Madalena Ventures Inc.

December 31, 2007

Management's Discussion and Analysis

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"), and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2007. 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 April 22, 2008. 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 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:

For the years ended December 31,		2007		2006
Cash flow from operating activities	$	(299,008)	$	(591,902)
Change in non-cash working capital		129,169		50,018
	$	(169,839)	$	(541,884)

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 selected annual information.

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 December 31, 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 re-mediation will provide, and therefore does not plan to re-mediate these weaknesses. 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 fourth quarter of 2007 that have materially affected, or are reasonable likely to materially affect the Company's ICFR.

OVERVIEW

In 2007, management focused its attention on the development of exploration opportunities in South America and on seismic programs in Tunisia. Numerous exploration and development opportunities in Columbia and Argentina were evaluated by Madalena's management team, culminating in the announcement of joint venture agreements to explore for hydrocarbons on three separate exploration blocks in the Neuquen basin of Argentina. The three blocks, Cortadera, Curamhuele, and Coiron Amargo, cover 1,127 square kilometers (279,500 acres) of exploration property.

In Tunisia the Company participated in the shooting and evaluation of 2D and 3D seismic exploration programs on its Remada Sud and Hammamet properties. In June the Company announced that it planned to exercise its seismic option and participate in the drilling of an exploration well on the Remad Sud property as soon as rig availability permitted. On March 28, 2008 the Company commenced drilling operations on the Remada Sud property.

In 2006 the Company entered into a non-operated drilling program in Canada with the objective of providing cash flow to cover general and administrative costs during the development of offshore exploration opportunities. In 2007, the drilling program on the Edson and Brazeau areas attained disappointing results. Of the twelve wells drilled in Edson and Brazeau, three have been abandoned, three have been shut in, and six are producing. Although the anticipated cash flow from the Canadian properties has not met management's expectations, actual cash flow from the properties, combined with interest earned on the Company's cash reserves, has covered the majority of Madalena's general and administrative resulting in negative funds from operations in 2007 of $169,839 compared to a negative funds from operations of $541,884 in 2006.

SELECTED ANNUAL INFORMATION

As at and for the year ended	2007	2006	2005
Financial			
Gross petroleum and natural gas revenues	$ 932,964	$ 290,348	$ -
Interest income	661,293	286,533	26,396
Funds from operations	(169,839)	(541,884)	(185,514)
Funds from operations per common share - basic and diluted	(0.00)	(0.01)	(0.01)
Net income (loss) for the period	(6,033,587)	(4,661,496)	467,374
Net income (loss) per common share - basic and diluted	(0.06)	(0.07)	0.01
Capital expenditures	$ 5,360,596	$ 9,769,262	$ 194,789
Operations			
Daily production			
Oil (bbls/d)	13.6	-	-
Natural gas (Mcf/d)	157.6	124.8	-
Natural gas liquids (bbls/d)	6.9	3.6	-
Oil equivalent (boe/d)	46.8	24.4	-
Average sales price			
Oil ($/bbl)	74.38	-	-
Natural gas ($/mcf)	7.16	6.84	-
Natural gas liquids ($/bbl)	60.19	55.74	-
Netback per boe (6:1)			
Petroleum and natural gas	$ 54.65	$ 43.24	-
Royalties	8.54	10.17	-
Operating expenses	13.68	8.89	-
Operating netback	$ 32.43	$ 24.18	-

SUMMARY OF QUARTERLY RESULTS *

	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Sales Volumes:				
Oil (bbl/d)	18	8	28	-
Natural gas (mcf/d)	136	180	155	161
Natural gas liquids (bbl/d)	6	7	8	6
Barrels of oil equivalent (boe/d)	47	45	62	33
Per unit information:				
Oil price ($bbl)	77.07	78.66	71.42	-
Natural gas price ($/mcf)	6.32	6.04	8.31	8.03
Natural gas liquids price ($/bbl)	65.82	65.26	58.81	50.41
Oil equivalent price ($/boe)	56.75	48.38	60.88	48.60
Operating net back ($/boe)	31.74	25.38	43.14	23.15
Financial:($ except for share info)				
Revenue:				
Petroleum and natural gas revenues	$ 245,704	$ 200,514	$ 341,338	$ 145,408
Interest Income	128,382	164,981	177,874	190,056
Income (loss) from continuing operations	(3,624,808)	(462,486)	(836,521)	(1,146,773)
Basic and diluted per share	(0.03)	(0.00)	(0.01)	(0.01)
Net income (loss)	(3,624,808)	(462,486)	(836,521)	(1,146,773)
Basic and diluted per share	(0.03)	(0.00)	(0.01)	(0.01)
Capital expenditures	$ 2,079,747	$ 92,069	$ 2,487,592	$ 701,188
Shares outstanding (000's)	107,369	107,369	107,369	106,869
Working capital	$ 13,236,239	$ 15,144,359	$ 15,380,251	$ 17,713,097
	Restated * Dec. 31, 2006	Restated * Sept 30, 2006	Restated * June 30, 2006	Restated * March 31, 2006
Sales Volumes:				
Natural gas (mcf/d)	198	109	68	-
Natural gas liquids (bbl/d)	7	2	2	-
Barrels of oil equivalent (boe/d)	40	20	13	-
Per unit information:				
Oil price ($bbl)	-	- -	- -	-
Natural gas price ($/mcf)	7.54	5.75	6.57	-
Oil and natural gas liquids price ($/bbl)	51.65	62.47	65.66	-
Oil equivalent price ($/boe)	46.39	37.01	43.02	-
Operating net back ($/boe)	25.11	32.57	27.81	-
Financial:($ except for share info)				
Revenue:				
Petroleum and natural gas revenues	171,532	67,475	51,341	-
Interest Income	$ 147,948	$ 94,762	$ 17,303	$ 26,520
Income (loss) from continuing operations	(2,892,752)	(352,724)	(408,907)	(948,451)
Basic and diluted per share	(0.03)	(0.00)	(0.01)	(0.06)
Net income (loss)	(2,895,425)	(405,633)	(411,987)	(948,451)
Basic and diluted per share	(0.03)	(0.01)	(0.01)	(0.06)
Capital expenditures	$ 1,471,112	5,398,608	1,718,484	1,181,058
Shares outstanding (000's)	106,391	71,586	71,471	66,521
Working capital	$ 18,309,436	274,561	5,874,256	6,490,488

(*)The comparative quarterly information for 2006 has been re-stated from previously released quarterly financial information, to reflect adjustments to stock-based compensation, oil and gas revenues, royalties, operating costs, and depletion. Stock-based compensation was overstated in Q1 by $1,830,609, was overstated in Q2 by $15,742, and was understated in Q4 by 99,178. Total stock-based compensation for 2006 did not require adjustment as corrections were reflected in reported numbers for Q3 and Q4. Oil and gas revenues, royalties, operating costs, and depletion, a net amount of negative ($10,521), was moved from the three months ended September 30, 2006 to the three months ended June 30, 2006.

RESULTS OF OPERATIONS

Production

Madalena's daily production rates doubled in 2007 to 46.8 boe/d, from 24.4 boe/d in 2006, as the Edson and Brazeau area wells were drilled, completed and tied in. Madalena did not have any production in Argentina or Tunisia during the year.

Production Revenue and Pricing

In 2007, Madalena received $932,964 in petroleum and natural gas revenues, 40% - $370,509 from oil production, 44% - $411,787 from natural gas production, and 16% - $150,668 from natural gas liquids. In 2006, Madalena received $290,348 in petroleum and natural gas revenues, 81% - $234,958 from natural gas production and 19% - $55,390 from natural gas liquids.

The Company averaged $54.65 per boe in 2007 and $43.24 per boe during 2006. The average sales price the Company received in 2007 was $74.38 per bbl of oil, $7.16 per mcf of natural gas, and $60.19 per barrel of natural gas liquids. In 2006 the average sales price the Company received was $6.84 per mcf for natural gas, and $55.74 per bbl for its natural gas liquids. Oil and natural gas liquid prices are consistent with quoted market prices. Natural gas prices are approximately 4% higher than quoted market prices due to higher energy values of gas produced.

The Company did not have any natural gas pricing contracts in place at December 31, 2007.

Interest Income

Interest income of $661,293 was earned in 2007 compared to $286,533 in 2006. The increase in interest income is a result of investing the proceeds of approximately $20 million from a brokered private placement of common shares the Company closed in November of 2006 in interest bearing securities for the majority of 2007.

Foreign Exchange Gains

In 2007, the Company recorded foreign exchange gains of $158,613 reflecting a gain in Q4 of $270,138 and a loss in Q3 of $111,525. In Q3 of 2007 the Company purchased US dollars and invested in US dollar denominated interest bearing securities. The US dollars will be used to fund off shore exploration activities which are usually settled in US dollars. A foreign exchange gain or loss is calculated and recorded at each quarter end and at year end by comparing the average Canadian dollar cost of the Company's US dollar investments to the value of the those US dollar investments at closing foreign exchange rate a the quarter-end or at year-end.

Operating netbacks

Madalena realized operating netbacks from Canadian oil and gas operations of $32.43 per boe in 2007, compared to $24.18 per boe in 2006. The increase in operating netbacks in 2007 reflects increased average sales prices in 2007 over 2006, an increase in the percentage of income received from oil production in 2007 compared to 2006, a decrease in the average royalty paid of $8.54 per boe in 2007 compared to $10.17 per boe in 2006, offset by an increase in operating expenses of $13.68 per boe in 2007 compared to $8.89 per boe in 2006.

Royalties

Royalties consist of crown royalties paid to the provincial government of Alberta and gross overriding royalties paid to petroleum and natural gas rights owners. Royalties paid during 2007 amounted to $145,798 in 2007 compared to $45,180 in 2006, for an average of $8.54 per boe or 15.6 % of production revenues in 2007 compared to an average of $10.17 per boe or 15.6% of production revenues in 2006. Lower that average

royalty rates received by the Company reflect the fact that three of the Company's six producing wells pay zero crown royalties because of deep well royalty holidays and that only two wells pay gross overriding royalties.

Operating expenses and transportation

Total operating expenses for 2007 amounted to $233,488 or $13.68 per boe compared to $59,712 or $8.89 per boe in 2006. This total operating expense number includes transportation expenses of $48,092 or $2.82 per boe in 2007 and $4,011 or $0.60 per boe for 2006. Higher operating costs reflect higher operating costs for labor and services in Western Canada as well as additional trucking costs for 2007 for oil production not encountered in 2006.

General and administrative expenses

General and administrative ("G&A") expenses for 2007 were $1,382,596 compared to $1,013,873 for 2006, an increase of $368,723 or 27%. The Company capitalized $220,510 of G&A (which is $452,917 of costs incurred net of $232,407 of previously incurred costs recovered from a consultant) to the Argentine cost center. The Company also capitalized $43,400 of G&A to the Tunisian cost center in 2007. In 2006 the Company capitalized $470,961 of G&A in the Argentina cost centre and $31,692 of G&A in the Tunisia cost center. The capitalized G&A reflects costs directly attributable to exploration activities in these cost centers.

The Company incurred more G&A costs in 2007 compared to 2006 primarily for the following reasons:

- General office and consulting expenses – In 2007 general office and consulting expenses decreased by approximately $16,000 over 2006 mainly due to a decrease in the cost of consultants fees expensed by the Company.
- Shareholder communications – In 2007 shareholder communication fees increased by approximately $29,000 over 2006 due to the additional costs of TSX venture filing fees and press release fees in 2007.
- Salaries and benefits – In 2007 the Company incurred additional salary and benefit costs of approximately $220,000 over 2006 which reflects the fact that the Company had four full time senior people employed for all of 2007 compared to only portions of 2006
- Travel and entertainment – In 2007 the Company spent approximately $77,000 more for travel and entertainment than in 2006 as more time was spent in 2007 to travel to Argentina to evaluate oil and gas exploration opportunities and negotiate concessions on properties in Argentina,
- Rent – in 2007 the Company paid approximately $48,000 more for head office rental costs than in 2006. The 2007 expenses reflect a full years worth of office leases whereas 2006 only reflects approximately nine months of office costs.
- Insurance – Insurance costs for 2007 increase by approximately $31,000 over 2006 as the Company paid a full years worth of well insurance on its Canadian properties, and additional directors and officers insurance for 2007.
- Legal fees – The Company spent approximately $110,000 less on legal fees in 2007 compared to 2006 because 2006 reflected significant costs for: moving legal responsibilities from a Vancouver firm to a Calgary firm, a TSX Venture exchange listing, and the plan of arrangement transferring mining properties out of the Company. In 2007 legal fees relate mostly to public company reporting requirements.
- Accounting fees – In 2007 accounting fees increased by approximately $80,000 over 2006 due to increased audit fees and increased fees for quarterly reviews to meet public company reporting requirements.

Stock-based compensation

Stock-based compensation ("SBC") expense in 2007 was $1,601,591 compared to $1,312,249 in 2006. SBC is a non-cash based charge against earnings to reflect the estimated dilutive affect of granting stock options to employees and consultants at prices that may differ from the value that the Company could receive on issuance of the stock. In 2007 the SBC expense included a one time charge for 1,000,000 options transferred from one director to two other directors of the Company in the amount of $678,800, additional expenses of $341,604 for 2,150,000 options granted in June of 2007 to officers, employees and consultants, and the amortization of previously granted options over the vesting period. The Company capitalized $45,470 of SBC to the Argentine cost center in 2007 compared to $19,189 in 2006 and capitalized $15,008 to the Tunisia cost center in 2007

compared to $9,594 in 2006. The SBC capitalized reflects the estimated cost of options granted to the Company's geological and legal consultants for evaluating exploration opportunities in these cost centers.

At December 31, 2007, the Company has approximately $972,000 of unamortized stock-based compensation costs that will be charged to income over the remaining vesting period of the options outstanding.

Depletion, depreciation and accretion

Depletion for petroleum and natural gas assets is calculated using the unit-of-production method based on total estimated proved reserves. Depletion for 2007 was $770,000 or $45.10 per boe compared to $288,000 or $42.89 per boe in 2006. Future development costs for proved undeveloped reserves in Canada of $380,000 have been included in the depletion calculation for 2007, compared to $146,000 for 2006.

Depletion was not recorded in Argentina or Tunisia. These cost centers are considered to be in the development stage where all costs reasonably attributable to exploring for oil and gas in these areas are capitalized to the cost center. Management evaluates the costs capitalized to the cost center at each reporting period and is of the view that the costs capitalized to date are recoverable from future business activities in the area.

Depreciation on office furniture and fixtures and on leasehold improvements is calculated on a declining balance basis or on a straight line basis at rates designed to amortize the cost of the asset over its estimated useful life. Depreciation for 2007 was $17,140 compared to $19,431 for 2006.

Accretion expense is calculated to accrete the currently booked discounted asset retirement liability to its estimated undiscounted liability over the estimated remaining economic life of the Company's crude oil and natural gas properties. The provision for accretion for 2007 was $5,843 compared to $5,945 for 2006.

Ceiling test write down

At December 31, 2007 and December 31, 2006 the Company compared the estimated fair value of its Canadian oil and gas properties (as determined by an independent group of petroleum engineers based on the proven properties of the Company using a 0% discount rate) to the carrying cost of those properties, and determined that the carrying amount exceeded the estimated fair value. The Company prepared a ceiling test calculation in which the net present value of the proved plus probable reserves using a 5% discount rate was determined by the same group of independent engineers. The 5% discount rate was estimated to be the Company's risk free rate of return. As a result of this calculation, the Company determined that the carrying cost of the Canadian oil and gas properties had to be written down to their estimated value of $3,181,000 at December 31, 2007 and $6,455,000 at December 31, 2006. The Company recorded an expense of $3,630,000 in 2007 and $2,480,341 in 2006 to reflect this reduction in value. These expenses have been included in the total depletion, depreciation and accretion in the income statement for both years.

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

In 2006 the Company started 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 its mining exploration business, and marketable securities related to that business, to its shareholders. 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.

As part of the plan of arrangement the carrying cost of the mineral exploration properties and the marketable securities associated with the mineral exploration business were transferred to Great Bear Resources Ltd. In accordance with the CICA handbook the carrying cost of the mineral resource assets and the marketable securities at the time of completion of the plan of arrangement in the amount of $653,386 were charged to retained earnings.

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. In 2006 the Company recorded $51,716 of dividends in kind and $45,016 of gain 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 in the dividend in specie.

Loss for the period

Madalena incurred a net loss in 2007 in the amount of $6,033,587 or $0.06 per share compared to a net loss for 2006 of $4,661,496 or $0.07 per share. In both 2007 and 2006 the majority of the loss is a result of non-cash deductions for depletion, depreciation & accretion, and stock based compensation. Madalena expects that it will continue to incur losses from operations until it has drilled and developed its exploration opportunities in Tunisia and Argentina.

Income taxes

The Company has no provision for current or future income taxes in 2007 or 2006 and does not expect to have a current income tax expense for 2008 based on its available tax pool deductions. At December 31, 2007 the Company estimates its tax pools available to deduct against future income as follows:

As at December 31,	2007	2006
Non-capital loss carryforwards	6,501,000	3,568,000
Share issue costs	1,045,000	1,400,000
Property and equipment tax pools	10,585,000	7,642,000

Future income tax assets and liabilities arise due to the difference between the tax basis of assets and their respective accounting carrying cost. The Company's tax basis of its assets exceeds its accounting carrying costs which results in a net future tax asset. The benefit of the future tax assets of the Company have not been recognized in the Company as it is not more likely than not that the benefit of the assets will be realized in the carry forward period.

Capital Expenditures

For the years ended December 31,		2007		2006
Canada:				
Oil and gas properties:				
Drilling and completions	$	840,891	$	8,158,008
Well equipment and production facilities		253,602		936,209
Land		49		54,807
Office furniture and equipment		16,919		97,153
		1,111,461		9,246,177
Argentina - prospecting costs		1,917,543		470,961
Tunisia - prospecting costs		2,331,593		31,692
Total capital expenditures	$	5,360,596	$	9,748,830

Capital expenditures in 2007 totaled $5,360,596 compared to $9,748,830 in 2006 as summarized in the above table. In Canada the Company spent approximately $1,094,000 on two new wells in the Edson area, and on completing and equipping existing wells in Edson and Brazeau compared to $9,149,024 in 2006.

In Argentina the Company spent approximately $1,917,000 on acquiring concessions in the Neuquen province, processing seismic data, providing insurance bonds and equipping an apartment for use in operating the branch in Argentina. Included in the capital expenditures for 2007 is $220,510 of G&A expenditures for legal and geological consulting services that is directly related to the Argentine properties ($470,961 in 2006).

In Tunisia the Company spent approximately $2,347,000 on seismic data and processing in 2007. Included in the Tunisia costs is $42,400 of G&A expenditures for legal and geological consulting services that is directly related to the Tunisian properties ($31,692 in 2006). Also included in the capital expenditures for 2007 is $15,008 of SBC ($9,594 in 2006) related to options granted to consultants providing legal and geological services on the Tunisian properties.

FOURTH QUARTER 2007

Madalena's net loss in the three months ended December 31, 2007 increased by $729,383 to $3,624,808 compared to a net loss in the three months ended December 31, 2006 of $2,895,425.

In the fourth quarter of 2007 petroleum and natural gas revenues increased by $74,172, from $171,532 in 2006 to $245,704 in 2007. Average production volumes for the fourth quarter of 2007 of 47 boe/d were comparable to average production volumes in the fourth quarter of 2006 of 40 boe/d, however a larger percentage of the Companies revenues came from oil production which received higher prices, and the Company received higher prices for its gas and liquids production. The average gross revenue per boe increased from $46.39 per boe in 2006 to $56.75 per boe in 2007. In the fourth quarter of 2007 interest revenue decreased by $19,566 from $147,948 in 2006 to $128,382 in 2007. The decrease is a result of having less cash on hand to earn interest income in the fourth quarter of 2007. Madalena recorded a foreign exchange gain in the fourth quarter of 2007 in the amount of $270,138 as a result of converting its US dollar denominated currencies and investments at year end to Canadian dollars using the year end foreign exchange rate. The Company did not own any US dollar denominated currencies or investments in 2006.

Royalty expense increased by $24,444 from $35,618 in 2006 to $60,092 in 2007, an increase of approximately 10%, reflecting an increase in gross overriding royalties that were paid to operators that elected to receive these royalties in 2007 which were not in place in 2006. Operating expenses increased by an insignificant amount of $5,141 from $43,042 in 2006 to $48,183 in 2007, and general and administrative expenses increased by $72,221 from $290,352 in 2006 to $362,573 in 2007. The increase in general and administrative costs reflects additional travel, promotion, and wages and benefits incurred in 2007.

In the fourth quarter of 2007 stock-based compensation increased by $40,910 from $131,037 in 2006 to $171,947 in 2007. The increase reflects additional stock options granted during the 2007 fiscal year. Depletion, depreciation and accretion increased in the fourth quarter of 2007 by $914,055 from $2,712,182 in 2006 to $3,626,237 in 2007, which reflects the ceiling test write down booked in 2007 versus the ceiling test write down in 2006.

Funds from operations in the fourth quarter of 2007 was a positive $173,376 if the effect of foreign exchange gains on cash items is included, compared to a negative $49,532 in 2006. Funds from operations increased in the fourth quarter of 2007 due to increased revenues from petroleum and natural gas revenues in relation to smaller increases in expenses for the period.

Capital expenditures in the fourth quarter of 2007 amounted to $2,079,747 compared to $1,471,112 in the fourth quarter of 2006. The majority of capital expenditures in 2007 were spent in Tunisia and Argentina as the Company continues to develop these exploration properties. Fourth quarter 2006 expenditures were focused mainly on the Canadian properties.

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 are not sufficient to cover the Companies general and administrative costs. In 2007 the Company

had negative funds from operations of $167,625 and in 2006 the Company had negative funds from operations of $541,884. 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 through either debt or additional equity financings.

At December 31, 2007 Madalena had working capital of $13,236,239 compared to $18,309,436 at December 31, 2006. Working capital decreased by $5,073,197 during 2007 mainly due to expenditures on property and equipment and abandonment costs of $5,362,811, negative cash flow from operations of $9,011, adjusted for foreign exchange translation gains in cash accounts, net of funds received from the issuance of common shares of $298,625. The Company had no debt at December 31, 2007 or December 31, 2006.

In Tunisia the Company has agreed to participate in the drilling of a well on the Remada Sud concession which was spud March 28, 2008. It is expected that Madalena's share of the costs of this well will be approximately $2,100,000 US dollars. In Argentina the Company has signed joint operating agreements and work commitments on its three concessions in the Neuquen Province. The work commitments amount to $10.5 million US dollars over the next three years. In Canada the Company has committed to pay for abandonment costs on three of the wells in the Edson and Brazeau areas in the amount of $44,500. Funds from operations during 2008, is expected to be negative as interest income declines.

On April 4, 2008 the Company announced that it had completed a non-brokered private placement of 4,375,003 common shares at $0.56 per share for total proceeds of $2,450,000. These proceeds will be used to fund ongoing capital and operating requirements. 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. The Company received approval from the TSX Venture exchange in October of 2007 to extend the original expire date of the warrants to May 2, 2008. 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 were, during 2007, 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. During the year the other public exploration company was acquired in a reverse takeover and the two directors of Madalena resigned from the other public company.

The Company utilizes the services of a law firm in which one of the directors was a partner during 2007. Part way through 2007 the director resigned from the law firm. During the year ended December 31, 2007 the Company spent $141,000 on legal services provided by the law firm compared to $109,000 for the year ended December 31, 2006.

SHARE INFORMATION

The Company has 107,368,699 common shares, 10,150,000 stock options and 12,577,625 warrants to purchase common shares outstanding at December 31, 2007, compared to 106,391,449 common shares, 8,400,000 stock options and 15,071,690 warrants to purchase common shares outstanding at December 31, 2006.

During 2007 the Company issued 500,000 common shares pursuant to the exercise of stock options, and 477,250 common shares pursuant to the exercise of warrants. During 2007 the Company granted 2,250,000 options to purchase common shares to employees, directors and consultants and 500,000 options were exercised. During 2007 2,016,815 warrants to acquire common shares expired and 477,250 warrants were

exercised. At April 22, 2008 the company had 111,743,702 common shares, 10,180,000 stock options and 12,577,625 warrants outstanding.

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 to raise 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 AIF on SEDAR at www.sedar.com.

NEW GREENHOUSE GAS AND AIR EMISSIONS LEGISLATION

The Alberta Government has introduced legislation that will enable the province to regulate emissions of greenhouse gases. The regulations require certain facilities that emit greenhouse gases to reduce their emissions beginning July 1, 2007 or pay a fee based on emissions in excess of the targeted reductions. Madalena doe not have any interests in these types of facilities.

The Federal Government has also released a regulatory framework to reduce greenhouse gas emissions and smog-forming pollutants with targets coming into force in 2010 and 2015 respectively.

Madalena has not evaluated the impact of these regulations but expect that as a non operator of our Canadian properties, the impact on our operations will be minor.

NEW ALBERTA ROYALTY FRAMEWORK

In October of 2007 the Government of Alberta announced that it would be altering the royalty framework in the province of Alberta effective January 1, 2009. As part of the preparation of the Company's independent reserves assessment and evaluation of the oil and gas properties of Madalena Ventures Inc. effective December 31, 2007, the independent petroleum consultants who prepared the report also attempted to determine the impact of the new Alberta Royalty Framework ("ARF") on the Company.

The Government of Alberta has not yet clarified certain aspects of the new royalty calculations, and has remarked on several occasions that various aspects of the NRF are still under review to remove "unintended consequences". As a result our independent petroleum consultants have provided the Company with a range of values regarding the impact of the NRF and have indicated that no assurance can be provided that the impact of the final NRF will fall within the range.

The Company prepared a ceiling test calculation based on the net present value of the proved plus probable reserves at a 5% discount rate included as part of the low range of values in the NRF report and has reduced the carrying value its Canadian property and equipment to a value of $3,181,000 at December 31, 2007 by recording an additional depletion expense of $3,630,000 in 2007.

FINANCIAL INSTRUMENTS

At December 31, 2007 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 December 31, 2007, cash, and guaranteed investment certificates, which are classified as held-for-trading assets, have been recorded at fair value, and accounts receivable, which are classified as loans and receivables, accounts payable, and accrued liabilities, which are classified as other financial liabilities, have been recorded at their face value which approximates their amortized cost using the effective interest method. The Company has no bank indebtedness.

At the beginning of 2007 the Company owned investments in bank supported asset backed commercial paper ("ABCP"). The Company invested in these securities to maximize the rate of return it received on what was felt to be very safe investments. In August of 2007 the non bank supported ABCP market experienced sever liquidity problems. As the liquidity issues increased for non bank supported ABCP, Madalena's management disposed of its bank supported ABCP fully realizing the maturity value of its investments and re-invested the proceeds in banker's acceptances and commercial discount notes issued by Canadian Commercial Banks. These investments are included in cash and cash equivalents, and were designated as held-for-trading financial assets. All of the Company's investments in discount notes are investments in notes issued by Canadian Commercial banking institutions which are subject to normal commercial and liquidity risks associated with these types of investments in the financial industry. The carrying value of the discount notes reflects management's best estimate of the credit risk associated with these notes. The fair value of these assets has been determined at December 31, 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 investments at December 31, 2007. The increase in fair value has been recorded as interest income in the statement of operations for the year ended December 31, 2007.

As at December 31, 2007		Cost	Maturity Value	Yield		Fair Value at December 31, 2007		Interest Income
Bank of Montreal US dollar discount note due January 29, 2008	USD $	6,527,418	6,562,000	4.54%		6,538,151		10,733
Foreign Exchange		(274,804)				(77,805)		(128)
Canadian dollar carrying value at December 31, 2007	$	6,252,614			$	6,460,346	$	10,605

CONTRACTUAL OBLIGATIONS

The Company has committed to a lease for office premises terminating on June 15, 2010. The estimated obligation at December 31, 2007, including operating costs at current levels, is $268,077. The Company has committed to drilling an exploration well with its joint venture partners on its Remada Sud property in southern Tunisia. The Company's share of the cost of this well is $2,100,000 US dollars. In Argentina, the Company has committed to three work commitments on three separate exploration blocks in the amount of $10.5 million US dollars.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2007 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.

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.

Accounting changes

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 December 31, 2007 there were no changes in accounting policies, or accounting estimates that have a material impact on the Company's financial statements.

The Company has applied the new standard for correction of errors to the summary of quarterly results comparative information for the year ended December 31, 2006. The comparative information for each of the quarters ending in 2006 has been retrospectively restated from previously released quarterly financial information, to reflect adjustments to stock-based compensation, oil and gas revenues, royalties, operating costs, and depletion. The following table provides a summary of the amount of the correction for the 2006 comparative information.

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)

Comprehensive income and equity

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 December 31, 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 and accrued liabilities 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.

The Company invested its cash reserves in asset backed debt securities and bank discount instruments during 2007. These investments were included in cash and cash equivalents in 2007. The Company has designated these financial assets as held-for-trading at January 1, 2007 and at the date of reinvestment 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. The debt securities have been measured at fair value at December 31, 2007 by reference to quoted market prices. Changes in the fair value of these debt securities have been reflected in interest income in the Company's income statement for the period ended December 31, 2007. The Company's investment in debt securities is considered to be a regular way purchase and sale of a financial asset in accordance with contract terms which require the delivery of the financial asset within a time frame established by the market place. The Company has 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 de-recognizes the asset and recognizes any gain or loss on disposal on the day it is delivered by the Company. The Company had no transaction cost related to any of its financial instruments.

Hedging

The Company is exposed to market risks resulting from fluctuations in commodity prices in the normal course of its business. The Company may (but has not to date) use commodity contracts to manage these exposures. 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 applies.

Foreign currency transactions

The Company is in the process of developing its business operations in Tunisia and Argentina. During 2007 all transactions and activities of all foreign operations were undertaken by Madalena. All transactions denominated in a foreign currency were converted to Canadian dollars at the exchange rate in affect at the date the transactions occurred. In anticipation of spending future amounts in foreign currencies, the Company purchased US dollars and US dollar investments which it held at year end. These holdings have been converted to Canadian dollars at the exchange rate in affect at year end and the foreign exchange gain on this conversion has been included in computing income from operations.

NEW ACCOUNTING PRONOUNCEMEMENTS

As of January 1, 2008 the Company will be required to adopt two new accounting standards for "Financial Instruments – Disclosures" and "Financial Instruments – Presentation" which will replace the current standard for "Financial Instruments – Disclosure and Presentation". The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments and how those risks are being managed. The Company is currently assessing the impact of these two new standards on its financial reporting.

As of January 1, 2008 the Company will be required to adopt a new accounting standard for "Capital Disclosures" which requires entities to disclose their objectives, policies and processes for managing capital, and whether the entity has complied with any externally imposed capital requirements. Currently the Company has no externally imposed capital requirements, and does expect the new standard to have any impact on its financial reporting.

As of January 1, 2008 the Company will be required to adopt a new accounting standard for "Inventories" which requires inventories to be valued on a first-in, first-out or weighted average basis. Madalena does not own any inventory and will implement the new standard as it acquires inventories.

In February of 2008 a new accounting standard for "Goodwill and Intangible Assets" was introduced which will require implementation on January 1, 2009. The Company currently has no Goodwill or Intangible Assets, and will evaluate the impact of the new standard if these assets are acquired.

Over the next three years Canadian Generally Accepted Accounting Principals ("GAAP") will be modified to converge with International Financial Reporting Standards ("IFRS"). Madalena plans to monitor and assess the impact of the convergence of Canadian GAAP with IFRS.

OUTLOOK

In 2008 Madalena plans to focus its activities on developing its Argentina and Tunisia properties.

In Argentina the Company will focus its efforts on drilling at least two exploration wells on the exploration blocks secured during 2007. On the Coiron Amargo block, the Company will complete the evaluation of a 350 square kilometer seismic program, complete base line environmental studies, select an appropriate drilling location, and look to secure the proper drilling rig for drilling the Company's first exploration well in Argentina. Evaluation of existing seismic data has provided numerous potential drilling locations. On the Cortadera and Curamhuele blocks, the Company will focus on securing seismic services, shooting and evaluating 120 square kilometers of 3D seismic for Cortadera and 140 square kilometers of 3D seismic for Curamhuele. Once seismic evaluations are completed, additional drilling locations will be determined.

In Tunisia, the TT-2 well in Remada Sud which spud March 28, 2008 will finish drilling in the second quarter. The Company will evaluate drilling results and will assess alternatives for completion, production and tie-ins, or abandonment. Madalena's existing seismic option agreement provides the Company with the option to participate in a second test well on the Remada Sud property. The Company will evaluate participation in the second test well based on results from the first well. The Company will also complete its evaluation of seismic data on the offshore Hammamet block to determine if it will exercise the second seismic option agreement on this property and participate in drilling an offshore well on the Hammemet concession.

Madalena remains committed to the exploration and development of its concessions in Argentina and Tunisia in order to maximize shareholder value. The Company continues to evaluate other opportunities in South America and Northern Africa.

In 2008 Madalena plans to focus its activities on Argentina and Tunisia.