Madalena Ventures Inc.

Quarterly Report

For the Three and Nine Months Ended September 30, 2007
(unaudited)

President's Message

Madalena Ventures Inc. experienced the most significant and exciting events in its history during Q3 2007. Following extensive negotiations, Madalena announced the acquisition of three exploration blocks in the Neuquen Province of Argentina. The Neuquen Basin is the most prolific oil and gas producing basin in Argentina and contains a number of fields with oil and natural gas reserves ranging as high as 25 trillion cubic feet of gas and 800 million barrels of oil.

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

Negotiations on the second and third exploration blocks were ongoing throughout Q3, resulting in an announcement on October 3rd 2007 that negotiations and work commitments had been finalized on the blocks. These blocks, known as the Curamhuele and Coiron Amargo Blocks, also carry initial three year exploration terms with work commitments of $US 3.0 million and $US 5.0 million respectively in exploration expenditures, including seismic and the drilling of at least one exploration well on each block. Madalena will have a minimum 70% working interest, and a maximum 90% working interest in these blocks dependent upon an option election to be made by a third party on or before March 1st, 2008.

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

The Coiron Amargo Block is situated along the eastern side of the Neuquen Basin and is approximately 400 km^2 (100,000 acres) in size. This block also has the potential for 4 different play types targeting oil and natural gas ranging in depths from 2200 meters (7,200 feet) to 3600 meters (11,800 feet). The Coiron Amargo Block is in close proximity to a number of prolific fields including Borde Montuos with reserves of 12 million barrels of oil equivalent, Charco Bayo/ Piedras Blancas with reserves of 250 million barrels of oil equivalent, and Loma de la Lata with reserves of 1.7 billion barrels of oil equivalent, all located within 20 km's (12 miles) of the Block. Two recently drilled wells offsetting the Block are currently producing oil at rates of approximately 400 barrels of oil per day. Since the initial announcement of the acquisition of the block, Madalena has acquired access to a 375 km^2 (92,500 acres) 3D seismic program conducted over the Block, which the Company is currently reprocessing. This seismic is in addition to approximately 900 km's (550 miles) of 2D seismic data located on the Block which indicates the continuation of the fault trends from the offsetting producing block extending across Coiron Amargo. The Company has several prospects mapped on the block and will commence the immediate evaluation of the top drilling candidates.

Exploration progress continued to be made on our operations in Tunisia during Q3 2007, and plans for the exploration well to be drilled on the Remada Sud onshore exploration block have been finalized. The Canadian drilling rig contracted for the well experienced a minor delay, and it is anticipated the test well will now be drilled in Q1, 2008. The Remada Sud Block contains over 4,800 km^2 (1.2 million acres) in the highly prospective Ghadames basin of southern Tunisia and has exploratory potential in the Ordovician, Silurian Acacus and Triassic Ras Hamia formations. All three zones are proven commercially productive from adjoining blocks in Libya or Tunisia with significant reserves potential. The 2D seismic program conducted over the Block during Q2 2007 has also delineated additional prospective structures which are under review by the Company for future drilling consideration. Madalena will pay 30% of the well costs to earn a 15% working interest in approximately 2,400 km^2 (600,000 acres) in the block. The first exploration well to be drilled by Madalena on the block will primarily target the Ordovician formation. Madalena will retain the option to drill a second test well on the block to earn an additional 2,400 km^2 (600,000 acres) and the right to participate in all further development of the block.

Progress was also made on the Hammamet offshore block in Tunisia during Q3 2007. The extensive 3D offshore seismic programs were completed with highly encouraging results, outlining several prospective drilling opportunities. The Hammamet offshore block is directly offset by the Oudna field which was placed on production in December 2006 at rates in excess of 20,000 barrels of oil per day. The 3D and 2D seismic programs were designed to evaluate the potential reactivation of the Tazerka field located on the block, evaluate three large untested structures previously recognized on the block, and high-grade the most prospective test well location on the block. Interpretation of the data is currently underway with an anticipated completion date prior to year end 2007.

Madalena has entered into a dynamic new phase of its growth as a junior international oil and gas exploration and development company. Over the past 18 months we have assembled an excellent cross section of exploration and development properties in our two primary core areas. The assets accumulated by the Company during this period will provide the shareholders of Madalena with exposure to a number of high impact exploration opportunities that will be evaluated during 2008. We look forward to providing our shareholders with updates as we implement the exploration strategies to explore and develop these new prospects during the remainder of 2007 and 2008.

Ken Broadhurst

President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") is provided by the management of Madalena Ventures Inc. ("Madalena" or the "Company"), for the three and nine months ended September 30, 2007 with comparative information for the corresponding period in the prior year. This MD&A should be read in conjunction with the Company's MD&A and audited financial statements for the year ended December 31, 2006. The Company's audited financial statements and other public disclosure documents are filed on SEDAR at www.sedar.com. The commentary in this MD&A is based on information available to November 21, 2007. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

In this MD&A, all calculations converting natural gas to barrels of oil equivalent ("boe") have been made using a conversion ratio of six thousand cubic feet (six "Mcf") of natural gas to one barrel of oil, unless otherwise stated. The use of boe's may be misleading, particularly if used in isolation, as the conversion ratio of six Mcf of natural gas to one barrel of oil, is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Forward-looking Statements

This MD&A contains forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements are based on current expectations, estimates, and projections that involve numerous risks and uncertainties, many of which are beyond the Company's and management's control. These risks and uncertainties could cause actual results to differ materially from those anticipated by the Company and described in this MD&A. These risks and uncertainties include, but are not limited to, the impact of general economic conditions, industry conditions, fluctuation of commodity prices, fluctuation of foreign exchange rates, imperfection of reserve estimates, environmental risks, industry competition, availability of qualified personnel and management, stock market volatility, and timely and cost-effective access to sufficient capital from internal and external sources. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change except as required by law.

Non-GAAP Measurements

This MD&A contains the terms "funds from operations", "funds from operations per share", "netback", and "operating netback", which are not defined under Generally Accepted Accounting Principles ("GAAP"), and may not be comparable to similar measures reported by other companies. Management considers these measures to be useful supplementary information for investors. Funds from operations, is defined as cash flow from operating activities before changes in non-cash working capital items, as shown in the following table:

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Cash flow from operating activities	$ (272,707)	$ (3,962)	$ (257,812)	$ (472,267)
Change in non-cash working capital	(129,350)	173,958	(75,424)	20,085
	$ (143,357)	$ (177,920)	$ (182,388)	$ (492,352)

Operating netbacks are calculated as total petroleum and natural gas revenue less royalties, operating expenses, and transportation expenses and is shown in the table under results of operations.

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance, that information required to be disclosed by the Company in its annual and interim filings or other reports filed or submitted under various securities legislation, are recorded, processed, summarized, and reported within the time limits specified by the particular securities legislation, and include controls and procedures designed to ensure that information to be disclosed by the Company is accumulated and communicated to management to allow timely decisions regarding the required disclosure. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company are responsible for designing DC&P, or causing them to be designed under their supervision, to provide reasonable assurance that material information related to the Company is made known to them by others within the organization.

The CEO and CFO have evaluated the effectiveness of the Company's DC&P as of September 30, 2007 and have concluded that the DC&P provide a reasonable level of assurance that material information related to the Company is recorded, processed, summarized, and reported in a timely fashion and that material information is made known to them by others within the organization except as described below.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") is a process designed by, or under the supervision of, the CEO and CFO, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financials statements for external purposes in accordance with Canadian GAAP, and includes those policies and procedures that:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of the assets of the Company;

(b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors; and

(c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets, that could have a material affect on the annual or interim financial statements.

ICFR have been designed under the supervision of the CEO and CFO of Madalena to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP, however in designing the ICFR, management has identified the following significant weaknesses inherent in the system:

- A lack of segregation of incompatible duties within the accounting and reporting function.
- The lack of sufficient financial reporting personnel with enough technical accounting knowledge in all areas to address all complex and non-routine accounting transactions that may arise.
- A lack of sufficient information system controls with respect to access and documentation of spreadsheet information.

Management is of the view that the size of the Company and cost of correcting these inherent weaknesses does not justify the additional assurance remediation will provide, and therefore does not plan to remediate these weaknesses at this time. Management believes that the small size of the Company, allows the board of directors and management to possess significant knowledge of all events occurring in the Company which mitigates the possibility of a material error from taking place.

There were no changes in the Company's ICFR during the three and nine months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

HIGHLIGHTS

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006 Restated *
Financial				
Gross petroleum and natural gas revenues	$ 200,514	$ 67,475	$ 687,260	$ 118,816
Interest income	164,981	94,762	532,911	138,585
Funds from operations	(143,357)	(177,920)	(182,388)	(492,352)
Funds from operations per common share - basic and diluted	(0.00)	(0.00)	(0.00)	(0.01)
Net loss for the period	(462,486)	(405,633)	(2,408,779)	(1,766,071)
Net loss per common share - basic and diluted	(0.00)	(0.01)	(0.02)	(0.03)
Capital expenditures	$ 147,716	$ 5,437,133	$ 3,348,804	$ 8,356,586
Operations				
Daily production				
Oil (bbls/d)	8.1	-	12.2	-
Natural gas (Mcf/d)	179.6	109.4	165.1	88.7
Natural gas liquids (bbls/d)	7.0	1.8	7.0	1.8
Oil equivalent (boe/d)	45.0	20.0	46.7	16.6
Average sales price				
Oil ($/bbl)	78.66	-	73.04	-
Natural gas ($/mcf)	6.04	5.75	7.39	6.06
Natural gas liquids ($/bbl)	65.26	62.47	58.45	64.07
Netback per boe (6:1)				
Petroleum and natural gas	$ 48.38	$ 37.01	$ 53.93	$ 39.38
Royalties	7.60	-	6.73	3.17
Operating expenses	15.40	4.44	14.53	5.53
Operating netback	$ 25.38	$ 32.57	$ 32.67	$ 30.68

* The nine months ended September 30, 2006 has been restated to correct an error in the calculation of stock based compensation.

Highlights of the quarter include:

- Tunisian seismic results prompt Madalena to announce its intention to elect to drill a first test well in the Remada Sud area.
- Continued activities on numerous prospects in South America result in the announcement of three significant prospects in the Nequen province of Argentina.
- Production revenues from Alberta operations stabilize.

OVERVIEW

In the second and third quarters of 2007 Madalena continued the process of evaluation of seismic information on its Tunisian interests and advanced $2,286,000 in the second quarter to its joint venture partner to complete 3D seismic programs on the Remada Sud and Hammamet blocks in Tunisia. Evaluation of the initial 2D seismic on Remada Sud led to an announcement in July that Madalena would participate in the drilling of an exploratory well on the Remada Sud onshore exploration block containing over 1.2 million acres in the Ghadames basin of southern Tunisia. The results of the 3D seismic program will be evaluated in conjunction with the operator to determine a suitable drilling location. The operator has contracted with a drilling company operating in the area to drill the first test well. Madalena anticipates drilling to start in the first quarter of 2008.

Madalena spent a significant amount of time in the second and third quarters evaluating additional exploration and development opportunities in South America, resulting in announcements in October of a joint venture and operating agreement with Hidrocarburos del Neuquén Sociedad Anónima, ("HIDENESA"), the Neuquén Provincial Hydrocarbon Company, and Estrella Servicios Petroleros SA (Estrella) to explore for hydrocarbons on the Cortadera Block in the Province of Neuquen, Argentina, On November 14, 2007 the Company announced the completion of a joint venture and operating agreement with HIDENESA to pursue exploration activities on two additional exploration blocks in the Province of Neuquen, Argentina, known as Curamhuele and Coiron Amargo.

In Alberta, the Company spent approximately $116,000 for its share of a re-completion of the 10-18-45-11 W5 Brazeau area well into the Notikewan zone, resulting in initial production increases from this well of approximately 40 Mcf/d, our share. Production from our share of the Brazeau area 9-32-46-13 W5 well, declined in the third quarter after higher initial start up production volumes in April and May to stabilize corporate production, and offset the production increases from the re-completion of the 10-18-45-11 W5 well.

RESULTS OF OPERATIONS

Production

Madalena's daily production volumes averaged 45 boe/d for the three months ended September 30, 2007, and 46.7 boe/d for the nine months ended September 30, 2007, compared to 20 and 16.1 boe/d for the comparable periods in 2006. Increases in production rates over 2006 reflect the early stage of development of the Company in the first nine months of 2006 and additional volumes brought on stream in 2007. By the end of September of 2007 the Company has completed most of its drilling and completion activities on its joint venture programs in the Edson and Brazeau areas.

Production Revenue

Madalena received an average of $78.66/bbl and $73.04/bbl for its oil production for the three and nine months ended September 30, 2007. Edmonton light crude oil averaged $73.00/bbl for the nine months ended September 30, 2007. The Company received an average of $6.04/Mcf and $7.39/Mcf for its gas production for the three and nine months ended September 30, 2007 compared to $5.75/Mcf and $6.06/Mcf for the three and nine month periods ended September 30, 2006. Alberta average plant gate prices for the nine months ended September 30, 2007 were $6.40/MMBtu. Gas produced from the Edson and Brazeau areas has a higher heat energy value which reflects the slightly higher prices received by the Company. The Company received $65.26/bbl and $58.45/bbl for its natural gas liquids for the three and nine months ended September 30, compared to $62.47/bbl and $64.07/bbl for the three and nine months ended September 30, 2006. Edmonton butane and NGL mix prices trended downward in 2007 with butanes averaging $48.15/bbl, and NGL mix prices averaging 51.60/bbl for the nine months ended September 30, 2007.

Gross revenue for the three months ended September 30, 2007 were $58,379 (29%) for oil, $99,859 (50%) for natural gas, and $42,278 (21%) for natural gas liquids, while gross revenues for the nine months ended September 30, 2007 were $242,538 (36%) for oil, $332,967 (48%) for natural gas, and $111,762 (16%) for natural gas liquids. Gross revenues for the three months ended September 30, 2006 were $nil for oil, $57,258 (85%) for gas, and $10,216 (15%) and for the nine months ended September 30, 2006 were $nil for oil, $97,862 (82%) for gas and $20,953 (18%) for natural gas liquids. The Company received a higher percentage of its revenue from oil production after the 9-32 Brazeau well started producing in the second quarter of 2007.

The Company did not have any commodity pricing contracts in place at September 30, 2007.

Interest Income

Interest income for the three and nine months ended September 30, 2007 amounted to $164,981 and $532,911 respectively compared to $94,762 and $138,585 for the comparative periods in 2006. Interest income has increased in 2007 which reflects the Company's investment of funds it received from its private placement in November 2006 in low risk short term interest bearing securities. At the start of the year the Company had investments in low risk bank supported asset backed securities. As a result of market risk increases from defaults in the non bank supported asset backed securities, the Company took steps to move its investments into discount notes issued by financial institutions and bankers acceptance, which follows the Companies objective of earning a reasonable rate of return without a significant risk on the cash it has raised for exploration and development opportunities.

Royalties

Production royalties including crown royalties and gross overriding royalties were $31,498 ($7.60/boe) for the three months ended, and $85,706 ($6.73/boe) for the nine months ended September 30, 2007 compared to $nil for the three months ended, and $9,562 ($3.17/boe) for the nine months ended September 30, 2006. The somewhat low royalty rates reflect reduced royalty rates under the deep well royalty holiday program, and reduced royalties on low productivity wells.

Operating expenses

Production expenses for the three and nine months ended September 30, 2007 amounted to $63,831 and $185,305 or $11.99 and $11.95 per boe compared to $8,088 and $16,670 or $3.91 and $5.06 per boe for the three and nine months ended September 30, 2006. Higher production expenses reflect higher industry operating costs in Western Canada and additional costs as more of the Company's wells came on-stream in 2007.

Transportation costs amounted to $14,134 and $32,836, or $3.41 and $2.58 per boe for the three and nine months ended September 30, 2007 compared to $821 or $0.69 per boe and $1398 or $0.47 per boe for the three and nine months ended September 30, 2006. Higher transportation costs reflect the higher cost of trucking oil from the 9-32 well compared to gas transportation costs from low production gas wells in 2006.

Operating netbacks

Madalena realized the following operating netbacks from oil and gas operations:

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Netback per boe (6:1)				
Petroleum and natural gas revenues	$ 48.38	$ 37.01	$ 53.93	$ 39.38
Royalties	7.60	-	6.73	3.17
Production expenses	11.99	3.91	11.95	5.06
Transportation costs	3.41	0.53	2.58	0.47
Operating netback	$ 25.38	$ 32.57	$ 32.67	$ 30.68

Although average netbacks for the nine months ended September 30, 2007 have remained comparable to the three and nine months ended September 30, 2006 they have fallen for the three months ended September 30, 2007. In 2006 the Company's production was all from natural gas and natural gas liquids resulting in a lower sales price. However production and transportation costs averaged around ten percent of the production value. In 2007 the Company received higher prices as the 9-32 oil well started producing at initially high volumes and then declined in the third quarter. As the proportion of sales received from oil declined in the three months ended September 30, 2007 so did the average sales price received compared to the average sales price for the nine months ended September 30, 2007. Also in 2007 production and transportation costs as a percentage of the average price received doubled over 2006.

General and administrative costs

General and administrative ("G&A") costs of $301,998, and $1,020,023 were incurred for the three and nine months ended September 30, 2007 compared to $332,069 and $723,521 for the three and nine months ended September 30, 2006. G&A for Q3 2007 is comparable to G&A for Q3 2006. G&A for the nine months ended September 30, 2007 has increased by approximately 40% over the same period in 2006. The increased total G&A for 2007 is a result of: more expenses incurred for travel to South America to evaluate exploration and development prospects there; a full nine months of salaries and benefits for employees of the Company who were not employed for a full year in 2006; and a full nine months of office rent, and insurance costs.

The Company capitalized $84,637 and $163,945 of G&A associated with a consulting geologist and a consulting lawyer in the Argentina and Tunisia cost centers for the three and nine months ended September 30, 2007. There was no G&A capitalized in the comparative periods for 2006.

Stock-based compensation

Stock-based compensation (“SBC”) expense amounted to $158,692 and $1,429,644 for the three and nine months ended September 30, 2007 compared to $136,698 and $1,181,212 for the three and nine months ended September 30, 2006. SBC expenses in 2007 include additional expenses for options granted June 18, 2007, and a one time charge for options transferred from one director to two other directors in the first quarter of 2007. Accounting standards view this transaction as forfeiture by the transferor, and the grant of new options for the transferees. As a result the SBC for the transferred options is left in contributed surplus as an expense, and a new expense is recorded for the grant of the new options.

The comparative numbers for the third quarter of 2006 have been restated to reflect a revision to the calculation of SBC to amortize the expense over the correct vesting period. The Company increased SBC for the nine months ended September 30, 2006 from $730,389 to $1,181,212, an increase of $450,823. The Company capitalized $24,626 and $36,934 of SBC to the Argentine and Tunisian foreign cost centers in the three and nine months ended September 30, 2007. There was no SBC capitalized in the comparative periods for 2006. The SBC capitalized reflects the estimated cost of options granted to the Company’s geological and legal consultants for evaluating exploration opportunities in the foreign cost centers. At September 30, 2007, the Company has approximately $1,191,000 of unamortized SBC costs that will be charged to income over the remaining vesting period of the options outstanding.

Depletion, depreciation and accretion

Depletion expense for the three and nine months ended September 30, 2007 was $155,000 and $780,000 respectively compared to $40,000 and $66,000 for the three and nine months ended September 30, 2006. The increase in depletion reflects increased production from the Canadian properties in 2007 and a reduction in the carrying value of the Canadian oil and gas properties in the second quarter of 2007 as described below.

Depletion was not recorded in Argentina or Tunisia. These cost centers are considered to be in the pre-production stage where all costs reasonably attributable to exploration are capitalized to the cost center. Management feels that the costs capitalized to date will be recoverable from future business activities in the area.

Depreciation for the three and nine months ended September 30, 2007 was $4,120 and $12,220 respectively compared to $13,194 for the three and nine months ended September 30, 2006.

The provision for accretion due to the change in present values of asset retirement costs was $1,317 for the three months ended September 30, 2007, and $4,528 for the nine months ended September 30, 2007 compared to $2,341 for the three and nine months ended September 32, 2006.

Canadian oil and gas property carrying value

At September 30, 2007 the Company calculated an estimate of impairment and determined that no additional impairment of the carrying cost of its Canadian oil and gas assets existed at September 30, 2007. For the three months ended June 30, 2007 the Company did record an impairment of $278,000 relating to the Canadian oil and gas properties. The impairment of $278,000 has been included in depletion for the nine months ended September 30, 2007, resulting in total depletion of $780,000 for the nine months ended September 30, 2007.

Foreign exchange loss

The Company's main exposure to foreign currency risk relates to it's investment in securities denominated in US dollars. The Company holds US dollars in cash and short-term deposits with Canadian financial institutions in anticipation of transmitting the funds to Argentina or Tunisia to fulfill its seismic and exploration activities. For the three months ended September 30, 2007 the total foreign exchange loss was $111,525 on the conversion of US dollar deposits on hand at September 30, 2007. September 30, 2007 was the first reporting period in which the Company held US dollars on deposit, so there are no comparative numbers in prior periods. Currently, the Company does not hedge against fluctuations in the US dollar exchange rate.

Loss from discontinued operations, distribution of assets, dividends, and gain on sale of marketable securities

In 2006 the Company decided to focus on international oil and gas exploration and development opportunities. In August of 2006 the Company received final approval to complete a plan of arrangement to distribute the mining exploration business, and marketable securities related to that business, to its shareholders. In the year ended December 31, 2006 the company identified $58,662 of legal costs relating to the plan of arrangement that were removed from G&A and shown separately as a loss from discontinued operations. In the three and nine months ended September 30, 2006, $52,909 and $55,989 of the costs related to the discontinued operations were recorded separately in the financial statements.

On November 15, 2004 the Company declared a dividend in specie with respect to shares of Planet Exploration Inc. ("Planet"). Each shareholder of the Company at November 15, 2004 became entitled to receive 0.675 Planet shares for each Madalena share owned at November 15, 2004, subject to the shareholder fulfilling certain conditions. During 2006, and prior to the completion of the plan of arrangement, the Company distributed 96,963 Planet shares to shareholders that had fulfilled the conditions. The fair market value of the shares at the date of the distribution (determined from the trading value of the shares on the TSX Venture exchange) is recorded as dividends paid in kind, and any gain or loss on the disposition of the Planet shares is recorded as a gain on sale of marketable securities. During the year ended December 31, 2006 the Company recorded $51,716 of dividends in kind and $45,017 of gain on sale of marketable securities. For the three months ended September 30, 2006 the Company recorded $18,563 of dividends paid in-kind and $17,429 of gains on sale of marketable securities. For the nine months ended September 30, 2006 the Company recorded $48,273 of dividends paid in kind and $45,017 of gains on sale of marketable securities. At August 22, 2006 any Planet shares that had not been distributed by the Company were transferred to Great Bear Resources Ltd. who assumed the obligation to distribute the shares if the shareholders fulfilled the commitment specified for receipt of the dividend in specie.

Net loss from operations

The net loss for the three months ended September 30, 2007 amounted to $462,486, and the net loss for the nine months ended September 30, 2007 was $2,408,779 compared to a net loss of $405,633 and $1,710,082 for the three and nine months ended September 30, 2006. The loss for the nine months ended September 30, 2007 is largely due to depletion, stock based compensation and foreign exchange losses. Operating netbacks from oil and gas operations and interest earned on cash investments allow the Company to cover the majority of its general and administrative costs. Funds from operations are still showing a use of cash resources but the amount has declined from 2006. The negative funds from operations for the three months ended September 30, 2007 of $143,357 includes a loss on the conversion of Canadian dollar deposits in the amount of $111,525.

Income taxes

The Company has not recorded a provision for income taxes recovery in 2007 or 2006, as the likelihood of realizing a benefit from such a provision is uncertain at this time.

Future income tax assets and liabilities arise due to the difference between the tax basis of assets and their respective accounting carrying cost. At September 30, 2007 the Company has Canadian tax losses and other cumulative tax deductions in excess of net book values. The income tax benefit of these future tax assets have not been recognized in the recognized in the financial statements as their recoverability is uncertain at this time.

Capital Expenditures

Madalena spent $147,716 on petroleum and natural gas properties and office furniture and fixtures in the three months ended September 30, 2007 and $3,348,804 in the nine months ended September 30, 2007 compared to $5,437,133 and $8,356,586 in the comparative periods for 2006. The expenditures incurred in 2007 compared to 2006 are summarized in the following table:

	Three months ended		Nine months ended	
	September 30 2007	September 30, 2006	September 30 2007	September 30, 2006
Canada:				
Oil and gas properties:				
Drilling and completions	$ 150,420	$ 4,907,929	$ 808,804	$ 7,590,878
Well equipment and production facilities	(27,721)	477,482	252,976	546,465
Land	-	632	49	52,419
Asset retirement obligations	31,021	38,525	31,021	58,525
Office furniture and equipment	-	12,565	1,302	87,958
Mining properties		-		20,341
Argentina - prospecting costs	(15,383)	-	(75,148)	-
Tunisia - prospecting costs	9,380	-	2,329,800	-
Total capital expenditures	$ 147,717	$ 5,437,133	$ 3,348,804	$ 8,356,586

LIQUIDITY AND CAPITAL RESOURCES

Presently, Madalena is in the initial exploration stage on its international oil and gas activities. The Company's main sources of funds are from its Canadian oil and gas properties and interest it earns on cash investments. These funds from operations are not sufficient to cover the Companies overhead, and in the three and nine months ended September 30, 2007 the Company had negative funds from operations of $143,357 and $182,388 respectively. During 2007, the Company raised funds from equity financings to pay for exploration activities and overhead expenses. Continuing operations and the recovery of property and equipment costs is dependent on the Company's ability to identify commercial oil and gas reserves, generate profitable operations and obtain sufficient funds to complete development activities.

At September 30, 2007 Madalena had working capital of $15,144,369 compared to $274,461 at September 30, 2006 and $18,309,436 at December 31, 2006. Working capital at September 30, 2007 increased compared to September 30, 2006 as a result of the issuance of common stock from private placements in November of 2006 and the issuance of shares on the exercise of stock options and warrants during 2006. In the nine months ended September 30, 2007 the Company received $238,625 on the exercise of warrants and $60,000 on the exercise of options. The Company has no debt at September 30, 2007. Capital expenditures in the nine months ended September 30, 2007 were funded entirely from working capital.

The Company has announced that it intends to participate in the drilling of a test well in the Remada Sud area of Tunisia in the last quarter of 2007 or in the first quarter of 2008. The Company expects that its share of the cost of the well will be $2,100,000. The Company has also announced work programs which have been approved by the Province of Neuquen in Argentina for three exploration blocks in the province. The total work programs amount to $10,500,000 USD over three years for the three blocks. The Company's share of these work commitments will range from between 70 to 100%.

In October of 2007 the Company received approval from the TSX Venture stock exchange to extend the expiry date on 12,577,625 common share purchase warrants ("the warrants") from November 2, 2007 to May 2, 2008. The warrants were issued on November 2, 2006, and November 16, 2006 as part of a private placement offering through its agent, Canaccord Capital Corporation initially announced on September 19, 2006. 12,530,750 Shareholder Warrants issued on November 2, 2006 entitle the holder thereof to acquire a common share of Madalena at a price of $0.90 per common share until November 2, 2007. 46,875 Shareholder Warrants issued on November 16, 2006 entitle the holder thereof to acquire a common share of Madalena at a price of $0.90 per common share until November 16, 2007. If all outstanding warrants are exercised prior to May 2, 2008 the Company will receive $11,319,862, which would be used to fund its capital expenditure commitments.

TRANSACTIONS WITH RELATED PARTIES

Two directors of the Company are also directors of a public exploration company with which Madalena is engaged in joint venture operations. All of the Company's oil and gas revenue, royalties and operating expenses are derived from this joint venture. At September 30, 2007 the Company has accounts payable due to this joint venture partner of $26,440.

The Company utilizes the services of a law firm in which one of the directors is a retired partner. During the three and nine months ended September 30, 2007 the Company expended $5,000 and $79,700 respectively ($108,883 for the year ended December 31, 2006) on services obtained from this firm.

SHARE INFORMATION

The Company has 107,368,699 common shares, 10,050,000 stock options and 14,086,940 warrants to purchase common shares outstanding at September 30, 2007. There were no changes to the Company's common shares in the three months ended September 30, 2007. During the nine months ended September 30, 2007 the Company issued 500,000 common shares pursuant to the exercise of options by a director at $0.12 per share, granted incentive stock options to directors, officers, employees, and consultant to purchase up to 2,150,000 shares of the Company at $0.60 per share, had 500,000 warrants to purchase common shares at a price of $1.25 per share expire, issued 477,250 commons shares at $0.50 per share pursuant to the exercise of warrants, and had 7,500 warrants to acquire common shares at a price of $0.50 per common share expire.

During the three months ended September 30, 2006 the Company issued 115,250 common shares at $0.50 per share pursuant to warrants exercised. For the nine months ended September 30, 2006 the Company issued 12,000,000 common shares at $0.50 per share and 1,000,000 common shares at $1.00 per share pursuant to private placements, 1,500,000 common shares at $0.12 per share and 200,000 common shares at $0.41 per share pursuant to stock options exercised, and issued 5,350,000 common shares at $0.08 per share and 115,250 common shares at $0.50 per share pursuant to warrants exercised.

At November 21, 2007 the Company has 107,368,699 common shares, 10,150,000 stock options and 12,577,625 warrants outstanding. Subsequent to September 30, 2007 the Company received approval from the TSX Venture exchange to extend the expiry date on 12,577,625 common share purchase warrants ("the warrants") from November 2, 2007 to May 2, 2008. The warrants were issued on November 2, 2006, and November 16, 2006 as part of a private placement offering through its agent, Canaccord Capital Corporation ("Canaccord") initially announced on September 19, 2006. An additional 1,509,315 of common share purchase warrants issued to brokers on the private placement in November of 2006 were not extended and expired, un-exercised, on November 16, 2007. On October 18, 2007 the Board of Directors of the Company agreed to grant

100,000 common share options to a consultant of the Company under the Companies TSX Venture approved stock option plan. The 100,000 common share options allow the consultant to purchase 100,000 common shares of the Company at a price of $0.70 per common share. The options expire on October 18, 2012 and vest on the anniversary date of the grant over the next three years on October 18, 2008, 2009, and 2010.

BUSINESS RISKS

The oil and gas industry involves inherent risks which include but are not limited to the uncertainty of the exploration process and finding new reserves, securing markets for production from existing reserves, commodity price fluctuations, exchange rate fluctuations, interest rate changes, and changes in government regulations related to pricing, royalties, taxes, land fees, allowable production volumes, and environmental requirements. The oil and natural gas industry is intensely competitive and the Company competes with a number of companies that may have better access to capital.

The Company's ability to increase reserves in the future will depend on its ability to select and acquire suitable prospects and the funds required to develop those prospects in a timely fashion. The ability of equity or debt financing is affected by many factors, some of which are not controllable by the Company.

The Company is focused on the international oil and gas exploration market. Conducting oil and gas exploration and development activities in foreign jurisdictions creates inherent risks in addition to oil and gas exploration risks which include but are not limited to currency instability, potential civil disturbances, currency and funds movement controls, price controls, political instability, changes in foreign ownership restrictions, and potential expropriation of property.

For addition detail regarding the Company's risks and uncertainties, refer to the Company's most recent Annual Information Form on SEDAR at www.sedar.com.

NEW ALBERTA ROYALTY REGIME

In October of 2007 the Government of Alberta announced that it would be altering the royalty regime in the province effective January 1, 2009. We anticipate that the royalty rate will increase on our oil and gas wells once royalty holidays are complete, but we are unable to quantify the magnitude of the changes at this time. As more information becomes available, Madalena will analyze the impact of the royalty changes on future cash flows, capital investment alternatives, reserves, and the access to capital markets.

CONTRACTUAL OBLIGATIONS

The Company has committed to a lease for office premises terminating on September 15, 2010. The estimated obligation at September 30, 2007, including operating costs at current levels, is $297,864 in total. On October 29, 2007, and November 14, 2007, the Company signed joint venture and operating agreements to explore for hydrocarbons on the Cortadera, Curamhuele and Coiron Amargo blocks in the Province of Neuquen, Argentina, and has committed to spending approximately $10.5 million USD on approved work commitment programs on these three blocks over the next three years.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2006 audited financial statements. Preparing financial statements in accordance with Canadian GAAP requires management to make judgments and estimates with respect to the critical accounting policies. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. There were no changes to Madalena's critical accounting estimates.

CHANGES IN ACCOUNTING POLICIES

In 2007 the Company adopted new accounting standards for “Accounting Changes”, “Comprehensive Income”, “Equity”, “Financial Instruments – Recognition and Measurement”, “Financial Instruments – Disclosure and Presentation”, and “Hedges”. Financial statements for prior periods have not been restated as a result of the adoption of these policies except as described below. For a detailed discussion of the accounting policies adopted please refer to Note 2 of the financial statements for the three and nine month periods ended September 30, 2007.

Financial Instruments

The Company’s financial instruments consist of cash, asset-backed debt securities, bankers’ acceptances, discount notes issued by financial institutions, guaranteed investment certificates, accounts receivable, accounts payable, and accrued liabilities. At September 30, 2007, the carrying value of the cash, guaranteed investment certificates, accounts receivable, accounts payable, and accrued liabilities, approximated their fair value due to their short-term nature. The Company has no bank indebtedness.

The Company has designated its investments in asset-backed debt securities, which are included in cash and cash equivalents, as held-for-trading financial assets at January 1, 2007. During the year the Company disposed of its investments in asset-backed securities as they matured and were fully realized. Proceeds from the maturity of the asset backed securities were re-invested in bankers’ acceptances and discount notes issued by financial institutions which were also designated as held-for-trading financial assets on acquisition. The fair value of these assets has been determined at September 30, 2007 based on trading prices supplied by financial institutions for these instruments. The following table provides information on the fair value, carrying value, maturity value, maturity date, and interest yield of the investment at September 30, 2007. The increase in fair value has been recorded as interest income in the statement of operations for the three and nine months ended September 30, 2007.

As at September 30, 2007	Cost	Maturity Value	Yield	Fair Value at September 30, 2007	Interest Income
Bank of Nova Scotia discount note due October 23, 2007	$ 4,665,417	$ 4,685,000	4.64%	$ 4,669,675	$ 4,259
First Bank bankers' acceptance due October 1, 2007	6,598,517	6,626,000	4.64%	6,623,495	24,978
	$ 11,263,934	$ 11,311,000		$ 11,293,170	$ 29,237

Restatement of comparative information

The comparative information for the nine months ended September 30, 2006 has been retrospectively restated to correct errors in the calculation of stock based compensation. The affect of the restatement was to increase stock based compensation by $450,823 to $1,181,212 which results in a corresponding increase in the net loss for the nine months ended September 30, 2006 from $1,315,248 to $1,766,071 or $0.01 per share and in the contributed surplus on the Balance Sheet. There was no affect on cash flows or funds from operations. There were no changes to the three months ended September 30, 2006.

Comparative information for previously issued quarterly results has been restated to reflect errors in the calculation of stock based compensation, petroleum and natural gas revenues, royalties, operating expenses, and depletion. A summary of the changes to net income (loss) for each period compared to previously published information is shown in the following table:

Restated quarterly financial information	March 31, 2006	June 30, 2006	Sept 30, 2006	Dec 31, 2006
Net loss previously reported	(2,779,060)	(417,208)	(416,154)	(2,796,247)
Adjustments to previously stated amounts in net loss				
Stock based compensation	1,830,609	15,742	-	(99,178)
Petroleum and natural gas revenues	-	18,580	(18,580)	-
Royalties	-	(74)	74	-
Operating expenses	-	(3,027)	3,027	-
Depletion, depreciation, and accretion	-	(26,000)	26,000	-
Restated net loss	(948,451)	(411,987)	(405,633)	(2,895,425)

OUTLOOK

For the remainder of 2007, the Company will focus on completion of negotiations on its oil and gas exploration blocks in Argentina, evaluation of seismic information obtained in Tunisia and Argentina, organizing work crews and office staff for its exploration activities in Argentina, and creating a structure for the organization in Argentina and Tunisia.

QUARTERLY FINANCIAL INFORMATION

The following table summarizes certain information for the previous eight quarters. For the periods ended March 31, 2006, December 31, 2005, and September 30, 2005, there was no production and therefore sales volumes and per unit information have not been shown.

		September 30, 2007		June 30, 2007		March 31, 2007		Restated * Dec. 31, 2006
Sales Volumes:								
Oil (bbl/d)		8		28		-		-
Natural gas (mcf/d)		180		155		161		198
Natural gas liquids (bbl/d)		7		8		6		7
Barrels of oil equivalent (boe/d)		45		62		33		40
Per unit information:								
Oil price ($bbl)		78.66		71.42		-		-
Natural gas price ($/mcf)		6.04		8.31		8.03		7.54
Natural gas liquids price ($/bbl)		65.26		58.81		50.41		51.65
Oil equivalent price ($/boe)		48.38		60.88		48.60		46.39
Operating net back ($/boe)		25.38		43.14		23.15		25.11
Financial:($ except for share info)								
Revenue:								
Petroleum and natural gas revenue		200,514		341,338		145,408		171,532
Interest Income	$	164,981	$	177,874	$	190,056	$	147,948
Gain on disposal of marketable securities		-		-		-		-
Income (loss) from continuing operations		(462,486)		(836,521)		(1,146,773)		(2,892,752)
Basic and diluted per share		(0.00)		(0.01)		(0.01)		(0.03)
Net income (loss)		(462,486)		(836,521)		(1,146,773)		(2,895,425)
Basic and diluted per share		(0.00)		(0.01)		(0.01)		(0.03)
Capital expenditures	$	147,716	$	2,487,592	$	701,188	$	1,471,112
Shares outstanding (000's)		107,369		107,369		106,869		106,391
Working capital	$	15,144,359	$	15,380,251	$	17,713,097	$	18,309,436

	Restated * Sept 30, 2006	Restated * June 30, 2006	Restated * March 31, 2006	Dec. 31, 2005
Sales Volumes:				
Natural gas (mcf/d)	109	68	-	-
Natural gas liquids (bbl/d)	2	2	-	-
Barrels of oil equivalent (boe/d)	20	13	-	-
Per unit information:				
Natural gas price ($/mcf)	5.75	6.57	-	-
Oil and natural gas liquids price ($/bbl)	62.47	65.66	-	-
Oil equivalent price ($/boe)	37.01	43.02	-	-
Operating net back ($/boe)	32.57	27.81	-	-
Financial:($ except for share info)				
Revenue:				
Petroleum and natural gas revenue	67,475	51,341	-	-
Interest Income	$ 94,762	$ 17,303	$ 26,520	$ 18,225
Gain on disposal of marketable securities	17,429	-	27,588	4,839
Income (loss) from continuing operations	(352,724)	(408,907)	(948,451)	(214,081)
Basic and diluted per share	(0.00)	(0.01)	(0.06)	(0.01)
Net income (loss)	(405,633)	(411,987)	(948,451)	(280,045)
Basic and diluted per share	(0.01)	(0.01)	(0.06)	(0.01)
Capital expenditures	5,398,608	1,718,484	1,181,058	133,108
Shares outstanding (000's)	71,586	71,471	66,521	51,421
Working capital	274,561	5,874,256	6,490,488	1,769,182

* The information for quarters ended in 2006 has been restated to reflect adjustments noted in the Accounting Changes information above.

MADALENA VENTURES INC.

Balance Sheets (unaudited)

as at	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 15,038,470	$ 19,059,715
Accounts receivable	226,455	279,063
Prepaid expenses	27,052	23,157
	15,291,977	19,361,935
Property and equipment (note 4)	9,620,742	7,064,158
	$ 24,912,719	$ 26,426,093
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 147,618	$ 1,052,499
Asset retirement obligations (note 5)	115,345	80,262
Shareholders' equity:		
Share capital (note 6)	31,461,768	31,190,593
Contributed surplus (note 6)	2,886,434	1,392,406
Deficit	(9,698,446)	(7,289,667)
	24,649,756	25,293,332
Commitments (note 9)		
	$ 24,912,719	$ 26,426,093

See accompanying notes to the interim financial statements

MADALENA VENTURES INC.

Statements of Operations and Deficit (unaudited)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006 Restated
Revenue:				
Petroleum and natural gas	$ 200,514	$ 67,475	$ 687,260	$ 118,816
Royalties	(31,498)	-	(85,706)	(9,562)
	169,016	67,475	601,554	109,254
Interest income	164,981	94,762	532,911	138,585
	333,997	162,237	1,134,465	247,839
Expenses:				
Operating	63,831	8,088	185,305	16,670
General and administrative	301,998	332,069	1,020,023	723,521
Stock based compensation	158,692	136,698	1,429,644	1,181,212
Depletion, depreciation and accretion	160,437	55,535	796,747	81,535
	684,958	532,390	3,431,719	2,002,938
Loss before the undernoted	(350,961)	(370,153)	(2,297,254)	(1,755,099)
Foreign exchange gain (loss)	(111,525)	-	(111,525)	-
Gain on sale of marketable securities (note 3)	-	17,429	-	45,017
Loss from continuing operations	(462,486)	(352,724)	(2,408,779)	(1,710,082)
Loss from discontinued operations (note 3)	-	(52,909)	-	(55,989)
Loss for the period	(462,486)	(405,633)	(2,408,779)	(1,766,071)
Deficit - beginning of the period	(9,235,960)	(3,313,217)	(7,289,667)	(1,923,069)
Distribution of assets (note 3)	-	(653,386)	-	(653,386)
Dividend paid in-kind (note 3)	-	(18,563)	-	(48,273)
Deficit - end of the period	$ (9,698,446)	$ (4,390,799)	$ (9,698,446)	$ (4,390,799)
Loss per common share basic and diluted				
Continuing operations	$ (0.00)	$ (0.00)	$ (0.02)	$ (0.03)
Discontinued operations (note 3)	$ -	$ (0.00)	$ -	$ (0.00)
	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.03)
Weighted Average number of shares:				
Basic and Diluted	107,308,259	71,494,960	106,955,446	65,675,839

See accompanying notes to the interim financial statements

MADALENA VENTURES INC.

Statements of Cash Flows (unaudited)

		Three months ended		Nine months ended	
		September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006 Restated (note 12)
Cash provided by (used in):					
Operations:					
Net loss for the period		$ (462,486)	$ (405,633)	$ (2,408,779)	$ (1,766,071)
Add (deduct) Items not involving cash:					
Gain on sale of marketable securities		-	(17,429)	-	(45,017)
Stock based compensation expense		158,692	136,698	1,429,644	1,181,212
Depletion, depreciation and accretion		160,437	55,535	796,747	81,535
Loss from discontinued operations (note 3)		-	52,909	-	55,989
		(143,357)	(177,920)	(182,388)	(492,352)
Change in non-cash working capital items (note 8)		(129,350)	173,958	(75,424)	20,085
		(272,707)	(3,962)	(257,812)	(472,267)
Discontinued operations:					
Net loss from discontinued operations		-	(52,909)	-	(55,989)
Change in non-cash working capital items (note 8)		-	(96,886)	-	(96,886)
		-	(149,795)	-	(152,875)
Financing:					
Issue of common shares		-	57,625	298,625	7,397,625
		-	57,625	298,625	7,397,625
Investing:					
Property and equipment		(92,535)	(5,398,608)	(3,281,314)	(8,277,719)
Mineral resource properties		-	-	-	(20,431)
Change in non-cash working capital items (note 8)		(499,623)	2,167,304	(780,744)	3,656,373
		(592,158)	(3,231,304)	(4,062,058)	(4,641,777)
Change in cash and cash equivalents		(864,865)	(3,327,436)	(4,021,245)	2,130,706
Cash and cash equivalents, beginning of the period		15,903,335	7,211,346	19,059,715	1,753,204
Cash and cash equivalents, end of the period		$ 15,038,470	$ 3,883,910	$ 15,038,470	$ 3,883,910

See accompanying notes to the interim financial statements

1. Nature of business and basis of presentation

Madalena Ventures Inc. ("Madalena" or the "Company") is incorporated under the laws of the Province of Alberta. Madalena is in the business of acquiring, exploring for, and developing petroleum and natural gas properties in Western Canada and in International market places including Tunisia and South America. The Company has operations in Western Canada and a seismic option agreement in Tunisia. Madalena is listed on the TSX Venture exchange under the symbol "MVN".

Presently, Madalena has limited production and therefore limited cash flow from operations. The Company currently relies on funds from equity financing to pay for exploration activities and overhead expenses. Continuing operations and the recovery of property and equipment costs is dependent on Madalena's ability to identify commercial oil and gas reserves, generate profitable operations and obtain sufficient funds to complete development activities.

The unaudited interim financial statements of the Company are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), following the same accounting policies as those set out in Note 2 to the audited financial statements of Madalena for the year ended December 31, 2006, except as noted below. The disclosures provided below are incremental to those included in the audited financial statements for the year ended December 31, 2006. Accordingly, these interim financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2006.

2. Significant accounting policies

On January 1, 2007, the Company adopted new accounting standards for "Accounting Changes", "Comprehensive Income", "Equity", "Financial Instruments – Recognition and Measurement", "Financial Instruments – Disclosure and Presentation", and "Hedges". The impact of the adoption of these policies are described below.

<u>Accounting changes</u>

On January 1, 2007 the Company adopted the new Canadian accounting standard for "Accounting Changes". The standard provides expanded disclosures for changes in accounting policies, accounting estimates and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or when the change results in more relevant and reliable information. During the period ended September 30, 2007 there were no changes in accounting policies, or accounting estimates that have a material impact on the Company's financial statements.

<u>Comprehensive income and equity</u>

On January 1, 2007, the Company adopted the new accounting standards for "Comprehensive Income" and "Equity". The new standards require a separate statement of comprehensive income to be recorded separate from the income statement, and a separate category of accumulated comprehensive income in shareholder's equity on the balance sheet. The new statements of comprehensive income and accumulated comprehensive income include gains and losses arising from changes in the fair value of certain financial instruments. The application of this standard did not result in any comprehensive income or loss that is different from the Company's net income or loss for the period ended September 30, 2007.

Financial instruments

On January 1, 2007, the Company adopted the new accounting standards for “Financial Instruments – Recognition and Measurement”, and “Financial Instruments – Disclosure and Presentation”. The new standards require all financial instruments, including derivatives, to be included in the Company’s balance sheet and measured, in most cases, at fair value upon initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans or receivables, or other financial liabilities. Financial assets and financial liabilities held-for-trading are measured at fair value with changes in the fair values recognized in net earnings. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Financial assets available-for-sale are measured at fair value with changes in the fair values recognized in other comprehensive income.

The Company’s accounts receivable are classified as loans or receivables and are measured at amortized cost. Accounts payable are classified as other liabilities and are measured at amortized cost. Cash and cash equivalents includes cash deposited with recognized financial institutions which is classified as held-for-trading and measured at fair value.

At January 1, 2007 the Company owned investments in bank supported asset backed securities, which were included in cash and cash equivalents. The Company designated these financial assets as held-for-trading at January 1, 2007 on the basis that the fair value of these instruments is readily measured by reference to traded market values published by chartered financial institutions, and the assets were not transferred to the Company in a related party transaction. These investments were measured at fair value at each reporting date by reference to quoted market prices. Changes in the fair value of these securities were reflected in interest income in the Company’s income statement. The Company accounted for these financial assets using the settlement date method of accounting which recognizes the asset on the date it is received by the Company, and recognizes any gain or loss (net of any fair value adjustments already recorded) on the day the security matures.

The Company had no transaction costs related to any of its financial instruments, other than the asset backed securities designated as held-for trading. Transaction costs, which are inherent in the yield on the discount notes, are recorded as part of the interest income adjustments.

Hedging

The Company is exposed to market risks resulting from fluctuations in commodity prices in the normal course of its business. The Company has reviewed the new Canadian accounting standard for “Hedges” and has determined that the Company has no derivative instruments to which the new standard would apply.

3. Plan of arrangement and discontinued operations

In March of 2006, the Company distributed its mineral exploration business, and certain marketable securities associated with the business, to a related company under a plan of arrangement (“the Plan”). The Company accounted for the disposition of the assets under the Plan using the continuity of interest method of accounting. Under this method, the accounting basis of the assets distributed under the plan of arrangement was removed from Madalena’s balance sheet in 2006 and charged to retained earnings. The accounting basis of the assets removed from the balance sheet and charged to retained earnings during 2006 was $653,386, which consisted of mineral resource assets with a carrying value of $610,888, and marketable securities with a carrying value of $42,498.

The Company has calculated a loss from discontinued operations in the amount of $52,909, and $55,989 for the three and nine month periods ended September 30, 2006, respectively. $58,662 was calculated as the loss from discontinued operations for the year ended December 31, 2006.

4. Property and equipment

		September 30, 2007		December 31, 2006
Canadian petroleum and natural gas properties	$	10,316,191	$	9,223,341
Argentina pre-production costs		415,002		490,149
Tunisia pre-production costs		2,371,086		41,286
Furniture, equipment and leaseholds		98,455		97,153
		13,200,734		9,851,929
Accumulated depletion and depreciation		(3,579,991)		(2,787,771)
Net book value	$	9,620,742	$	7,064,158

At September 30, 2007 the cost centers for Argentina and Tunisia were considered to be in the pre-production stage and all costs directly attributable to these centers were capitalized and excluded from costs subject to depletion and depreciation. There have been no revenues to date from these cost centers.

The Company capitalized general and administrative expenses of $84,637 and $163,670 for the three and nine months ended September 30, 2007, respectively. The Company also capitalized stock based compensation in the amount of $24,626 and $36,934 for the three and nine months ended September 30, 2007, respectively. No amounts were capitalized in the comparative periods in 2006. The general and administrative costs and stock based compensation reflect costs which are directly related to exploration and development activities, and have been capitalized to the cost centers for Argentina and Tunisia. The depletion calculation included future development costs of proved reserves of $460,000 for the three months ended September 30, 2007 and nil for three months ended September 30, 2006.

At September 30, 2007 the Company calculated an estimate of impairment and determined that no impairment of the carrying cost of its Canadian oil and gas assets existed at September 30, 2007. The Company calculated the estimate of impairment by estimating the impact of revised forecast prices, as determined by independent petroleum consultants, and additional reserves from drilling during the period, on the net present value of proved plus probable reserves at December 31, 2006 and updated for the production for the nine months ended September 30, 2007. For the three months ended June 30, 2007 the Company recorded an impairment of $278,000 relating to the Canadian oil and gas properties. The impairment of $278,000 has been included in depletion for the nine months ended September 30, 2007, resulting in total depletion of $780,000 for the nine months ended September 30, 2007.

5. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. In previous quarters, the Company had estimated the total undiscounted amount of cash required to settle its asset retirement obligations at approximately $235,746 which was to be incurred over the next 15 years. A credit-adjusted risk-free rate of 8% and an inflation rate of 2% were used to calculate the discounted value of the asset retirement obligations.

During the three months ended September 30, 2006 the Company agreed to abandon three wells. The Company believes that its share of the cost of abandoning the three wells will be approximately $44,491 which will be incurred by the end of 2007. To reflect this change in estimate the Company has capitalized an additional amount of $31,021 to property and equipment and the asset retirement obligations. The Company has also revised its estimate of the total undiscounted amount of cash required to settle its remaining asset retirement obligations from $235,746 to be approximately $197,541, and has used the same credit-adjusted risk-free rate of 8% and an inflation rate of 2% to calculate the discounted value of the estimated obligations. A reconciliation of the change in asset retirement obligations is provided below:

		September 30, 2007		December 31, 2006
Balance, beginning of the year	$	80,262	$	-
Accretion expense		4,527		5,945
Costs incurred		(465)		-
Obligations accrued		31,021		74,317
Balance, end of period	$	115,345	$	80,262

6. Share capital

Authorized

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

Issued and outstanding

Common shares	Number		Amount
Balance, December 31, 2006	106,391,449	$	28,648,893
Warrants exercised	477,250		290,325
Contributed surplus associated with options exercised	-		42,550
Options exercised	500,000		60,000
Balance, September 30, 2007	107,368,699	$	29,041,768
Warrants			
Balance, December 31, 2006	-		2,541,700
Warrants exercised	-		(51,700)
Warrants expired	-		(70,000)
Balance, September 30, 2007	-	$	2,420,000
Total September 30, 2007	107,368,699	$	31,461,768

Stock options

Under the Companies stock option plan directors, officers, employees and consultants are eligible to receive options to acquire common stock, with terms not to exceed five years. The exercise price of each stock option is the average market price of the Company's stock for the five trading days prior to the grant date. The Company may only grant options equal to a total of 10% of the issued and outstanding common shares of the Company.

Options granted to directors of the Company have a term of five years to expiry and vest immediately upon grant of the option. Options granted to officers, employees, and consultants of the Company have a term of five years to expiry, and vest equally over three years, on each anniversary of the grant date.

The following table provides information with respect to stock option transactions for the period ended September 30, 2007:

	Number of Options	Weighted Average Exercise Price ($)
Stock options outstanding, December 31, 2006	8,400,000	0.59
Granted	2,150,000	0.60
Exercised	(500,000)	(0.12)
Re-distributed	1,000,000	0.12
Relinquished	(1,000,000)	(0.12)
Stock options outstanding, September 30, 2007	10,050,000	0.62
Stock options exercisable, September 30, 2007	4,850,000	0.53

In January 2007, a director of the company relinquished 1,000,000 fully vested options to acquire common stock at $0.12 per share which were re-distributed equally to two other directors of the Company under the same terms and conditions. The stock based compensation associated with the relinquished options remains in contributed surplus and additional stock based compensation of $678,800 was expensed during the nine months ended September 30, 2007 to reflect the fair value of the re-distributed options.

On June 18, 2007 the Company granted 2,150,000 stock options to purchase 2,150,000 common shares to directors, officers, employees and consultants. The options are exercisable at $0.60 per share for a term of five years until June 18, 2012. Options granted to directors vest immediately and options granted to officers, employee's and consultants vest equally over three years on the anniversary date of the grant.

The following table provides information on the estimated timing and number of shares that may be issued under the Company's stock option plan:

	Outstanding		Exercisable	
Exercise Price	Number	Weighted Average Remaining Life (years)	Number	Weighted Average Remaining Life (years)
$0.12	1,000,000	3.02	1,000,000	3.02
$0.41	300,000	3.25	300,000	3.25
$0.60	2,150,000	4.72	1,300,000	4.72
$0.66	4,300,000	3.41	1,633,333	3.41
$0.73	1,100,000	3.47	566,667	3.47
$0.85	1,200,000	4.04	50,000	3.68
	10,050,000	3.73	4,850,000	3.68

Stock based compensation and contributed surplus

The fair value of options are estimated using the Black-Scholes option pricing model, at grant date for directors, officers and employees, and at measurement date for consultants using the following weighted average assumptions.

	September 30, 2007	December 31, 2006
Expected life (in years)	4.4	4.8
Risk-free interest rate (%)	4.2	4.1
Volatility (%)	50	50
Fair value of options	$ 0.34	$ 0.33

The Company records stock based compensation expense using the fair value method over the vesting period of the options with a corresponding increase to contributed surplus. The following table provides a summary of the stock based compensation and the Company's contributed surplus.

	September 30, 2007
Balance, beginning of the period	$ 1,392,406
Stock based compensation expensed	1,429,644
Stock based compensation capitalized	36,934
Balance transferred on expiration of warrants	70,000
Exercise of stock options	(42,550)
Balance, end of the period	$ 2,886,434

Warrants

The Company issued the following warrants to shareholders and brokers during 2006 and 2007.

Date Issued	Expiry Date	Number of Common Shares	Price ($)
2-Mar-06	2-Mar-07	600,000	0.50
16-May-06	16-May-07	500,000	1.25
2-Nov-06	2-Nov-07	12,530,750	0.90
2-Nov-06	2-Nov-07	1,503,690	0.80
16-Nov-06	16-Nov-07	46,875	0.90
16-Nov-06	16-Nov-07	5,625	0.80
		15,186,940	

The following table summarizes the warrant activity for the nine months ended September 30, 2007.

	Number	Weighted Average Exercise Price
Balance, December 31, 2006	15,071,690	$ 0.89
Converted to common stock	(477,250)	0.50
Expired	(507,500)	1.24
Balance, September 30, 2007	14,086,940	$ 0.89

7. Segmented information

Management has determined that the Company operates in one dominant industry segment, which involves the exploration for and development of petroleum and natural gas products in Canada, Argentina and Tunisia. Revenues and expenses of the Company are all currently earned in Canada. The following table provides a summary of the property and equipment expenditures, and total assets in each of the areas.

As at September 30, 2007	Canada	Argentina	Tunisia	Total
Property and equipment expenditures	$ 1,063,131	$ (101,537)	$ 2,319,255	$ 3,280,849
Total Assets	$ 22,126,632	$ 415,002	$ 2,371,086	$ 24,912,719

As at December 31, 2006	Canada	Argentina	Tunisia	Total
Property and equipment expenditures	$ 9,246,177	$ 470,961	$ 31,692	$ 9,748,830
Total Assets	$ 25,894,658	$ 490,149	$ 41,286	$ 26,426,093

8. Supplemental cash flow information

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

For the periods ended September 30, 2007 and 2006 (unaudited)		Three months ended September 30, 2007		Three months ended September 30, 2006		Nine months ended September 30, 2007		Nine months ended September 30, 2006
Accounts receivable	$	2,168	$	(26,371)	$	52,608	$	(116,537)
Prepaid expenses and deposits		13,855		13,156		(3,895)		(13,958)
Accounts payable and accrued liabilities		(644,996)		2,257,591		(904,881)		3,710,067
Change in non cash working capital	$	(628,973)	$	2,244,376	$	(856,168)	$	3,579,572
Attributable to:								
Operating activities	$	(129,350)	$	173,958	$	(75,424)	$	20,085
Discontinued operations		-		(96,886)		-		(96,886)
Investing		(499,623)		2,167,304		(780,744)		3,656,373
	$	(628,973)	$	2,244,376	$	(856,168)	$	3,579,572

9. Commitments

The Company entered into a lease agreement for office premises commencing April 15, 2006 to September 15, 2010. The minimum rentals payable including estimated operating costs are:

2007	$	29,786
2008		119,145
2009		119,145
2010		29,786
Total	$	297,864

On October 29, 2007, and November 14, 2007, the Company signed joint venture and operating agreements to explore for hydrocarbons on the Cortadera, Curamhuele and Coiron Amargo blocks in the Province of Neuquen, Argentina, and has committed to spending approximately $10.5 million USD on approved work commitment programs on these three blocks over the next three years.

10. Financial instruments

Fair value of financial instruments:

The Company's financial instruments consist of cash, guaranteed investment certificates, banker's acceptances, discount notes issued by financial institutions, accounts receivable, accounts payable, and accrued liabilities. At September 30, 2007, cash, and guaranteed investment certificates, which are classified as held-for-trading assets, have been recorded at fair value, and accounts receivable, accounts payable, and accrued liabilities, which are classified as loans and receivables, have been recorded at their face value which approximates their amortized cost using the effective interest method. The Company has no bank indebtedness.

The Company had designated its investments in asset backed debt securities, which were included in cash and cash equivalents, as held-for-trading financial assets at January 1, 2007. During the year the Company disposed of its investments in asset backed securities as they matured and were fully realized. Proceeds from the maturity of the asset backed securities were re-invested in banker's acceptances and discount notes issued by financial institutions which were also designated as held-for-trading financial assets on acquisition. The fair value of these assets has been determined at September 30, 2007 based on trading prices supplied by financial institutions for these instruments. The following table provides information on the fair value, carrying value, maturity value, maturity date, and interest yield of the investment at September 30, 2007. The increase in fair value has been recorded as interest income in the statement of operations for the three and nine months ended September 30, 2007.

As at September 30, 2007	Cost	Maturity Value	Yield	Fair Value at September 30, 2007	Interest Income
Bank of Nova Scotia discount note due October 23, 2007	$ 4,665,417	$ 4,685,000	4.64%	$ 4,669,675	$ 4,259
First Bank bankers acceptance due October 1, 2007	6,598,517	6,626,000	4.64%	6,623,495	24,978
	$ 11,263,934	$ 11,311,000		$ 11,293,170	$ 29,237

Interest rate risk

The Company is exposed to interest rate risk to the extent of interest rate fluctuations compared to fixed interest associated with the interest yield on its asset backed debt securities. Fluctuations in interest rates at maturity could affect future interest income.

Credit risk

Virtually all of the Company's accounts receivable are with customers involved in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's best estimate of the credit risk associated with these receivables.

Commodity price contracts

The Company had no derivative financial instruments during the September 30, 2007 fiscal period.

Foreign currency exchange risk

At September 30, 2007 the Company holds US dollars in cash and short-term deposits with Canadian financial institutions, which it will use to fund its exploration and development activities in Argentina and Tunisia. An investment in US dollar denominated investments can give rise to gains in losses as the US dollar fluctuates. For the three months ended September 30, 2007 the Company recorded a foreign exchange loss on its US dollar cash and short-term deposits of $111,525 as the value of the US dollar decreased in comparison to the Canadian reporting currency. Currently, the Company has no hedges against fluctuations in the US dollar exchange rate.

11. Related party transactions

Two directors of the Company are also directors of a public exploration company with which Madalena is in engaged in joint venture operations. All of the Company's oil and gas revenues, royalties and operating expenses are derived from this joint venture. At September 30, 2007 the Company has accounts payable due to this joint venture partner of $26,440 (December 31, 2006 - $858,625).

The Company utilizes the services of a law firm in which one of the directors is a retired partner. During the three and nine months ended September 30, 2007 the Company expended $5,000 and $79,700 respectively ($108,883 for the year ended December 31, 2006) on services obtained from this firm.

12. Restatement of comparative information

The comparative information for the nine months ended September 30, 2006 has been retrospectively restated to correct errors in the calculation of stock based compensation. The effect of the restatement was to increase stock based compensation by $450,823 to $1,181,212 which results in a corresponding increase in the net loss for the nine months ended September 30, 2006 from $1,315,248 to $1,766,071 or $0.01 per share, and in contributed surplus. There was no effect on cash flows. There were no changes to the three months ended September 30, 2006.

DIRECTORS

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Madalena Ventures Inc.

Kenneth L. Broadhurst
President and Chief Executive Officer,
Madalena Ventures Inc.

Dwayne H. Warkentin
Sr. Vice President and Chief Operating Officer,
Madalena Ventures Inc.

Ving Y. Woo
Director,
Cork Exploration Inc.

Michael J. Lock
President,
Upsilon Holdings Ltd.

J. G. (Jeff) Lawson
Partner,
Blackmont Capital Inc.

James K. Wilson
VP Finance, CFO and Corporate Secretary,
Grizzly Resources Ltd.

OFFICERS

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President and Chief Executive Officer

Dwayne H. Warkentin
Senior Vice President and Chief Operating Officer

Gregory J. Ford, CA
Vice President, Finance and Chief Financial Officer

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INDEPENDENT ENGINEERS

GLJ Petroleum Consultants

REGISTRAR AND TRANSFER AGENT

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:
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STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: "MVN"