or its wholly-owned subsidiary, Cangulf Exploration Inc.

Future net revenues are calculated in accordance with the terms of the Block 9 Production Sharing Agreement. Since the Government pays the profit taxes on the Company's share of profit oil, out of the Government's share of profit oil, future net revenues before tax include the value of such profit taxes.

3. Pricing Assumptions

Reference Prices Used in Estimates

During 2007, the Company received an average price of \$73.07 per barrel for oil sold. Forecast reference prices used in the forecast price analysis were provided in the McDaniel report and are summarized in the table below:

Table 3						
Summary of Pricing and Inflation Rate Assumptions						
As At December 31, 2007						
	Benchmark	Crude Oil Selling Prices				
	Brent	Hiswah Saar Naifa	Hiswah Qishn	Al Roidhat Qishn	Auqban Shukra	Inflation Rate
Forecast prices and costs						
2008	\$89.00	\$89.50	\$89.50	\$89.50	\$89.50	2.0%
2009	\$85.70	\$86.21	\$86.21	\$86.21	\$86.21	2.0%
2010	\$82.20	\$82.72	\$82.72	\$82.72	\$82.72	2.0%
2011	\$78.50	\$79.03	\$79.03	\$79.03	\$79.03	2.0%
2012	\$77.40	\$77.94	\$77.94	\$77.94	\$77.94	2.0%
2013	\$76.20	\$76.75	\$76.75	\$76.75	\$76.75	2.0%
2014	\$77.70	\$78.26	\$78.26	\$78.26	\$78.26	2.0%
2015	\$79.30	\$79.87	\$79.87	\$79.87	\$79.87	2.0%
2016	\$80.80	\$81.39	\$81.39	\$81.39	\$81.39	2.0%
2017	\$82.50	\$83.10	\$83.10	\$83.10	\$83.10	2.0%
2018	\$84.10	\$84.71	\$84.71	\$84.71	\$84.71	2.0%
2019	\$85.80	\$86.42	\$86.42	\$86.42	\$86.42	2.0%
2020	\$87.50	\$88.13	\$88.13	\$88.13	\$88.13	2.0%
2021	\$89.30	\$89.95	\$89.95	\$89.95	\$89.95	2.0%
2022	\$91.10	\$91.76	\$91.76	\$91.76	\$91.76	2.0%
2023	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0%

4. Reconciliation of Changes in Reserves and Future Net Revenue

Reserves Reconciliation

The following table provides a reconciliation of Calvalley's gross reserves based on forecast prices and costs.

	Light and Medium Oil			Heavy Oil		
	Proved	Probable	Proved and Probable	Proved	Probable	Proved and Probable
As at December 31, 2006	5,026	6,792	11,818	3,907	2,009	5,916
Extensions	-	-	-	-	-	-
Improved recovery	-	-	-	-	-	-
Technical revisions	1,227	(304)	923	(189)	(94)	(283)
Discoveries	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-
Economic factors	-	-	-	-	-	-
Production	(1,906)	-	(1,906)	-	-	-
As at December 31, 2007	4,347	6,488	10,835	3,718	1,915	5,633

The Company extended its crude oil reserves through its ongoing development drilling program, principally in the Hiswah field, and made minor adjustments to reserves to reflect changes in production rates and declines from individual wells.

5. Additional Information Relating To Reserves Data

Undeveloped Reserves

		LIGHT AND MEDIUM OIL	HEAVY OIL
RESERVE CATEGORY		Gross (Mbbbl)	Gross (Mbbbl)
YEMEN			
2007	Proved Undeveloped	1,718	3,718
2006	Proved Undeveloped	1,452	3,907
2005	Proved Undeveloped	336	663
2007	Probable Undeveloped	2,468	1,860
2006	Probable Undeveloped	2,798	1,954
2005	Probable Undeveloped	3,261	676

All of the proved and probable undeveloped reserves in Block 9 were first attributed during the past three years. No proved and probable undeveloped reserves were attributed prior to December 31, 2004.

Undeveloped reserves are expected to be developed within a two-year timeframe, through the approved work program for Block 9. Drilling of horizontal development wells is expected to continue at the Hiswah pool. Production from the Auqban 1 well is transposed to the Hiswah production facility located 11 kilometers away. The early production of light 38° API crude from Auqban-1 complements the 35° API Hiswah crude. The Al Roidhat crude is heavy, 15° API oil that will be blended with light and medium crude oil production from other fields.

Future Development Costs

The following table summarizes the development costs deducted in estimating future revenue attributable to the Company's reserves.

	Development Costs (Thousands of Dollars)	
	Proved	Proved and Probable
2008	24,115	36,766
2009	9,527	36,538
2010	5,653	7,657
2011	4,954	6,219
2012	3,677	5,802
Thereafter	544	4,029
Total	48,471	97,011

The Company expects that funds will be obtained from internally generated cash flow, debt financing, and future equity financing required to satisfy development costs.

6. Other Oil and Gas Information

Oil and Gas Properties and Wells

Table 6 Summary of Oil and Gas Wells As at December 31, 2007				
	Producing		Non-Producing	
	Gross	Net	Gross	Net
Yemen	20.00	10.00	23.00	11.50
Note				
1) Gross wells equal the total wells on Block 9 and net wells equal the Company's 50% working interest in gross wells.				

The Exploration & Development Program

Building on the successful 2002 and 2003 Yemen drilling program, the Company and its joint venture partners, HoodOil and Reliance, spudded a total of six wells in 2004. Four of the six wells were successful appraisal wells designed to establish the commerciality of Block 9. Three of the appraisal wells were drilled in the Al Roidhat oil pool, discovered in 2003 in order to better delineate the extent of the pool. The Al-Roidhat-1 well was production tested at 620 barrels of 15° API oil per day demonstrating the productive capability of the reservoir. Two exploration wells were drilled, one at South Al

Roidhat, a dry hole, and a second at Ras Noor which was successful and has been suspended pending further evaluation of the oil accumulation in the Harshiyat Formation. The Hiswah-3 well which was spudded in late 2004 was completed in late February 2005 and established the commerciality of the Hiswah pool.

In October 2004, the Company entered into the second exploration period pursuant to the Production Sharing Agreement (the "PSA"). At that time Calvalley relinquished 25% of the original surface area of Block 9, thereby reducing its land holdings to 3,546 km² (876,236 acres). In June 2005, the Company declared commerciality for Block 9 and requested that the Government of Yemen grant approval for a development area. Such approval was granted in August 2005 and the Company's land holdings were reduced to 2,234 km² (552,000 acres), a retention rate of 63%. This rate is one of the highest retention percentages ever granted in Yemen.

In 2005, Calvalley and its partners drilled a total of eight wells, six of which were horizontal development wells at Hiswah, all of which were completed with a 100% success record. The six wells have given the Company a much better perspective on the structure of the Hiswah pool and confirmed the presence of significant hydrocarbons. During the first quarter Hiswah-3 & 4 were completed with production test results indicating flow rates of 1,000 to 1,100 bopd. In the second quarter the Company drilled and tested the Hiswah-5 & 6 wells with production tests which flowed at rates of from 980 to 3,700 bopd. The drilling rig then moved to the Daysah-1 exploration well some 9 kilometres northwest of Hiswah and encountered non-reservoir quality rock despite encouraging oil shows. Subsequent to the Daysah-1 well the drilling rig moved to the 2003 Auqban discovery. The Auqban-2 well was spudded on August 6th and was drilled on the basis of an assumed structural closure to a depth of 2,178 metres, including penetrating 283 metres of the basement, however, the well was abandoned in early September 2005.

On December 10, 2005, the Company initiated production in Yemen when the Hiswah-6 well began flowing clean oil at a rate of approximately 2,000 bopd. The Company initiated production at Hiswah-6, utilizing temporary tankage and truck loading facilities and constructed an early production facility. Initial production was constrained by the receipt capacity of the Block 18 delivery terminal, operated by Safer Exploration & Production Operations Co., to which the oil was being trucked and which is located approximately 245 kilometres west of Block 9. The level of oil deliveries to the Safer terminal, during the first 45 days of operations, fluctuated from nil to 5,000 bopd and averaged approximately 2,000 bopd. This bottleneck, however, has been relieved and the Block 9 concession delivered, in the 2006 fiscal year, 1,545,551 bbl to the Safer receiving facility. Average deliveries for the 2006 year were 4,234 bopd, increasing from an average of 1,649 bopd in January, 2006 to 7,017 bopd in December, 2006.

In 2006, the Company continued to expand its exploration and development activities on Block 9. Over 18,600 metres were drilled at the Hiswah Field in 2006, with delineation of over 5,800 metres of open Saar-Naifa reservoir from twelve new horizontal wellbores. The completion of two exploration wells – the South Hiswah vertical well and the South Daysah vertical well - plus two appraisal wells – the South Hiswah horizontal well and the Hiswah HNE-1 vertical delineation well – all occurred in 2006. Exploration activity in 2006 also included the acquisition of 812 kilometres of seismic data.

During 2006, the Company started construction of a permanent central production facility

as Hiswah, which will become the focal point for production operations in the immediate area. The Company also constructed its camp facility and residences, office and catering facilities and other construction projects in 2006. As a result of these projects, the Company has improved the efficiency of its operations and has expanded crude oil storage facilities from 4,500 bbl to 60,000 bbl of total capacity.

Calvalley has approval from the Government of Yemen to transport up to 10,000 bopd, by truck to Safer's Block 18 receiving facilities until a permanent crude oil sales pipeline is constructed. In late 2006, the Government of Yemen approved the routing of a 245 kilometre main transmission pipeline from the central production facility at Block 9 to Safer's Block 18 receiving facilities. During 2007, the Company was successful in reducing their share of pipeline costs to 145 kilometres. The Company has awarded a contract to evaluate the feasibility and technical aspects of the pipeline construction and has received tenders for the supply of key materials for the pipeline construction. During 2007 Calvalley focused on drilling development wells. Twelve development wells were drilled including six horizontal development wells and one vertical well which was extensively cored through the reservoir section in the Hiswah field. The vertical well was located in the northwest area of the pool and a second vertical well which will also be extensively cored was spud at year end in the southeast area of the pool. These wells may be turned into producing development wells in the future. In the Al Roidhat oil field four vertical development wells were drilled. One development appraisal well was drilled at Al Hedba.

A reservoir study of the Hiswah oil field was initiated during the latter half of 2007. When completed, this study will provide a thorough model and simulation of the production of the pool with pressure support from water and gas injection to maximize the recovery of oil present in the pool. The coring of the two recent vertical wells will provide valuable petrophysical data for the simulation study on the producing horizons present at Hiswah. The study is expected to be completed by the end of April, 2008 and will likely be followed by a similar study on the Al Roidhat oil field during 2008.

Exploratory drilling was a minor part of the 2007 drilling activity as the majority of the exploration effort was directed toward expanding the seismic database for Block 9. One exploratory well, Malik 1, was drilled to explore the basal Kohlan sands and structure developed at basement level. After encountering some gas shows in the basement granites a deviated well drilled 338 metres into the basement failed to encounter any open fractures. In addition the Kohlan sands were not developed. The well did, however, encounter oil in the Saar carbonates and the Qishn sands and swab tests demonstrated the presence of moveable oil in both zones. Based on these results and the presence of a seismically defined structural high, an appraisal well will be drilled in 2008 approximately 6.5 km to the west in a position which is mapped as being approximately 26 m higher than the Malik 1 well.

Calvalley's exploration focus in 2007 was primarily directed at expanding the seismic coverage of Block 9 through the acquisition of 768 km of new 2D seismic data. This data was shot primarily in the Wadi Hadramut area and on the northern plateau. Additionally, 1,124 kilometres of vintage 2D seismic data was reprocessed which enhances Calvalley's ability to interpret the complex geology of Block 9 utilizing a data base which has been processed on a common basis.

Block 9 Production Sharing Agreement and Joint Operating Agreement

The Company has the right to explore for and to produce oil and natural gas on the Malik Block concession (Block 9) in the Shabwah/Hadramaut region of central Yemen. Those rights are defined under the PSA that was ratified by Presidential Decree No. 21 on April 3, 1997. Under the terms of that PSA, the fiscal arrangements between the Company and the Government of Yemen are established, as are the conditions and procedures to convert from the original “exploration period”, as extended, into the current twenty year “development period” that started on June 10, 2005.

By mutual agreement between Calvalley and the Government of Yemen, the first exploration period under the PSA for Block 9 was extended during the third quarter of 1999 for a period of two years ending April 4, 2002. In early 2002, the Government of Yemen granted Calvalley an additional one year extension for the first exploration period to April 4, 2003. In 2003, the Government of Yemen granted Calvalley an additional one year extension for the first exploration period to April 4, 2004 which was subsequently extended to October 4, 2004. In October 2004, the Company entered into the second exploration period under the PSA, at which time Calvalley relinquished 25% of the original surface area of Block 9, thereby reducing its land holdings to 3,546 km² from the original 4,728 square kilometre parcel.

Following the successful appraisal drilling of the Hiswah field, the Contractor declared Block 9 commercial. On June 19, 2005, the Contractor received approval from the Government of Yemen for commercial production from Block 9, allowing the Contractor to produce and sell oil. Commercial oil production from Block 9 began on December 10, 2005. The PSA is scheduled to expire on June 19, 2025 with provision for a five year extension.

In the evaluation of the Company’s oil and gas reserves, the Company and its independent reserves evaluators have incorporated the production sharing formulas and other pertinent terms and provisions in the PSA and JOA.

Oil and gas production from Block 9 is allocated between the Contractor and agencies of the Government of Yemen pursuant to the terms of the PSA. Under the JOA, Calvalley has a 50% working interest in all oil and gas production allocated under the PSA. The Government of Yemen receives a 10% royalty in kind from all Block 9 production, after which the remaining oil production is shared between the Contractor and the Government. The Contractor is first allocated up to 45% of gross production to recover capital and operating costs incurred to operate Block 9. To the extent that recoverable costs exceed 45% of the fair value of gross production, any excess costs are carried forward for recovery against future production. After deducting cost oil, the remaining oil is allocated between the state and the Contractor as follows:

- 39.23% of total profit oil (before deducting 35% income tax on Contractor’s share of profit oil and after deducting 15% override to Yemen Co.) which is equivalent to 25.5% after deducting the income tax and the override; and
- 60.77% to the Government (including Yemen Co. override and excluding income tax on Contractor’s share of profit oil)

Provided that total recoverable costs do not exceed 45% of gross production, the

Contractor may recover operating costs during the year in which they are incurred and may deduct 50% of capital costs incurred during the year of expenditure and 50% during the following year.

As at December 31, 2007, the Contractor had accumulated approximately \$100 million of costs to be carried forward for recovery against future production. Until these costs have been recovered, together with future operating and capital costs that become eligible for recovery during that time period, the Company's net oil production will equal 31.33% of the Block's gross oil production (22.5% from cost oil and 8.83% from profit oil), which is equivalent to 62.654% of the Company's 50% working interest in gross oil production. Following full recovery of past operating costs, the Company's net oil production will range between 17.65% and 31.33% of the Block's gross oil production, which will vary depending upon prevailing oil and gas selling prices and the capital and operating costs incurred by the Contractor. The Company's share of profit oil is subject to 35% income tax to the Government.

Properties with No Attributed Reserves

The Company has no properties other than Block 9 in Yemen and therefore has no properties without attributed reserves.

Forward Contracts

There are no forward contracts, forward sales, transportation commitments or any other agreement that would influence the Company's strategy to develop the Block 9 reserves.

The PSA governs the terms of the relationship between the Government of Yemen and the Company exclusively, specifically the percentage of profit oil the Government is entitled to. The PSA also outlines the tax structure between the parties and how taxes are to be applied to production. All other contracts necessary for carrying on the business by the Company, including all third party service agreements and marketing and/or sales agreements, are independent of the PSA. The PSA does require tendering for all work activity and contracts are awarded based upon the analysis of bids.

Abandonment and Restoration Costs

Block 9 is situated in a desert environment, located in the Wadi Hadramut region of central Yemen. There is very limited vegetation and migrating sand dunes tend to limit the success of agriculture. The Company employs international standards regarding the environment and all aspects of exploration and development activity are subject to environmental impact analysis.

For the ongoing development of Block 9, the Company follows international environmental standards in conducting its drilling operations and the construction and operations of temporary and permanent production facilities, pipelines and other infrastructure.

Environmental impacts related to well site preparation and drilling operations (including cuttings pits, water pits and camp facilities) are reclaimed following completion of every well so as to minimize ongoing surface disturbance during the subsequent operation of the wells. Depleted and unsuccessful wells are properly abandoned and their sites are

restored to original conditions.

Sites used for construction and operation of permanent production facilities, pipelines, power lines and related uses are designed to minimize environmental disturbance related to their ongoing use. The Company incorporates international environmental practices in the design, construction and operation of such infrastructure, all of which are subject to licensing and other regulatory approvals from the Government of Yemen. Reclamation of such sites will not be required so long as the infrastructure is used in connection with oil and gas operations within Block 9.

All costs related to the Company's abandonment and reclamation obligations are incorporated into the calculations of net revenues related to its oil and gas reserves. The aggregate of such costs is \$2,872,000 without discount and \$1,007,000 discounted at 10% per annum. None of these costs are expected to be paid within the next three years.

Tax Horizon

The Company is not subject to income taxes on its oil and gas operations, other than income taxes payable to the Government of Yemen. Pursuant to the Block 9 Production Sharing Agreement, the Company is subject to income tax at the rate of 35%. Taxable income is approximately equal to profit oil revenue, as cost oil revenue is fully offset by deduction of the related operating and capital costs recovered under the Production Sharing Agreement. The Company has non-capital losses of \$12,827 available to carry forward for deduction against future years' Canadian taxable income.

Capital Expenditures

During 2007, the Company incurred \$4.9 million of capital expenditures in connection with exploration and appraisal activities and \$28.9 million of capital expenditures in connection with development activities during 2007. No costs were incurred to acquire proved or unproved properties.

Drilling Activity

Table 6.7 Summary of Wells Drilled Year Ended December 31, 2007						
	Exploratory		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil	0.0	0.0	7.0	3.5	7.0	3.5
Gas	0.0	0.0	0.0	0.0	0.0	0.0
Suspended	1.0	0.5	4.0	2.0	5.0	2.5
Water	0.0	0.0	0.0	0.0	0.0	0.0
Dry	1.0	0.5	0.0	0.0	1.0	0.5
Total	2.0	1.0	11.0	5.5	13.0	6.5

Note

1) Gross wells equal the total wells drilled during 2007 and net wells equal the Company's 50% working interest in gross wells drilled during the year.

Production Estimates

During 2008, all light and medium oil is forecast to be produced from the Hiswah Saar field and all heavy oil production is forecast to be produced from the Al Roidhat field. The following table summarizes the Company's estimated production volumes for 2007 for each product type:

Table 6.8 Summary of Production Estimates Year Ending December 31, 2008 (Thousands of Barrels)						
	Hiswah Saar Field (Light and Medium Oil)		Al Roidhat Field (Heavy Oil)		Total	
	Gross	Net	Gross	Net	Gross	Net
Forecast prices and costs						
Proved	966	776.9	274	0.0	1,240	776.9
Proved and probable	1,234	973.0	320	0.0	1,553	973.0

Note

1) Gross oil production equals the Company's 50% working interest in forecast total production from Block 9.

Production History

During 2007, all of the Company's production was produced from the Hiswah Saar and the Auqban fields. The following table summarizes the Company's oil and gas production history:

Table 6.9 Production History Year Ended December 31, 2007					
	Q1	Q2	Q3	Q4	Total
Net oil production (mbbls)					
Hiswah Saar field	490.0	473.0	498.0	483.0	1,944.0
Total	490.0	473.0	498.0	483.0	1,944.0
Average netback (\$/bbl)					
Revenue	60.43	61.23	67.18	82.27	73.07
Royalties	1.08	0.88	1.21	.83	1.05
Operating costs	8.38	8.70	15.72	7.74	14.91
Netback	51.15	51.68	50.25	73.70	57.10

SCHEDULE A-3

CALVALLEY PETROLEUM INC. FORM 51-101F3 REPORT OF MANAGEMENT AND DIRECTORS ON CALVALLEY RESERVES DATA AND OTHER OIL AND GAS INFORMATION

FORM 51-101F3

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

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

- (i) proved, proved plus probable and proved plus probable plus possible oil reserves, estimated as at December 31, 2007 using forecast prices and costs; and
- (ii) the related estimated future net revenue.

McDaniel & Associates Consultants Ltd., an independent qualified reserves evaluator, has evaluated the Company's reserves data. The report of the independent qualified reserves evaluator will be filed with the securities regulatory authorities concurrently with this report.

The Reserves Committee of the Board of the Company has:

- a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;
- b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- c) reviewed the reserves data with management and the independent qualified reserves evaluator.

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

- a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- b) the filing of the report of the independent qualified reserves evaluator on the reserves data; and
- c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Signed

"Edmund M. Shimoon"

Edmund M. Shimoon, Chairman & Chief Executive Officer

Signed

"Bill Cummins"

Bill Cummins, Chief Financial Officer

Signed

"

"Thomas E. Lester"

Thomas E. Lester, Director

Signed

"Kenneth M. Stephenson"

Kenneth M. Stephenson, Director

March 31, 2007

SCHEDULE B

CALVALLEY PETROLEUM INC. AUDIT COMMITTEE MANDATE

Purpose

The Audit Committee (the "Committee") is a committee of the Board of Calvalley Petroleum Inc. (the "Corporation") to which the Board has delegated its responsibility for oversight of the nature and scope of the annual audit, management's reporting on internal accounting standards and practices, financial information and accounting systems and procedures, financial reporting and statements and recommending, for Board of Director approval, the audited financial statements and other mandatory disclosure releases containing financial information. The objectives of the Committee are as follows:

1. To ensure Directors meet their responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of the Corporation and related matters.
2. To provide effective communication between Directors and external auditors.
3. To enhance the external auditor's independence.
4. To increase the credibility and objectivity of financial reports.
5. To strengthen the role of the outside Directors by facilitating in-depth discussions between Directors on the Committee, management and external auditors.

Membership of Committee

1. The Committee shall be comprised of at least three (3) Directors of the Corporation, none of whom are members of management of the Corporation and all of whom are "independent" as such term is used in Multilateral Instrument 52-110 - Audit Committees ("MI 52-110").
2. The Board shall have the power to appoint the Committee Chairman, who shall be an unrelated Director.
3. All of the members of the Committee shall be "financially literate". The Board of the Corporation has adopted the definition for "financial literacy" used in MI 52-110.

Meetings

4. At all meetings of the Committee every question shall be decided by a majority of the votes cast. In case of an equality of votes, the Chairman of the meeting shall be entitled to a second or casting vote.
5. A quorum for meetings of the Committee shall be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing the Board.

6. Meetings of the Committee should be scheduled to take place at least four times per year. Minutes of all meetings of the Committee shall be taken. The Chief Financial Officer shall attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chairman.
7. The Committee shall forthwith report the results of meetings and reviews undertaken and any associated recommendations to the Board.
8. The Committee shall meet with the external auditor at least once per year (in connection with the preparation of the year end financial statements) and at such other times as the external auditor and the Audit Committee consider appropriate.

Mandate and Responsibilities of Committee

9. It is the responsibility of the Committee to oversee the work of the external auditors, including resolution of disagreements between management and the external auditors regarding financial reporting.
10. It is the responsibility of the Committee to satisfy itself on behalf of the Board with respect to Internal Control Systems:
 - identifying, monitoring and mitigating business risks; and
 - ensuring compliance with legal, ethical and regulatory requirements.
11. It is a primary responsibility of the Committee to review the annual financial statements of the Corporation prior to their submission to the Board for approval. The process should include but not be limited to:
 - reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial statements;
 - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
 - reviewing accounting treatment of unusual or non-recurring transactions;
 - ascertaining compliance with covenants under loan agreements;
 - reviewing disclosure requirements for commitments and contingencies;
 - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
 - reviewing unresolved differences between management and the external auditors; and
 - obtain explanations of significant variances with comparative reporting periods.

12. The Committee is to review the financial statements, prospectuses, management discussion and analysis (MD&A), annual information forms (AIF) and all public disclosure containing audited or unaudited financial information before release and prior to Board approval. The Committee must be satisfied that adequate procedures are in place for the review of the Corporation's disclosure of all other financial information and shall periodically assess the accuracy of those procedures.
13. With respect to managing, on behalf of the shareholders, the relationship between the external auditors and the Corporation the Committee shall:
 - recommend to the Board the nomination of the external auditors;
 - recommend to the Board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors shall report directly to the Committee;
 - when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change;
 - review and approve any non-audit services to be provided by the external auditors' firm and consider the impact on the independence of the auditors; and
 - determine through inquiry if there are any related party transactions and ensure the nature and extent of such transactions are properly disclosed.
14. Review with external auditors (and internal auditor if one is appointed by the Corporation) their assessment of the internal controls of the Corporation, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses. The Committee shall also review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of the Corporation and its subsidiaries.
15. The Committee must pre-approve all non-audit services to be provided to the Corporation. by the external auditors. The Committee may delegate to one or more members the authority to pre-approve non-audit services, provided that the member report to the Committee at the next scheduled meeting such pre-approval and the member comply with such other procedures as may be established by the Committee from time to time.
16. The Committee shall review risk management policies and procedures of the Corporation (i.e. hedging, litigation and insurance).
17. The Committee shall establish a procedure for:
 - the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

- the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
18. The Committee shall review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation.
 19. The Committee shall have the authority to investigate any financial activity of the Corporation. All employees of the Corporation are to cooperate as requested by the Committee.
 20. The Committee may retain persons having special expertise and/or obtain independent professional advice to assist in filling their responsibilities at the expense of the Corporation without any further approval of the board.

SCHEDULE C

CALVALLEY PETROLEUM INC. BOARD OF DIRECTORS MANDATE

Purpose

The principal role of the Board of Calvalley Petroleum Inc. (the “Company”) is stewardship of the Company through the creation of shareholder value, including the protection and enhancement of the value of its assets, as the fundamental objective. The stewardship responsibility means that the Board oversees the conduct of the business and management, which is responsible for the day-to-day conduct of the business. The Board must assess and ensure systems are in place to manage the risks of the Company's business with the objective of preserving the Company's assets. The Board, through the Chief Executive Officer (“CEO”), sets the attitude and disposition of the Company towards compliance with applicable laws, environmental, safety and health policies, financial practices and reporting. In addition to its primary accountability to shareholders, the Board is also accountable to employees, government authorities, other stakeholders and the public.

Primary Responsibilities

The principal responsibilities of the Board, which are required to ensure the overall stewardship of the Company are as follows:

1. The Board must ensure that there are long-term goals in place and must adopt a strategic planning process. The CEO, with the approval of the Board, must establish long-term goals for the Company. The CEO formulates the Company's strategy, policies and proposed actions and presents them to the Board for approval. The Board brings objectivity and judgment to this process. The Board ultimately approves, on an annual basis, the strategic plan which takes into account, among other things, the opportunities and risks of the Company's business.
2. The Board must identify and have an understanding of the principal risks associated with the Company's businesses, and must ensure that appropriate systems are in place which effectively monitor and manage those risks.
3. The Board must ensure that processes are in place to enable it to monitor and measure management's, and in particular the CEO's, performance in achieving the Company's stated objectives. These processes should include appropriate training, development and succession planning of management.
4. To the extent feasible, the Board shall satisfy itself as to the integrity of the CEO and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the Company.
5. The Board must ensure that the necessary internal controls and management systems are in place that effectively monitor the Company's operations and ensure compliance with applicable laws, regulations and policies.
6. The Board must monitor compliance with the Company's Code of Business

Conduct and Ethics; and

7. The Board must ensure the Company has adopted a communication policy which effectively communicates with and receives feedback from shareholders. The Board must also ensure that the Company has appropriate processes in place to effectively communicate with employees, government authorities, other stakeholders and the public.

Non-Delegable Responsibilities

Pursuant to the *Canada Business Corporations Act* (the “Act”), certain matters are considered to be of such importance, so as to warrant the attention of all Directors and, accordingly, the Act prescribes that the following matters either cannot be delegated or may only be delegated in a qualified or partial manner:

- the submission of items to shareholders for their approval.
- the filling of a vacancy among the directors or in the office of auditor.
- the appointment of additional directors.
- the issue of securities.
- the declaration of dividends.
- the purchase, redemption or other acquisition of the Company’s own shares.
- the payment of certain commissions prescribed by the Act.
- the approval of a management proxy circular.
- the approval of annual financial statements.
- the adoption, amendment or repeal of by-laws.
- the review and approval of
 - (1) the content and filing of the Company’s statement of reserves data and other oil and gas information;
 - (2) the filing of the report on reserves data by the Company’s Qualified Reserves Evaluator or Auditor; and
 - (3) the content and filing of the Company’s report of management and directors on oil and gas disclosure.

Customary Board Matters

The following typifies matters customarily considered by the Board in fulfilling its responsibility for stewardship of the Company. The Board may determine it appropriate to delegate certain of these matters to committees of the Board:

- the appointment of officers, other than executive officers;
- adopting a process to consider the competencies and skills the Board, as a whole, should possess and assess the competencies and skills of each Board member and consider the appropriate size of the Board, with a view to facilitating effective decision-making;
- determining the remuneration of directors and auditors;
- reviewing and recommending to shareholders, changes to capital structure;
- approving the Company’s long term strategy and the annual capital expenditure plan of the Company and its subsidiaries and where appropriate any supplementary capital plan;
- approving banking, borrowing and investment policies;

- determining dividend policy;
- developing the Company's approach to corporate governance including, without limitation, developing a set of corporate governance principles and guidelines;
- approving the holding, location and date of meetings of shareholders;
- appointment of members to committees of the Board and approving terms of reference for and the matters to be delegated to such committees;
- granting any waivers from the Company's Code of Business Conduct and Ethics for the benefit of the Company's directors or executive officers;
- granting and delegating authority to designated officers and employees including the authority to commit capital, open bank accounts, sign bank requisitions and sign contracts, documents and instruments in writing;
- determining the number of directors and recommending nominees for election by the shareholders;
- approving amendments to the Company's existing plans: Stock Option Plan, employee benefits plans, or such other plans as the Company approves from time to time;
- approving the acquisition or disposition of certain corporate assets; and
- appointing the Company's transfer agents and registrars.

Board Committees

The Board has the authority to appoint a committee or committees of the Board and may delegate powers to such committees (with the exceptions prescribed by the Act). The matters to be delegated to committees of the Board and the constitution of such committees are assessed annually or more frequently as circumstances require. The following committees have been constituted:

1. The Board must ensure the Company has adopted a communication policy which effectively communicates with and receives feedback from shareholders. The Board must also ensure that the Company has appropriate processes in place to effectively communicate with employees, government authorities, other stakeholders and the public.
2. the Compensation Committee, to deal with the assessment of management and succession to key positions and compensation within the Company;
3. the Disclosure Committee, to deal with the Company's approach to disclosure and the promotion of compliance;
4. the Corporate Governance Committee, to deal with the Company's approach to corporate governance and the promotion of compliance; and
5. the Reserves Committee, to deal with matters relating to the Company's oil and gas reserves and related reporting.

Composition and Procedure

The Board is elected annually by shareholders. The number of Directors to be elected at shareholders meetings is fixed by the by-laws. While the election of directors is ultimately determined by the shareholders, it is the policy of the Board that a majority of

the Directors be independent (as defined under applicable stock exchange rules and securities laws).

The Chairman of the Board presides as Chair at all meetings of the Board and shareholders of the Company. The Corporate Secretary or, in the absence of the Corporate Secretary, an Assistant Corporate Secretary attends all meetings of the Board and shareholders and records the proceedings thereof. The Corporate Secretary prepares and keeps minutes and records of all meetings of the Board.

Meetings of the Board, including telephone conference meetings, are to be held at such time and place as the Chairman of the Board, or any two Directors, may determine. Notice of meetings shall be given to each Director in accordance with the by-laws. Meetings of the Board may be held without formal notice if all of the Directors are present and do not object to notice not having been given, or if those absent waive notice in any manner before or after the meeting.

Notice of meeting may be delivered personally, given by mail, facsimile or other electronic means of communication.

Any two members of the Board constitutes a quorum at any meeting.

Each Board member is expected to attend Board meetings and meetings of committees of which he or she is a member and to become familiar with deliberations and decisions as soon as possible after any missed meetings. In that regard, members of the Board are expected to prepare for Board (and committee) meetings by reviewing meeting materials distributed to members of the Board, to the extent feasible, in advance of such meetings. Matters of a confidential or sensitive nature may be discussed at Board (or committee) meeting without advance distribution of meeting materials to members of the Board. It is expected that members of the Board will actively participate in determining and setting the long and short-term goals and interests of the Company.

In recognition of its independence, the Board shall regularly hold discussions without management present.

A resolution in writing signed by all the Directors entitled to vote on that resolution at a meeting of the Directors is as valid as if it had been passed at a meeting of the Directors. A copy of any such resolution in writing is kept with the minutes of the proceedings of the Directors.

At meetings of the Board, any matter requiring a resolution of the Directors is decided by a majority of the votes cast on the question; and in the case of an equality of votes, the Chair of the meeting is entitled to a second or casting vote.

The Board shall ensure that there is a process in place for annually evaluating the effectiveness of the Board, the committees of the Board and individual directors.

Compensation

No Director, unless he or she is an officer of the Company, should receive remuneration from the Company other than compensation received in his or her capacity as a Director.