Madalena Ventures Inc.

Quarterly Report

For the Three and Six Months Ended June 30, 2009
(unaudited)

President's Message

Madalena continued to make significant progress in developing its core exploration blocks in Tunisia and Argentina during Q2 2009. Madalena has carefully monitored its working capital position, remained debt free, and continued to develop its exploration blocks during the second quarter of 2009. The company has satisfied all of its corporate obligations to date and is in good standing with respect to all current international work commitments.

In Tunisia, the Company received approval from the Tunisian National Oil Company to extend its long term production tests on the TT2 discovery well drilled in 2008 until the well has recovered 80,000 barrels of oil. The TT2 well was drilled on the Remada Sud block in southern Tunisia along the border of Libya. Madalena has earned a 15% working interest in approximately 600,000 acres on the Remada Sud block by drilling the TT 2 well and retains the option to drill a second earning well to earn a 15% working interest in an additional 600,000 acres. Testing on the TT2 well commenced at the end of Q1 2009. To the end of Q2 2009, test production from the well has amounted to approximately 25,000 gross barrels of light oil which has been placed in storage awaiting shipment to market. Commercial production status can be applied for by the Company upon the completion of the test production period. The test production period has not been completed at June 30, 2009, and production revenues, operating costs, and royalties have been capitalized for accounting purposes and therefore excluded from production and revenue information. Information obtained from the long term production tests and further seismic evaluation of the property will allow the Company to submit a formal plan for the phased development of the concession to the Tunisia authorities by the end of the fourth quarter of 2009.

In Argentina, Madalena secured a pumping unit for its successful exploration discovery well drilled on the CAN X-2 prospect on the Coiron Amargo block in February 2009. The well was completed in the Sierras Blancas formation zone and was placed on pump in June 2009. This initial exploration well was drilled vertically to identify the initial oil and water contact in the Sierras Blancas formation. Madalena will continue to test the well at varying rates throughout Q3 2009 to establish the optimal production range for the pumping unit. The follow up development of these fields after the drilling of the first vertical well is generally through the application of horizontal drilling technology and the company has identified a number of horizontal drilling locations on the Coiron Amargo block for future drilling. Commercial production status can be applied for by the Company upon the completion of the test production period. The test production period has not been completed at June 30, 2009, and production revenues, operating costs, and royalties have been capitalized for accounting purposes and therefore excluded from production and revenue information.

The Company also made significant progress during the second quarter on the processing and interpretation of seismic data received from the 3D seismic exploration programs conducted on the Curamhuele and Cortadera blocks in 2008. The evaluation of the data has yielded positive results, indicating the possible extension of the trends from the producing fields located to the north of the blocks. Processing of the seismic data is expected to be completed by the end of Q2, 2009.

On August 27, 2009, the Company completed the sale of all of its Canadian petroleum and natural gas properties for cash consideration of $554,000 and the assumption by the purchaser of all abandonment and reclamation obligations. The sale will result in a change in the Company's depletion rate by more than 20%; therefore, a gain or loss on sale will be recorded when all closing adjustments are determined. The carrying value of the Canadian petroleum and natural gas properties is $654,000 at June 30, 2009 after an impairment loss of $1,416,147 was recorded in the three months ended June 30, 2009. The sale price represents $27,700 per flowing BOE.

Madalena remains debt free and is receiving cash flow from operations in Canada, Tunisia, and Argentina. Management is focused on the evaluation of various mechanisms to provide the capital required to develop its considerable development and exploration projects.

We look forward to providing our shareholders with updates as we implement our strategy during the remainder of 2009.

Ken Broadhurst

President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") is provided by management of Madalena Ventures Inc. ("Madalena" or the "Company"), for the three and six months ended June 30, 2009 and 2008. This MD&A should be read in conjunction with the Company's MD&A and audited consolidated financial statements for the year ended December 31, 2008 and the unaudited interim consolidated financial statements for the three and six months ended June 30, 2009. The Company's financial statements and other public disclosure documents, including its annual information form ("AIF"), are filed on SEDAR at www.sedar.com. The commentary in this MD&A is based on information available to **August 27, 2009**. 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 may include forward-looking statements including opinions, assumptions, estimates and management's assessment of future plans and operations, expected depletion, depreciation and accretion expenses, expectations as to the taxability of the Company and planned capital expenditures and the timing and funding thereof. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intent," "may," "project," "plan", "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Forward-looking statements are subject to a wide range of risks and uncertainties, and although the Company believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be realized. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, but not limited to, risks associated with petroleum and natural gas exploration, development, exploitation, production, marketing and transportation, the volatility of petroleum and natural gas prices, currency fluctuations, the ability to implement corporate strategies, the state of domestic capital markets, the ability to obtain financing, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, changes in petroleum and natural gas acquisition and drilling programs, delays resulting from inability to obtain required regulatory approvals, delays resulting from inability to obtain drilling rigs and other services, labour supply risks, environmental risks, competition from other producers, imprecision of reserve estimates, changes in general economic conditions, ability to execute farm-in and farm-out opportunities, and other factors, all of which are more fully described from time to time in the reports and filings made by the Company with securities regulatory authorities.

Statements relating to "reserves" or "resources" are also forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

The forward looking statements contained in this MD&A are expressly qualified by this cautionary statement. Readers are cautioned not to place undue reliance on forward-looking statements, as no assurances can be given as to future results, levels of activity or achievements. Except as required by applicable securities laws the Company does not undertake any obligation to publicly update or revise any forward-looking statements.

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. However, management considers these measures to be useful supplementary information.

Funds from operations, is a useful measure of how the Company generates funds to cover operating and capital spending. Funds from operations, is defined as cash flow from operating activities before changes in non-cash working capital items. Funds from operations and cash flow from operating activities per share are calculated using the same weighted average shares outstanding as net loss per common share. The following table reconciles funds from operations to cash flow from operating activities:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Cash flow from operating activities	$ (468,906)	$ (344,502)	$ (1,099,464)	$ (466,904)
Change in non-cash working capital	13,935	70,744	(8,800)	(112,644)
Funds from operations	$ (454,971)	$ (273,758)	$ (1,108,264)	$ (579,548)

Operating netback is a useful measure for comparing prices received, royalties paid, and operating costs incurred, with industry peers. Netback and operating netback are defined as total petroleum and natural gas revenue less royalties, operating expenses and transportation expenses. The following table reconciles operating netbacks to net loss and other comprehensive loss:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net loss and other comprehensive loss	$ (2,075,920)	$ (528,911)	$ (2,948,781)	$ (717,678)
Addback items not used in calculating operating netbacks				
Depletion, depreciation and accretion expense	1,483,229	94,553	1,588,233	194,106
Stock-based compensation expense	74,836	154,845	195,774	316,536
General and administrative expense	385,090	464,606	916,559	939,094
Foreign exchange gain/loss	172,445	5,685	357,692	(355,080)
Interest income	(1,350)	(70,188)	(8,515)	(161,816)
Operating netbacks	$ 38,330	$ 120,590	$ 100,962	$ 215,162

Operating netbacks are analyzed further under Results of Operations.

HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Financial				
Petroleum and natural gas revenues	$ 69,404	$ 255,466	$ 182,942	$ 450,775
Interest income	1,350	70,188	8,515	161,816
Cash flow from operating activities	(468,906)	(344,502)	(1,099,464)	(466,904)
Cash flow from operating activities - basic and diluted(1)	(0.004)	(0.003)	(0.010)	(0.004)
Funds from operations(1)	(454,971)	(273,758)	(1,108,264)	(579,548)
Funds from operations per common share - basic and diluted(1)	(0.004)	(0.002)	(0.010)	(0.005)
Net loss for the period	(2,075,920)	(528,911)	(2,948,781)	(717,678)
Net loss per common share - basic and diluted	(0.019)	(0.005)	(0.026)	(0.007)
Capital expenditures	1,806,650	424,618	4,711,363	2,483,185
Total assets	$ 21,259,811	$ 23,736,997	$ 21,259,811	$ 23,736,997
Operations				
Daily production				
Oil (bbls/d)	6	11	7	10
Natural gas (Mcf/d)	71	96	95	105
Natural gas liquids (bbls/d)	3	4	4	4
Oil equivalent (boe/d)	20	31	26	31
Average sales price				
Oil ($/bbl)	$ 64.55	$ 121.26	$ 55.22	$ 109.48
Natural gas ($/Mcf)	4.08	11.32	5.12	9.80
Natural gas liquids ($/bbl)	$ 42.36	$ 106.20	$ 42.73	$ 90.83
Oil equivalent ($/boe)	$ 37.90	$ 91.65	$ 38.65	$ 78.82
Operating netback per boe	$ 20.93	$ 43.26	$ 21.33	$ 37.62

(1) See "*Non-GAAP measurements*" above.

Highlights of the three months ended June 30, 2009 include:

- The Company remains debt free with a net working capital position of $1,364,654 and cash of $1,942,676 at June 30, 2009.
- Long term production testing of the Remada Sud TT-2 well in southern Tunisia continued during the second quarter of 2009 upon completion of a successful work-over in February 2009.
- Production testing of the CAN X-2 well on the Coiron Amargo block in Argentina continued during the second quarter of 2009 after successful completion of the well in February 2009 and installation of a pumping unit in April and May of 2009.
- The Company substantially completed processing and interpretation of seismic data on the Cuarmhuele and Cortadera blocks in Argentina.
- On August 27, 2009, the Company completed the sale of all of its Canadian petroleum and natural gas properties for cash consideration of $554,000 and the assumption by the purchaser of all abandonment and reclamation obligations. The sale will result in a change in the Company's depletion rate by more than 20%; therefore, a gain or loss on sale will be recorded when all closing adjustments are determined. The carrying value of the Canadian petroleum and natural gas properties is $654,000 at June 30, 2009 after an impairment loss of $1,416,147 was recorded in the three months ended June 30, 2009.

OVERVIEW

Tunisia

Testing of the Remada Sud TT-2 well (located in south central Tunisia along the border of Libya) conducted in the last half of 2008 demonstrated the well was capable of producing light crude oil. The Company filed a long term production testing plan which was approved by the Tunisia National Oil Company and completed a successful work-over on the well in March 2009. The Company commenced production testing at the end of Q1 2009. To the end of Q2 2009, the well has production tested approximately 25,000 gross barrels of light oil which has been placed in storage awaiting shipment to the market. Commercial production status can be applied for by the Company upon the completion of the test production period. The test production period has not been completed at June 30, 2009, and production revenues, operating costs, and royalties have been capitalized for accounting purposes and therefore excluded from production and revenue information. High fixed costs associated with bringing production to market from a single well production facility may result in the well operating at a low netback until oil prices improve or additional production from other wells can be brought on stream.

Work on a formal plan for the phased development of the Remada Sud concession continued during the second quarter of 2009 and will be submitted to the Tunisian authorities in the fourth quarter of 2009. However, continued development of the concession is dependant on the availability of capital.

Argentina

In the first quarter of 2009, the Company completed drilling of the CAN X-2 well on the Coiron Amargo block (located in the Province of Neuquen, Argentina approximately 650 miles southwest of Buenos Aires and 75 miles east of the Cortadera block) identifying potential hydrocarbon production from the Sierras Blancas formation. In the second quarter of 2009 the Company continued testing of the CAN X-2 to determine optimal flow rates and acquired and installed a pumping unit in the second quarter of 2009. Production tests will continue in the third quarter. Commercial production status can be applied for by the Company upon the completion of the test production period. The test production period has not been completed at June 30, 2009, and production revenues, operating costs, and royalties have been capitalized for accounting purposes and therefore excluded from production and revenue information. For the six months ended June 30, 2009, net operating costs of $103,417 were charged to the Argentina cost centre and for the year ended December 31, 2008 net operating revenues of $142,867 were credited to the Argentina cost center.

The Company substantially completed processing and interpretation of 3D seismic data received from the 3D seismic exploration programs conducted on the Curamhuele (located in the Province of Neuquen, Argentina approximately 650 miles southwest of Buenos Aires) and the Cortadera (located in the Province of Neuquen, Argentina approximately 700 miles southwest of Buenos Aires) blocks. Initial interpretation of the 3D seismic data indicates structures in the Avile, Troncoso, and Mulichinco formations which are similar in nature to structures which have been successfully drilled and developed on the Filo Morado and El Porton fields to the north. The Filo Morado field has produced approximately 62 million barrels of oil equivalent since its discovery in 1986, and the El Porton field has produced approximately 66 million barrels of oil equivalent since its discovery in 1990[1]. Field studies confirmed the presence of source rock and reservoir rock located directly on the Curamhuele and Cortadera blocks. Seismic interpretation is currently being high graded to select optimal drilling targets on the blocks.

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[1] The production data associated with the Filo Morado field may constitute "analogous information". Such information was released in the Concession Reserves and Resources Statistics Report effective December 31, 2008 from the Secretaria de Energia de la Nacion Argentina. The data relates to production in geographical proximity to prospective lands held by Madalena. Management believes the information is relevant as it helps to define the reservoir characteristics in which the Corporation may have an interest. The Corporation is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor or in accordance with the COGE Handbook and therefore, the reader is cautioned that the data relied upon by Madalena may be in error and/or may not be analogous to Madalena's land holdings.

The Company believes that completion of the seismic exploration and evaluation programs and the CAN X-2 well has allowed it to substantially meet the majority of the work commitments on the Cortadera, Curamhuele and Coiron Amargo exploration blocks. On acquisition of the exploration properties in Argentina, the Company agreed to work programs with the Province of Neuquen. The work programs required the Company to undertake specific activities on each block and spend at least $10,500,000 USD by November of 2010, which can be extended by application to November of 2011. Madalena's estimated share of the minimum work commitments at June 30, 2009 under the original work program is approximately $2,231,000 USD. In July and August of 2009 the Company and the Province of Neuquen entered into discussions to change the calculation of the work commitment required on the exploration blocks. The Company expects that its remaining work commitments on all three blocks at June 30, 2009 would be less than $1,000,000 USD under the new work commitment programs and that final agreement on the programs will be concluded by the end of the third quarter of 2009. The Company must meet the work commitments on the blocks by November of 2010 or 2011, or risk losing the non producing portions of the blocks.

Canada

The Company's Canadian oil and gas properties continue to provide funds from operations to finance a portion of general and administrative overhead. However, overall reserve declines and decreased commodity prices negatively impacted funds from operations in the three and six months ended June 30, 2009.

On August 27, 2009, the Company completed the sale of all of its Canadian petroleum and natural gas properties for cash consideration of $554,000 and the assumption by the purchaser of all abandonment and reclamation obligations. The sale will result in a change in the Company's depletion rate by more than 20%; therefore, a gain or loss on sale will be recorded when all closing adjustments are determined. The carrying value of the Canadian petroleum and natural gas properties is $654,000 at June 30, 2009 after an impairment loss of $1,416,147 was recorded in the three months ended June 30, 2009.

There are no significant capital expenditures committed or planned for the Canadian properties for the remainder of 2009.

Going concern considerations

The historical financial information and forward-looking statements contained in this MD&A, together with the Company's unaudited interim consolidated financial statement as at and for the three and six months ended June 30, 2009 are prepared on the basis that the Company is a going concern and will realize assets and discharge liabilities in the normal course of operations for the foreseeable future. Currently there are material uncertainties that could negatively impact the Company's ability to continue as a going concern, including historical operating losses and limited cash flow from operating activities, decreasing commodity prices that will further reduce cash flows from operations, reliance on third party financing to fund exploration (including any remaining work commitments the Company chooses to make) and overhead expenses in an economic environment where equity and debt financing is increasingly difficult to secure, and the inability to find commercial oil and gas reserves in a timely manner.

In light of these uncertainties, management believes Madalena will continue as a going concern for a number of reasons including the following:

i. At June 30, 2009, the Company has a working capital surplus of approximately $1.4 million, including approximately $1.9 million in cash and cash equivalents;

ii. The Company has no external debt and the only significant commitments arising in the remainder of 2009 and into 2010 relate to operating leases for office space in Calgary and Argentina;

iii. In order to maintain the rights to explore the Argentine blocks, the Company must incur expenditures on each specific block as described above in the "Overview". The remaining commitments on Cortadera and Curamhuele are expected to be funded from existing cash or additional financing if it becomes available. However, if the Company does not spend the required capital by November 2010 (extendable by one year by application), only the non producing rights to the specific block will be forfeited with no additional cash consideration paid or penalty incurred.

iv. The Company's overhead structure is relatively low cost and flexible.

v. The sale of the Canadian petroleum and natural gas properties for net proceeds of $554,000 as explained above.

In addition, management has implemented a capital management strategy which is focused on high impact, low cost exploration and development programs in an effort to conserve cash until the current global economic conditions recover and access to external capital improves.

RESULTS OF OPERATIONS

Production

For the three months ended June 30, 2009, Madalena averaged production of 20 boe/d compared to 31 boe/d in the second quarter of 2008. The decrease in production is due to natural declines and wells that were shut-in during the second quarter of 2009. Oil production declined to 6 bbls/d in the second quarter of 2009 from 11 bbls/d in the second quarter of 2008. Natural gas production decreased from 96 Mcf/day in the second quarter of 2008 to 71 Mcf/day in the second quarter of 2009, and natural gas liquids decreased from 4 bbls/d in the second quarter of 2008 to 3 bbls/d in the second quarter of 2009.

Natural declines and shut-in production also resulted in a decrease in average production to 26 boe/d for the six months ended June 30, 2009, from 31 boe/d for the first six months of 2008. Oil production decreased from an average of 10 bbls/d in the six months ended June 30, 2008 to 7 bbls/d in the same period of 2009. Natural gas averaged 95 Mcf/d in the first six months of 2009 compared to 105 Mcf/d for the same period in 2008. Natural gas liquids averaged 4 bbls/d in the first six months of 2008 and 2009.

Petroleum and natural gas revenue

Revenue for the three months ended June 30, 2009 totaled $69,404 compared to $255,466 in the second quarter of 2008. The decrease in revenue is due to production declines noted above and reduced commodity prices consistent with market trends for oil and natural gas. In the second quarter of 2009, Madalena received an average of $64.55/bbl for oil, $4.08/Mcf for natural gas and $42.36/bbl for natural gas liquids, compared to $121.26/bbl for oil, $11.32/Mcf for natural gas and $106.20/bbl for natural gas liquids in the second quarter of 2008.

Revenue for the six months ended June 30, 2009 totaled $182,942 compared to $450,775 for the first six months of 2008. The decrease in revenue is due to production declines and reduced commodity prices consistent with market trends for oil and natural gas. In the first six months of 2009, Madalena received an average of $55.22/bbl for oil, $5.12/Mcf for natural gas and $42.73/bbl for natural gas liquids, compared to $109.48/bbl for oil, $9.80/Mcf for natural gas and $90.83/bbl for natural gas liquids in the first six months of 2008.

Royalties

For the three months ended June 30, 2009, crown royalties totaled $5,744 ($3.13/boe or 8.3% of revenue) compared to $76,218 ($27.35/boe or 29.8% of revenue) for second quarter of 2008. For the six months ended June 30, 2009, crown royalties totaled $12,611 ($2.67/boe or 6.9% of revenue) compared to $119,431 ($20.88/boe or 26.5% of revenue) for the same period in 2008. Crown royalties decreased in magnitude and on a per boe basis in 2009 as a result of various credits processed by our operators, the decline of crown royalties on low productivity wells and the significant reduction in prices received on production.

For the three months ended June 30, 2009, gross overriding royalties ("GORR") totaled $4,226 ($2.31/boe or 6.1% of revenue) compared to $16,847 ($6.04/boe or 6.6% of revenue) for the second quarter of 2008. For the six months ended June 30, 2009, GORR totaled $9,160 ($1.93/boe or 5.0% of revenue) compared to $23,381 ($4.09/boe or 5.2% of revenue) for the same period in 2008. GORR decreased in magnitude and on a per boe basis in 2009 as a result of declines in production and commodity prices.

Interest Income

Interest income for the three months ended June 30, 2009 totaled $1,350 compared to $70,188 for the second quarter of 2008. Interest income for the six months ended June 30, 2009 totaled $8,515 compared to $161,816 for the same period in 2008. The decrease in interest income in 2009 is due to the use of cash-on-hand in exploration and development activities, particularly in Tunisia and Argentina and reduced interest rates on cash and cash equivalent balances.

Foreign exchange gain/loss

The Company's operations in Tunisia and Argentina are subject to foreign exchange rate fluctuations for account balances denominated in US dollars (USD) in Tunisia and Argentine Pesos (ARS) in Argentina. For the three months ended June 30, 2009 the Company experienced a foreign exchange loss of $172,445 compared to a foreign exchange loss of $5,685 for the same period in 2008. For the six months ended June 30, 2009 the Company experienced a foreign exchange loss of $357,692 compared to a foreign exchange gain of $355,080 for the same period in 2008.

The Company increased its exposure to fluctuations in the ARS in the first and second quarters of 2009 compared to the same periods in 2008 as a result of an increase in working capital balances denominated in ARS and a decrease in working capital balances denominated in USD, as activity increased in Argentina and declined Tunisia.

Operating expenses

Total operating expenses, including minimal transportation costs, totaled $21,104 ($11.53/boe) for the three months ended June 30, 2009 compared to $41,811 ($15.00/boe) for the second quarter of 2008. Total operating expenses, including minimal transportation costs, totaled $60,209 ($12.72/boe) for the six months ended June 30, 2009 compared to $92,801 ($16.23/boe) for the first six months of 2008. Total operating expenses and operating expenses per boe decreased in the three and six months ended June 30, 2009 as a result of shutting-in production during the period, overall production volume declines and receiving credits for previous period operating expenses from our operators.

Operating Netbacks

Three months ended June 30,	2009		2008	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenue	$ 69,404	$ 37.90	$ 255,466	$ 91.65
Royalties	9,970	5.44	93,065	33.39
Operating expenses, including transportation costs	21,104	11.53	41,811	15.00
Operating netback	$ 38,330	$ 20.93	$ 120,590	$ 43.26

Six months ended June 30,	2009		2008	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenue	$ 182,942	$ 38.65	$ 450,775	$ 78.82
Royalties	21,771	4.60	142,812	24.97
Operating expenses, including transportation costs	60,209	12.72	92,801	16.23
Operating netback	$ 100,962	$ 21.33	$ 215,162	$ 37.62

Operating netbacks are a non-GAAP measure - see "*Non-GAAP measurements*" above.

The Company realized an operating netback of $20.93/boe for the three months ended June 30, 2009 compared to $43.26/boe in the second quarter of 2008. For the six months ended June 30, 2009, the Company realized an operating netback of $21.33/boe compared to $37.62/boe for the same period in 2008. Netbacks have decreased in 2009 due to substantial decreases in revenues resulting from decreases in production and commodity price declines which were only partially offset by decreases in royalties and operating expenses.

General and administrative ("G&A") expenses

G&A expenses totaled $385,090 for the three months ended June 30, 2009 compared to $464,606 for the second quarter of 2008. G&A expenses for the nine months ended June 30, 2009 totaled $916,559 compared to $939,094 for the same period in 2008. The decrease in G&A expenses in 2009 is due to reductions in salary costs at the Canadian head office, slight reductions in travel costs, and savings realized on filing fees.

For the three months ended June 30, 2009, the Company capitalized $76,776 of G&A expenses directly related to exploration and development activities, compared to $87,900 in the second quarter of 2008. The Company capitalized approximately $162,395 of G&A expenses directly related to exploration and development activities in the six months ended June 30, 2009, compared to $136,000 in the same period in 2008. The amount of G&A capitalized in 2009 increased due to greater exploration activity in 2009 in Argentina.

Stock-based compensation ("SBC") expense

SBC expense in the three months ended June 30, 2009 totaled $74,836 compared to $154,845 in the second quarter of 2008.

SBC expense for the six months ended June 30, 2009 totaled $195,774 compared to $316,536 for the same period in 2008. SBC expense decreased in 2009 as a result of full amortization of options granted in February and March of 2006.

SBC for consultants is capitalized to property and equipment to the extent that the consultant's activities are directly related to the exploration or development of petroleum and natural gas. SBC for consultants is revalued each quarter based on the price of the Company's outstanding common stock at the end of the quarter. In the three months ended June 30, 2009, the Company capitalized $5,442 of SBC to property and equipment, compared to $30,100 in the second quarter of 2008. The Company capitalized $16,547 of SBC in the six months ended June 30, 2009, compared to $69,557 in the same period in 2008. The decrease in capitalized SBC expense in 2009 is due to reduced values for the stock priced used in calculating consultants SBC.

At June 30, 2009, the Company has approximately $164,816 of unamortized SBC that will be charged to income over the remaining vesting period of the outstanding options.

Depletion, depreciation and accretion expense

Depletion and depreciation ("D&D") expense for the three months ended June 30, 2009 totaled $1,479,327 compared to $93,100 in the second quarter of 2008. D&D expense for the nine months ended June 30, 2009 totaled $1,577,521 compared to $191,200 in the same period in 2008. The increase in depletion and depreciation in 2009 is due to a ceiling test write down of the Canadian oil and gas properties in the second quarter of 2009 totaling $1,416,147. Only the Canadian oil and gas properties are subject to depletion as activity in Argentina and Tunisia is considered to be in the development stage. There were no impairments to carrying value associated with the Argentina or Tunisia oil and gas properties at June 30, 2009.

Accretion expense associated with the Company's asset retirement obligation totaled $3,902 for the three months ended June 30, 2009 compared to $1,453 for the second quarter of 2008. Accretion expense for the six months ended June 30, 2009 totaled $10,712 compared to $2,906 for the same period in 2008. Accretion expense increased in 2009 as a result of accruing additional asset retirement obligations in Tunisia and Argentina in the fourth quarter of 2008 and the first quarter of 2009.

Net loss and other comprehensive loss

The Company realized a net loss of $2,075,920 for the three months ended June 30, 2009, compared to a net loss of $528,911 in the second quarter of 2008. The net loss for the nine months ended June 30, 2009 totaled $2,948,781 compared to a net loss of $717,678 for the same period in 2008. The increase in net loss in 2009 is due to the write down of the Company's Canadian oil and gas properties in the second quarter of 2009, increased foreign exchange losses, decreased interest revenue and decreased Canadian petroleum and natural gas net revenues, all of which have been described previously in this MD&A.

Income taxes

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 has tax losses and other cumulative tax deductions in excess of net book values, but to date, has not recognized the income tax benefit of these future tax assets as their recoverability is uncertain at this time.

Capital expenditures

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Argentina				
Geological and geophysical	$ 170,054	$ 314,519	$ 659,519	$ 509,888
Land	-	-	14,891	(331,776)
Drilling and completion	1,147,506	29,049	3,319,729	29,049
Well equipment and facilities	108,853	-	108,853	-
Other	321,150	83,464	547,272	159,815
	1,747,563	427,032	4,650,264	366,976
Tunisia				
Geological and geophysical	-	-	-	7,500
Land	-	-	-	-
Drilling and completion	39,471	-	39,471	2,075,138
	39,471	-	39,471	2,082,638
Canada				
Land	-	-	-	-
Drilling and completion	19,616	(2,975)	21,616	30,069
Well equipment and facilities	-	561	12	3,362
Other	-	-	-	140
	19,616	(2,414)	21,628	33,571
Total capital expenditures	$ 1,806,650	$ 424,618	$ 4,711,363	$ 2,483,185

Capital expenditures increased in 2009 as the Company drilled the CAN X-2 well in Argentina and incurred costs for seismic exploration, processing and interpretation on the Curamhuele and Cortadera blocks. In Tunisia the majority of the costs associated with drilling the Remada Sud well were incurred in the first quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2009 Madalena had working capital of $1,364,654 (including $1,942,676 in cash and cash equivalents) compared to $7,243,361 (including $7,861,868 in cash and cash equivalents) at December 31, 2008. Working capital and cash were used in 2009 to fund seismic exploration and drilling activity in Argentina, and fund operating cash flow requirements.

The Company had negative funds from operations in the three months ended June 30, 2009 totaling $454,971 compared to negative funds from operations of $273,758 in the second quarter of 2008. The Company had negative funds from operations of $1,108,264 in the nine months ended June 30, 2009, compared to negative funds from operations of $579,548 for the same period in 2008 (funds from operations is a non-GAAP measurement – see the paragraph on non-GAAP measurements above for a comparison to cash flow from operations). Negative funds from operations have increased in 2009 as net operating revenues from the Canadian petroleum and natural gas properties and interest income have declined. Production testing in Argentina and Tunisia did not produce any significant net inflow in the three and six months ended June 30, 2009 however the Company expects that future test production will provide additional funds inflow to the Company as the production is sold to market and net operating costs are reduced.

Historically, the Company raised funds from equity financings to fund its exploration and development activities and operating cash flow requirements, including a non-brokered private placement on April 4, 2008 which raised $2,450,000. The Company's ability to continue operations is dependant on raising sufficient capital to complete planned exploration and development activities, successfully producing economic quantities of petroleum and natural gas from its two exploration discoveries in Argentina and Tunisia, properly managing its existing cash resources, identifying additional commercial oil and gas reserves, and generating profitable operations. Management believes that the Company's existing working capital and cash resources will be sufficient to meet current obligations that come due for the next year. The Company has no outstanding debt or capital commitments which must be made in the next year.

TRANSACTIONS WITH RELATED PARTIES

During the three and six months ended June 30, 2009 the Company used the services of a law firm in which one of the Company's directors was a partner. During the three and six months ended June 30, 2009 the Company incurred $22,000 and $23,000, respectively, for legal services at market rates from the law firm. There were no related party transactions in the comparative periods for 2008 as the director joined the Company in the first quarter of 2009.

SHARE INFORMATION

At June 30, 2009 and August 27, 2009, the Company has 111,743,702 common shares and 10,930,000 stock options outstanding. In the second quarter of 2008 the Company completed a private placement resulting in the issuance of 4,375,003 common shares and all previously outstanding warrants to purchase common shares expired unexercised.

BUSINESS RISKS

The Company operates in the petroleum and natural gas industry which is subject to numerous risks that can affect the amount of cash flow from operating activities and the ability to grow. These risks include but are not limited to:

- Global financial crisis and the resulting economic uncertainty;
- Volatility in commodity pricing, exchange and interest rates;
- Government and regulatory risk with respect to royalty and income tax regimes;
- Operation risks that may affect the quality and recoverability of reserves;
- Geological risks associated with accessing and recovering new quantities of reserves;
- Ability to capitalize on farm-in and farm-out opportunities as they arise;
- Production risks associated with the ability to extract commercial quantities of petroleum and natural gas;
- Transportation risk with respect to the ability to transport petroleum and natural gas to market;
- Third party credit risk and the resulting ability to collect amounts owed;
- Capital markets risk and the ability to finance future growth;
- Weather risk with respect to the ability to enter and drill wells in wet areas;
- Uncertainty as to the nature of evolving environmental legislation that is likely to result in stricter standards and enforcement;
- Gas processing risk with respect to the ability to process natural gas into third party owned facilities; and
- Environmental risk with respect to the ability to remedy spills, releases or emissions of various substances produced in association with petroleum and natural gas operations.

The Corporation will do its best to minimize these business risks by:

- Employing management, technical staff and consultants with extensive industry experience;
- Maintaining a low cost structure;
- Maintaining prudent financial practices;
- Controlling timing and magnitude of operating and capital costs; and
- Maintaining insurance in accordance with industry standards to address the risk of liability for pollution, blow-outs, property damage, personal injury and other hazards.

Global financial downturn

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in the latter part of 2008 and continued in the first and second quarters of 2009, causing a loss of confidence in the broader Canadian, U.S. and global credit and financial markets and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused further deterioration in credit markets and substantial declines in stock markets. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Substantial capital requirements

In order to completely exploit its existing properties and create future growth, the Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues continue to decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit downturn exposes the Company to limited access to capital. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

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

Changes to the Alberta royalty regime

On January 1, 2009 the Government of Alberta implemented its New Royalty Framework ("NRF"). Based on the NRF, royalty rates on conventional and non-conventional petroleum and natural gas production may increase up to a maximum of 50% based on a range of commodity prices and production rates which are incorporated into sliding scale royalty calculations. In response to the drop in commodity prices experienced during the second half of 2008, the Government of Alberta announced on November 19, 2008, the introduction of a five-year program of transitional royalty rates with the intent of promoting new drilling. Under this new program, companies drilling new conventional petroleum and natural gas wells to a depth between 1,000 and 3,500 meters will be given a one-time option, on a well by well basis, to adopt either the new transitional royalty rates or those outlined in the NRF. In order to qualify for this program, wells must be drilled during the period starting on November 19, 2008 and ending on December 31, 2013. Following this period all new wells drilled will automatically be subject to the NRF. All of the Company's Canadian reserves and production are within the Province of Alberta and a significant portion are subject to the NRF.

Royalties under the NRF are sensitive to commodity prices and production levels. Therefore, the estimated NRF and corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled.

On March 3, 2009, the Government of Alberta announced a drilling royalty credit for new conventional petroleum and natural gas wells and a new well royalty incentive program. Under the drilling royalty credit program a $200 per meter royalty credit will be available on new conventional petroleum and natural gas wells drilled between April 1, 2009 and March 31, 2010, subject to certain maximum amounts. The maximum credits available will be determined by the Company's production level in 2008 and its drilling activity between April 1, 2009 and March 31, 2010. The new well incentive program will apply to all wells on Crown lands that begin production of conventional petroleum and natural gas between April 1, 2009 and March 31, 2010 and provides for a maximum 5% royalty rate on the primary product for the first 12 months of production, up to a maximum of 50,000 barrels of oil or 500 Mmcf of natural gas. These programs are expected to positively impact the Company. The effect of the announcement has not been reflected in the Company' reserves as evaluated by PLA at December 31, 2008.

CONTRACTUAL OBLIGATIONS

The Company has a lease commitment for its Calgary, Canada head office that expires in June 2011. The total estimated remaining lease payments at June 30, 2009, including operating costs, are approximately $253,000.

The Company has lease commitments for rental accommodations in Argentina which expire in October and December of 2009. The total estimated remaining lease payments at June 30, 2009 are $7,000 USD. The Company also has a lease agreement for office space in Argentina which expires in May 2011. The total estimated remaining lease payments at June 30, 2009 is $52,000 USD.

On acquisition of the exploration properties in Argentina, the Company agreed to work programs with the Province of Neuquen. The work programs originally required the Company to undertake specific activities on each block and spend at least $10,500,000 USD by November of 2010, which can be extended by application to 2011. Under the original work program, the estimated remaining minimum work commitments are approximately $2,231,000 US at June 30, 2009. In July and August of 2009 the Company and the Province of Neuquen entered into discussions to change the calculation of the work commitment required on the exploration blocks. The Company expects that its remaining work commitments on all three blocks at June 30, 2009 would be less than $1,000,000 USD under the new work commitment programs and that final agreement on the programs will be concluded by the end of the third quarter of 2009. If the Company does not meet its work commitments it will forfeit its rights to the non producing exploration blocks.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2008 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 during the three and six months ended June 30, 2009.

INITIAL ADOPTION OF ACCOUNTING POLICIES

The following describes the accounting policies initially adopted by the Company in the first and second quarters of 2009 as a result of new accounting standards:

Goodwill and intangible assets

Effective January 1, 2009, a new Canadian accounting standard for "*Goodwill and Intangible Assets*" replaced the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets, particularly with respect to internally developed intangible assets. The adoption of this standard does not have any impact on the Company's consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

The following describes new accounting pronouncements that have been issued but are not yet effective:

Business combinations, Non-controlling interests, Consolidated financial statements

Effective January 1, 2011 the Company will be required to adopt the new Canadian accounting standards for "*Business Combinations*", "*Non-controlling Interests*" and "*Consolidated Financial Statements*". All three standards were issued in contemplation of convergence with International Financial Reporting Standards ("IFRS") as discussed below. The new standards address accounting for business combinations, both at the time of acquisition and subsequent to the initial purchase accounting, and includes guidance on accounting for non-controlling interests and subsequent preparation of consolidated financial statements. The Company has no transactions that are affected by these new standards. Early adoption of the standards is allowed, and will be considered if and when applicable transactions arise.

IFRS

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that IFRS will become Canadian GAAP effective January 1, 2011 for profit-oriented Canadian publicly accountable enterprises. The adoption of IFRS will have a significant impact on the financial results and disclosures of the Company; however, that impact cannot be reasonably estimated at this time. Madalena has developed a specific implementation plan which will include assessment and quantification of anticipated impacts.

Madalena commenced its IFRS convergence project in 2008 and is currently executing a specific convergence plan which will include assessment and quantification of anticipated impacts. The convergence plan has been designed with sufficient flexibility to adapt to changes and new developments in existing Canadian GAAP and IFRS standards.

Key elements of the convergence plan are as follows:

Convergence Plan	**Status**
Initial impact and diagnostic phase:	
• Assign roles and responsibility for the convergence plan.	Completed
• Ensure appropriate training and other resources are available to each member of the convergence team.	Preliminary training completed. Continue as needed through to the convergence date.
• Identify major differences between Canadian GAAP and IFRS standards and prioritize timing of next steps based on the complexity of the differences identified.	Completed
Research and planning phase	
• Perform detailed research on identified differences between Canadian GAAP and IFRS and select transitional and post convergence accounting policies.	Commenced in Q2 2009 and to continue through convergence.
• Identify the impact of new accounting policies on business management and relationships, information systems and the overall control environment and develop a formal plan to address these impacts.	Commenced in Q2 2009 and to continue through convergence
• Develop a formal plan and timeline to address issues noted.	Commenced in Q2 2009 and to continue through convergence
Solution development and implementation phase	
• Quantify effects of identified accounting differences on financial results and develop formats and templates for financial statements and other financial reporting requirements.	To commence in 2010 and continue through convergence.
• Update information systems to ensure they provide IFRS compliant information.	To commence in Q4 2009 and continue through convergence.
• Renegotiate service contracts, debt arrangements, employment compensation programs, as applicable, to ensure that terms are not negatively impacted by IFRS reported financial results.	To commence in 2010 and continue through convergence.
• Restate 2010 comparative financial statement balances, including opening retained earnings, and present 2011 financial results in full compliance with IFRS	To commence in Q4 2009 and continue through convergence.

In the second quarter of 2009, the Company commenced the research and planning phase of the IFRS convergence plan. Management has identified a number of key accounts that will be impacted by IFRS, the most significant of which is property and equipment. Analysis is being performed to determine the magnitude of the impact that IFRS convergence is likely to have on these significant accounts and related processes, and an detailed plan is being developed to ensure the timely resolution of these impacts.

OUTLOOK

For the remainder of 2009 and into 2010, the Company plans to manage its existing cash resources, monitor its production and revenue from its existing wells in Tunisia and Argentina, and continue its efforts to explore and develop the exploration blocks in Tunisia and Argentina. Management is focused on the evaluation of various mechanisms to provide capital for its exploration opportunities.

QUARTERLY FINANCIAL INFORMATION

As at and for the three months ended	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008
Operations				
Daily production				
Oil (bbl/d)	6	8	8	8
Natural gas (mcf/d)	71	119	82	108
Natural gas liquids (bbl/d)	3	4	3	3
Oil equivalent (boe/d)	20	32	25	29
Average sales price				
Oil price ($bbl)	$ 64.55	$ 48.62	$ 64.09	$ 118.31
Natural gas price ($/mcf)	4.08	5.75	7.52	8.17
Natural gas liquids price ($/bbl)	$ 42.36	$ 42.96	$ 55.90	$ 108.00
Oil equivalent price ($/boe)	$ 37.90	$ 39.42	$ 52.36	$ 73.56
Operating net back ($/boe)	$ 20.93	$ 21.74	$ 24.21	$ 43.59
Financial				
Petroleum and natural gas revenues	$ 69,404	$ 113,538	$ 117,665	$ 196,260
Interest income	1,350	7,165	41,349	61,313
Net loss	(2,075,920)	(872,861)	(869,238)	(246,875)
Basic and diluted per share	(0.019)	(0.074)	(0.008)	(0.002)
Capital expenditures	1,806,650	2,904,713	3,335,224	2,607,546
Working capital	$ 1,364,654	$ 3,689,766	$ 7,243,361	$ 10,373,391
Shares outstanding (000's)	111,744	111,744	111,744	111,744

As at and for the three months ended	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007
Operations				
Daily production				
Oil (bbl/d)	11	9	18	8
Natural gas (mcf/d)	96	114	136	180
Natural gas liquids (bbl/d)	4	5	6	7
Oil equivalent (boe/d)	31	32	47	45
Average sales price				
Oil price ($bbl)	$ 121.26	$ 94.46	$ 77.07	$ 78.66
Natural gas price ($/mcf)	11.32	8.53	6.32	6.04
Natural gas liquids price ($/bbl)	$ 106.20	$ 78.39	$ 65.82	$ 65.26
Oil equivalent price ($/boe)	$ 91.65	$ 66.66	$ 56.75	$ 48.38
Operating net back ($/boe)	$ 43.26	$ 32.28	$ 31.74	$ 25.38
Financial				
Petroleum and natural gas revenues	$ 255,466	$ 195,309	$ 245,704	$ 200,514
Interest income	70,188	91,628	128,382	164,981
Net loss	(528,911)	(188,767)	(3,624,807)	(462,486)
Basic and diluted per share	(0.005)	(0.002)	(0.030)	-
Capital expenditures	424,618	2,058,566	2,079,747	92,069
Working capital	$ 12,978,586	$ 11,232,647	$ 13,236,239	$ 15,144,359
Shares outstanding (000's)	111,744	107,369	107,369	107,369

Interim Consolidated Financial Statements of

MADALENA VENTURES INC.

As at and for the three months and six months ended June 30, 2009
(unaudited)

MADALENA VENTURES INC.

Consolidated Balance Sheets (unaudited)

As at	June 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 1,942,676	$ 7,861,868
Accounts receivable	206,973	235,274
Prepaid expenses	191,082	90,814
	2,340,731	8,187,956
Property and equipment (note 5)	18,919,080	15,686,991
	$ 21,259,811	$ 23,874,947
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 976,077	$ 944,595
Asset retirement obligations (note 6)	446,220	356,378
	1,422,297	1,300,973
Shareholders' equity		
Share capital and warrants (note 7)	31,491,768	31,491,768
Contributed surplus (note 7)	6,921,572	6,709,251
Deficit	(18,575,826)	(15,627,045)
	19,837,514	22,573,974
	$ 21,259,811	$ 23,874,947

See accompanying notes to the interim consolidated financial statements.

Commitments (note 10)
Subsequent events (note 12)
Future operations (note 1)

MADALENA VENTURES INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit (unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenue				
Petroleum and natural gas	$ 69,404	$ 255,466	$ 182,942	$ 450,775
Royalties	(9,970)	(93,065)	(21,771)	(142,812)
	59,434	162,401	161,171	307,963
Interest income	1,350	70,188	8,515	161,816
Foreign exchange gain/(loss)	(172,445)	(5,685)	(357,692)	355,080
	(111,661)	226,904	(188,006)	824,859
Expenses				
Operating	21,104	41,811	60,209	92,801
General and administrative	385,090	464,606	916,559	939,094
Stock-based compensation	74,836	154,845	195,774	316,536
Depletion, depreciation and accretion	1,483,229	94,553	1,588,233	194,106
	1,964,259	755,815	2,760,775	1,542,537
Net loss and other comprehensive loss	(2,075,920)	(528,911)	(2,948,781)	(717,678)
Deficit - beginning of the period	(16,499,906)	(13,982,021)	(15,627,045)	(13,793,254)
Deficit - end of the period	$ (18,575,826)	$ (14,510,932)	$ (18,575,826)	$ (14,510,932)
Net loss and other comprehensive loss per common share - basic and diluted	$ (0.019)	$ (0.005)	$ (0.026)	$ (0.007)
Weighted average number of shares: Basic and diluted	111,743,702	111,551,394	111,743,702	109,460,047

See accompanying notes to the interim consolidated financial statements.

MADALENA VENTURES INC.

Consolidated Statements of Cash Flows (unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating activities				
Net loss and other comprehensive loss	$ (2,075,920)	$ (528,911)	$ (2,948,781)	$ (717,678)
Items not involving cash				
Stock-based compensation	74,836	154,845	195,774	316,536
Depletion, depreciation and accretion	1,483,229	94,553	1,588,233	194,106
Unrealized foreign exchange	63,491	5,685	59,080	(355,080)
Abandonment costs	(607)	70	(2,570)	(17,432)
	(454,971)	(273,758)	(1,108,264)	(579,548)
Change in non-cash working capital items (note 9)	(13,935)	(70,744)	8,800	112,644
	(468,906)	(344,502)	(1,099,464)	(466,904)
Financing activities				
Issue of common shares	-	2,450,000	-	2,450,000
Investing activities				
Additions to property and equipment	(1,806,650)	(424,618)	(4,711,363)	(2,483,185)
Change in non-cash working capital items (note 9)	(296,765)	(533)	14,230	(21,414)
	(2,103,415)	(425,151)	(4,697,133)	(2,504,599)
Change in cash and cash equivalents	(2,572,321)	1,680,347	(5,796,597)	(521,503)
Cash and cash equivalents, beginning of the period	4,660,428	11,241,387	7,861,868	13,082,472
Impact of foreign exchange on cash balances	(145,431)	(5,685)	(122,595)	355,080
Cash and cash equivalents, end of the period	$ 1,942,676	$ 12,916,049	$ 1,942,676	$ 12,916,049

See accompanying notes to the interim consolidated financial statements.

1. Nature of business and basis of presentation

Madalena Ventures Inc. ("Madalena" or the "Company") was incorporated pursuant to the laws of the Province of Alberta. Madalena is based in Calgary, Alberta and is involved in the exploration, development and production of petroleum and natural gas in Alberta, Tunisia and Argentina. These interim consolidated financial statements include the accounts of Madalena Ventures Inc. and its wholly owned subsidiaries Madalena Ventures International Holding Company Inc., Madalena Ventures International Inc., and Madalena Astral SA. All inter-company transactions and balances have been eliminated.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2008 except as described in note 2. These notes do not include all disclosures required in annual financial statements and are incremental to, and should be read in conjunction with, the audited financial statements and notes for the year ended December 31, 2008.

Future operations

These interim consolidated financial statements have been prepared on the basis that the Company is a going concern and will realize assets and discharge liabilities in the normal course of operations for the foreseeable future. The Company's ability to continue operations is dependent on identifying commercial oil and gas reserves, generating profitable operations and raising sufficient capital to complete planned exploration and development activities. However, the outcome of which cannot be predicted at this time. Specifically, Madalena has minimal production and limited cash flow from operating activities. Consequently, the Company currently relies on equity financing to pay for exploration activities, commitments as discussed in Note 10, and overhead expenses, access to which has been greatly restricted due to the current global economic conditions.

2. Changes in significant accounting policies

Goodwill and intangible assets

Effective January 1, 2009, the Company adopted a new Canadian accounting standard for "*Goodwill and Intangible Assets*". The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets, particularly with respect to internally developed intangible assets. The adoption of this standard has not had any impact on the Company's consolidated financial statements.

3. Recent accounting pronouncements

Business combinations, Non-controlling interests, Consolidated financial statements

Effective January 1, 2011 the Company will be required to adopt the new Canadian accounting standards for "*Business Combinations*", "*Non-controlling Interests*" and "*Consolidated Financial Statements*". All three standards were issued in contemplation of convergence with International Financial Reporting Standards ("IFRS") as discussed below. The new standards address accounting for business combinations, both at the time of acquisition and subsequent to the initial purchase accounting, and includes guidance on accounting for non-controlling interests and subsequent preparation of consolidated financial statements. The Company has no transactions that are affected by these new standards. Early adoption of the standards is allowed and will be considered if and when applicable transactions arise.

IFRS

In February 2008, the CICA Accounting Standards Board confirmed that IFRS will become Canadian GAAP effective January 1, 2011 for profit-oriented Canadian publicly accountable enterprises. The adoption of IFRS will have a significant impact on the financial results and disclosures of the Company; however, that impact cannot be reasonably estimated at this time. Madalena has developed a specific implementation plan which will include assessment and quantification of anticipated impacts.

4. Financial risk and capital management

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, policies and procedures. The following outlines the Company's risk exposures and explains how these risks and its capital structure are managed.

Capital management

The Company's objective is to maintain a strong capital position in order to execute on its exploration and development plans and maximize shareholder value.

The Company currently defines its capital as shareholders' equity and working capital. Changes to the relative weighting of the capital structure is driven by the Company's business plans, changes in economic conditions and risks inherent in the oil and gas industry. In order to maintain or adjust the capital structure, the Company may consider any or all of the following activities, depending on existing economic conditions and access to external capital sources:

- Issue new shares through a public offering or private placement
- Raise fixed or floating interest rate debt
- Consolidate outstanding common shares
- Farm-out existing exploration opportunities
- Sale of assets

The Company is not subject to any external restrictions on its capital structure and has no debt facilities.

The Company periodically reviews its capital structure in relation to its expected exploration and development budgets. Since the Company is primarily in the exploration phase as a result of its Tunisia and Argentina pre-production activities, certain quantitative measures used by industry peers, such as return on equity, return on capital employed and debt to equity ratios, are not relevant measures for the Company.

The current global economic conditions, including lower interest rates, the fluctuating Canadian dollar, lower commodity prices and the limited access to external debt and equity financing markets has required Madalena to refocus its capital management policies and processes in 2009. The Company's capital management is now focused on conserving cash balances and focusing on high impact, low capital cost exploration and development programs.

Credit risk

The Company is exposed to credit risk in relation to its cash and cash equivalents and accounts receivable.

Cash and cash equivalents are held with highly rated international banks and are considered to have negligible credit risk.

The Company's accounts receivable are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Company's accounts receivable include amounts due from its Canadian and Argentine operators which are subject to normal industry credit risk. The carrying amounts of accounts receivable represents the Company's maximum credit exposure. The Company does not record an allowance for doubtful accounts and has not written off any accounts receivable in the three and six months ended June 30, 2009 or 2008. At June 30, 2009 the Company had $24,764 of accounts receivable due from one of its Canadian operators which was past due; however, the balance is expected to be fully recovered.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk through management of its capital structure and annual budgeting of its revenues, expenditures, and cash flow. As of June 30, 2009, the Company has a working capital surplus of $1,364,654 (including cash of $1,942,676) which, given planned capital expenditures, administrative overhead requirements and commitments, and expected proceeds from the sale of the Company's Canadian petroleum and natural gas properties as explained in Note 12, is sufficient to meet capital and operating commitments for the next twelve months.

Market risk

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net earnings and in the fair value of its financial assets and liabilities.

Commodity price risk

Price fluctuations for both crude oil and natural gas are determined by world and North American supply and demand factors. The Company has no influence over the pricing of oil and natural gas and has not attempted to mitigate commodity price risk through the use of financial derivatives.

Interest rate risk

The Company is exposed to interest rate fluctuations on its investments of excess cash in short term discount notes issued by international banks.

Foreign currency exchange rate risk

A substantial portion of the Company's exploration and development activities are conducted in foreign jurisdictions and a portion of the Company's cash and cash equivalents are denominated in US dollars (USD) and Argentine Pesos (ARS). Consequently, the Company is exposed to foreign currency exchange risk on a substantial portion of its financial assets. The Company has not entered into derivative exchange rate contracts to mitigate this risk.

Sensitivity analysis

The following table presents an estimate of the impact on net loss and other comprehensive loss of each of the market risk factors discussed above and is calculated based on the noted change in the market factor applied to the results for the six months ended June 30, 2009 or the balance at June 30, 2009.

Market risk	Change in market factor (+/-)	Impact on net loss ($+/-)
Commodity prices - effect of change in market factor for:		
Crude oil and liquids produced in the period	$10/bbl	$ 20,000
Natural gas produced in the period	$0.50/mcf	9,000
Foreign exchange - effect of change in market factor for:		
USD denominated financial assets and liabilities	3%	15,000
ARS denominated financial assets and liabilities	3%	70,000
Interest rates - effect of change in market factor for:		
Interest bearing accounts and discount notes	50 basis points	$ -

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, the carrying values of which approximate their fair values at June 30, 2009 due to their short-term nature. The Company has no bank indebtedness.

Cash and cash equivalents, including amounts invested in discount notes, are categorized as held-for-trading financial assets and are measured at fair value with any change in fair value recognized in net loss during the period. Accounts receivable are categorized as loans and receivables and accounts payable and accrued liabilities are categorized as other financial liabilities; all of which are recorded at amortized cost. Periodically, the Company invests excess cash in discount notes issued by Canadian chartered banks. The fair value of the discount notes is based on trading prices issued by the chartered banks. The difference between fair value and cost of the notes is recorded as interest income. At June 30, 2009, the Company did not hold any discount notes.

The following table provides information on the foreign currency denominated financial instruments held by the Company at June 30, 2009:

	Balance denominated in		Total CAD
	USD	ARS	equivalent
Cash and cash equivalents	147,325	570,165	344,669
Accounts receivable	-	427,940	130,094
Accounts payable and accrued liabilities	293,671	1,387,376	763,301

5. Property and equipment

As at June 30, 2009	Cost	Accumulated depletion and depreciation	Net book value
Canadian petroleum and natural gas properties	$ 10,537,487	$ (9,883,487)	$ 654,000
Argentina pre-production costs	12,547,429	-	12,547,429
Tunisia pre-production costs	5,685,120	-	5,685,120
Furniture and fixtures	114,213	(81,682)	32,531
	$ 28,884,249	$ (9,965,169)	$ 18,919,080

As at December 31, 2008	Cost	Accumulated depletion and depreciation	Net book value
Canadian petroleum and natural gas properties	$ 10,515,860	$ (8,320,341)	$ 2,195,519
Argentina pre-production costs	7,798,917	-	7,798,917
Tunisia pre-production costs	5,645,649	-	5,645,649
Furniture and fixtures	114,213	(67,307)	46,906
	$ 24,074,639	$ (8,387,648)	$ 15,686,991

At June 30, 2009 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. The amounts capitalized in the Argentina cost center at June 30, 2009 include $1,475,238 of Value Added Tax ("VAT") (December 31, 2008 - $865,143). VAT is payable on goods and services supplied to the Company and is not recoverable from the Government of Argentina, however the Company is allowed to charge and retain VAT on any oil and gas revenue to the extent of the VAT recorded and paid on previous expenditures.

Revenues and operating expenses realized from the testing of wells in the pre-production stage cost centers is recorded in the full cost pool. During the six months ended June 30, 2009, there was $103,417 of net operating costs charged to Argentina and Tunisia pre-production costs. For the year ended December 31, 2008 there was $142,867 of net operating revenue credited to pre-production costs.

General and administrative expenses and stock-based compensation totaling $162,395 and $16,547, respectively, directly related to exploration and development activities were capitalized in the six months ended June 30, 2009 (2008 – $136,000 and $69,557, respectively). The depletion calculation for Canadian petroleum and natural gas properties for the three and six months ended June 30, 2009 includes future development costs of proved reserves of $441,250 (2008 - $441,250).

At June 30, 2009 the Company performed a ceiling test calculation to determine if the Canadian petroleum and natural gas properties were impaired. The ceiling test calculation indicated the Canadian petroleum and natural gas properties are impaired, and the Company has reduced the carrying value of the properties to their expected fair value of $654,000 based on an offer to purchase the properties received on July 22, 2009 (see note 12) and an estimate of the asset retirement obligations being assumed. The write down of $1,416,147 has been included in depletion expense for the three and six months ended June 30, 2009.

6. Asset retirement obligations

Asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At June 30, 2009 the total undiscounted amount of cash flows estimated to settle the Company's asset retirement obligations is approximately $220,000 in Canada, $1,105,000 USD in Argentina and $270,000 USD in Tunisia ($220,000 in Canada, $900,000 USD in Argentina, and $270,000 USD in Tunisia at December 31, 2008). These costs are expected to be incurred over the next 11 years in Canada, over the next 3 to 25 years in Argentina and over the next 25 years in Tunisia. A credit-adjusted risk-free rate of 8% and an inflation rate of 2% was used to calculate the fair value of the asset retirement obligations in Canada, a credit adjusted risk-free interest rate of 8% and an inflation rate of 7.85% was used to calculate the fair value of the asset retirement obligations in Argentina, and a credit-adjusted risk-free interest rate of 8% and an inflation rate of 4% was used to calculate the fair value of the asset retirement obligation in Tunisia which are consistent with assumptions used at December 31, 2008. A reconciliation of the total asset retirement obligations is provided below:

As at and for the period ended	June 30, 2009	December 31, 2008
Balance, beginning of period	$ 356,378	$ 114,913
Obligations accrued	81,700	256,290
Accretion expense	10,712	5,810
Costs incurred	(2,570)	(20,635)
Balance, end of period	$ 446,220	$ 356,378

7. Share capital and warrants

Authorized

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

Issued and outstanding

The following table provides a summary of the issued and outstanding common shares and warrant activity for the six months ended June 30, 2009:

	Common shares		Warrants			
	Number	Amount ($)	Number	Weighted average exercise price ($)	Amount ($)	Share capital & warrants ($)
At December 31, 2007	107,368,699	29,041,768	12,577,625	0.90	2,900,000	31,941,768
Private placement	4,375,003	2,450,000	-		-	2,450,000
Warrants expired	-	-	(12,577,625)	(0.90)	(2,900,000)	(2,900,000)
At December 31, 2008 and June 30, 2009	111,743,702	31,491,768	-	-	-	31,491,768

On April 4, 2008 the Company closed a non-brokered private placement for the issuance 4,375,003 common shares at $0.56 per share for total proceeds of $2,450,000, with no associated issue costs.

On May 2, 2008 all outstanding warrants expired.

Stock options

Under the Company's stock option plan, directors, officers, employees and consultants are eligible to receive options to acquire common stock. 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. Total options granted cannot exceed 10% of the issued and outstanding common shares of the Company.

Options granted to directors vest immediately. Options granted to officers, employees, and consultants vest equally over three years on each anniversary of the grant date. All options expire five years from the grant date.

The following table presents the Company's stock option activity:

As at and for the period ended	June 30, 2009		December 31, 2008	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding - beginning of the period	11,155,000	0.57	10,150,000	0.62
Granted	300,000	0.125	1,055,000	0.105
Forfeited	(525,000)	(0.65)	(50,000)	0.85
Outstanding - end of the period	10,930,000	0.55	11,155,000	0.57
Exercisable - end of the period	9,326,667	0.58	7,608,333	0.58

On May 15, 2009, 525,000 fully vested stock options were forfeited by a former director of the Company. On May 25, 2009, 300,000 stock options were granted to a new director of the Company at $0.125 cents per share.

The following table presents the estimated remaining life of outstanding stock options and the number of shares that may be issued at June 30, 2009:

	Outstanding		
Exercise Price	Number of options	Weighted average remaining life (years)	Number of options exercisable
$ 0.105	1,000,000	4.42	100,000
$ 0.12	1,000,000	1.27	1,000,000
$ 0.125	300,000	4.90	300,000
$ 0.41	330,000	1.69	310,000
$ 0.60	1,950,000	2.97	1,666,667
$ 0.66	4,300,000	1.65	4,300,000
$ 0.70	100,000	3.30	33,333
$ 0.73	800,000	1.72	800,000
$ 0.85	1,150,000	2.29	816,667
	10,930,000	2.28	9,326,667

Stock-based compensation and contributed surplus

The Company accounts for its stock-based compensation using the fair value method. The fair value of each stock option granted is estimated using the Black-Scholes option pricing model. The underlying weighted average assumptions used in calculating stock-based compensation at June 30, 2009 are: risk free interest rate of 2.52% (3.37% at December 31, 2008), expected life of 3.98 years (3.59 years at December 31, 2008), expected volatility of 126.2% (79.6% at December 31, 2008), and 0% dividend yield (0% at December 31, 2008). The grant date weighted average fair value of stock options granted during the six months ended June 30, 2009 was $0.11 per option ($0.24 per option for options granted in the six months ended June 30, 2008) The fair value, estimated at the grant date for options issued to directors, officers and employees and the measurement date for options issued to consultants, is expensed on a straight-line basis over the vesting terms of the options.

The following table presents the Company's stock-based compensation and continuity of contributed surplus:

As at and for the period ended	June 30, 2009	December 31, 2008
Balance - beginning of the period	$ 6,709,251	$ 3,071,925
Stock-based compensation expensed	195,774	648,956
Stock-based compensation capitalized	16,547	88,370
Balance transferred on expiration of warrants	-	2,900,000
Balance - end of the period	$ 6,921,572	$ 6,709,251

8. Segmented information

The Company has determined its three geographic operating segments to be Canada, Tunisia and Argentina. Financial information pertaining to these operating segments is presented in the following tables:

	2009				2008			
Three months ended June 30,	Canada	Argentina	Tunisia	Total	Canada	Argentina	Tunisia	Total
Gross revenue, including interest	$ 70,753	$ -	$ 1	$ 70,754	$ 325,654	$ -	$ -	$ 325,654
Net loss and other comprehensive loss	$ (1,737,486)	$ (280,410)	$ (58,024)	$ (2,075,920)	$ (492,310)	$ (42,764)	$ 6,163	$ (528,911)

	2009				2008			
Six months ended June 30,	Canada	Argentina	Tunisia	Total	Canada	Argentina	Tunisia	Total
Gross revenue, including interest	$ 191,451	$ -	$ 6	$ 191,457	$ 612,591	$ -	$ -	$ 612,591
Net loss and other comprehensive loss	$ (2,365,695)	$ (505,710)	$ (77,376)	$ (2,948,781)	$ (635,284)	$ (70,724)	$ (11,670)	$ (717,678)

	June 30, 2009				December 31, 2008			
As at and for the periods ended	Canada	Argentina	Tunisia	Total	Canada	Argentina	Tunisia	Total
Property and equipment, net	$ 686,531	$ 12,547,429	$ 5,685,120	$ 18,919,080	$ 2,242,425	$ 7,798,917	$ 5,645,649	$ 15,686,991
Property and equipment expenditures	21,628	4,650,264	39,471	4,711,363	167,097	5,053,741	3,205,116	8,425,954
Total assets	$ 2,455,295	$ 12,989,702	$ 5,814,814	$ 21,259,811	$ 9,431,467	$ 8,771,874	$ 5,671,606	$ 23,874,947

9. Supplemental cash flow information

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Accounts receivable	$ 81,314	$ 20,152	$ 28,301	$ 22,431
Prepaid expenses	(130,696)	(28,259)	(100,268)	(18,255)
Accounts payable and accrued liabilities	(343,258)	(63,170)	31,482	87,054
Foreign exchange	81,940	-	63,515	-
Change in non-cash working capital	$ (310,700)	$ (71,277)	$ 23,030	$ 91,230
Attributable to:				
Operating activities	$ (13,935)	$ (70,744)	$ 8,800	$ 112,644
Investing activities	(296,765)	(533)	14,230	(21,414)
	$ (310,700)	$ (71,277)	$ 23,030	$ 91,230

10. Commitments

The Company entered into a lease agreement for its Calgary office premises which expires June 15, 2011. The minimum lease rentals including estimated operating costs at June 30, 2009 are as follows:

2009	$ 65,000
2010	129,000
2011	59,000
Total	$ 253,000

The Company has entered into a lease for office space in Argentina which expires in May of 2011. The minimum lease rentals, excluding operating costs, at June 30, 2009 are as follows:

	USD
2009	$ 14,000
2010	27,000
2011	11,000
Total	$ 52,000

The Company also has two leases for rental accommodations in Argentina which expire in October 2009 and December 2009. The minimum lease rentals payable under the leases at June 30, 2009 is $7,000 USD.

On acquisition of the exploration properties in Argentina, the Company agreed to work programs with the Province of Neuquen. The work programs originally required the Company to undertake specific activities on each block and spend at least $10,500,000 USD by November of 2010, which can be extended by application to November of 2011. Madalena's estimated share of the remaining minimum work commitments at June 30, 2009 is approximately $2,231,000 USD. If the Company does not meet its work commitments by 2010 or 2011 it could forfeit its rights to the non producing portions of the exploration blocks.

11. Related party transactions

In January of 2009 a partner in a law firm which the Company uses to provide legal services became a Director. During the period ending June 30, 2009 the Company expended approximately $23,000 on services provided by the law firm.

12. Subsequent event

On August 27, 2009, the Company completed the sale of all of its Canadian petroleum and natural gas properties for cash consideration of $554,000 and the assumption by the purchaser of all abandonment and reclamation obligations. The sale will result in a change in the Company's depletion rate by more than 20%; therefore, a gain or loss on sale will be recorded when all closing adjustments are determined. The carrying value of the Canadian petroleum and natural gas properties is $654,000 at June 30, 2009 after an impairment loss of $1,416,147 was recorded in the three months ended June 30, 2009.

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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
Independent Businessman

Michael J. Lock
President,
Upsilon Holdings Ltd.

Jay P. Reid
Partner, Burnet, Duckworth & Palmer LLP

OFFICERS
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Senior Vice President and Chief Operating Officer

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STOCK EXCHANGE LISTING
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Trading Symbol: "MVN"