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 years ended December 31, 2009 and 2008. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2009 and 2008. 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 April 21, 2010. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Unless otherwise stated, 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. 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 deemed to be 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. Management considers these measures to be useful supplementary information when analyzing operational and financial performance.

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:

Year ended December 31,		2009		2008
Cash flow used in operating activities	$	(2,740,869)	$	(1,903,776)
Change in non-cash working capital		(233,781)		116,890
Funds used in operations	$	(2,507,088)	$	(2,020,666)

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. Additional information on operating netbacks is provided in "Discontinued operations".

OVERVIEW

Madalena is an independent, Canadian-based, international upstream oil and gas company whose main business activities include exploration, development and production of crude oil, natural gas liquids and natural gas. The Company has exploration and production operations in South America.

Following the sale of the Company's Canadian oil and gas assets in August 2009 and Tunisian assets in March 2010, the Company is moving forward with ongoing exploration and development of the Corporation's core high working interest projects in the Neuquén Basin of Argentina.

In December 2009, the Company strengthened its financial position by completing a public offering of 66,667,000 units at an issue price of $0.15 per unit for gross proceeds to Madalena of $10,000,050. Each unit consisted of one common share and one-half (1/2) common share purchase warrant. Each whole warrant issued entitles the holder thereof to purchase one common share at a price of $0.25 per share until December 30, 2010. The Company also issued 3,333,350 agents' warrants. Each agent warrant entitles the holder thereof to purchase one common share at a price of $0.15 per share until December 30, 2010.

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 Neuquén, 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. Since March 2009, the Company has production tested the CAN X-2 well. Commercial production status can be applied for by the Company upon completion of the test production period. As at December 31, 2009 the test production period had not been completed, and production revenues, operating costs, and royalties have been capitalized for accounting purposes and therefore excluded from production and revenue information. For the year ended December 31, 2009, net operating costs of $250,042 incurred during the test production period have been charged to the Argentina pre-production cost center.

The Company has substantially completed processing and interpretation of 3D seismic data received from the 3D seismic exploration programs conducted on the Curamhuele and Cortadera blocks in located in the Province of Neuquén. 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 64 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. At Curamhuele, the Company is currently surveying and acquiring necessary environmental reports and permits on two separate prospects located on the block. At Cortadera, seismic interpretation is currently being high graded to select optimal drilling targets on the block.

On acquisition of the Argentine exploration properties the Company and its joint venture partners agreed to work programs with the Province of Neuquén in Argentina. The work programs require that a total of $10,500,000 USD be spent by November 2010 of which Madalena’s share is $8,722,222 USD. The Company and its partners are entitled to apply for a minimum one year extension prior to the November 2010 deadline.

At December 31, 2009, the Company estimates that its share of the remaining amount to be spent to satisfy the total dollar value of the work program is $155,000 USD which the Company expects to exceed if further planned expenditures are undertaken by the Company. At Cortadera and Curamhuele, if one well is not drilled on each block by November of 2010, or if an application to extend the deadline is accepted and the wells are not drilled prior to the extension deadline, the Company could forfeit its right to the non-producing portions of the Cortadera and Curamhuele exploration blocks.

In November 2009, the Company entered into a two stage, multi-well drilling program (“Farmout”) on its Coiron Amargo Block with a company that has extensive experience operating in the Neuquén basin. The terms of the Farmout provide for the Farmee to drill a minimum of two exploration wells on the block to earn 25% (net 17.5%) of Madalena’s current 70% net working interest in the block (excluding the Norte 2 structure in which the CAN X-2 well was drilled) with the option to drill two additional earning wells to earn an additional 25% (net 17.5%) of Madalena’s current 70% net working interest in the block (including the Norte 2 structure). Madalena will continue to own a net 52.5% working interest in the block after the first two wells have been drilled, and a net 35% working interest in the block in the event the two option wells are drilled. Should cumulative investments under the Farmout exceed US$18.4 million (including VAT), the Farmee will automatically earn 50% (net 35%) of Madalena’s current 70% net working interest in the block (including the Norte 2 structure) and each working interest owner would be responsible for subsequent costs based on their participating interest. Madalena estimates the potential for approximately 38 additional wells to be drilled on the block based on the Corporation's 3D seismic interpretation over the block and the results of the successful CAN X-2 discovery well drilled on the block earlier in 2009.

The Farmout provides Madalena with an opportunity to further exploit the exploration and development potential identified by the initial exploration discovery well by utilizing third party capital to further develop the block, while maintaining a significant working interest in the future potential production and cash flow. Environmental reports and permitting of the wells is currently underway and the Company anticipates the first exploration well will commence drilling during Q2, 2010.

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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.

Tunisia

In March 2009, the Company commenced long term production testing of the Remada Sud TT-2 well located in south central Tunisia along the border of Libya. As at December 31, 2009, the test production period had not been completed, and production revenues, operating costs, and royalties have been capitalized for accounting purposes and therefore excluded from production and revenue information. For the year ended December 31, 2009, net production revenue of $198,160 incurred during the test production period has been recorded as a reduction of total pre-production costs in Tunisia. Commercial production status can be applied for upon completion of the test production period.

Work on a formal plan for the phased development of the Remada Sud concession continued during the year and the Company agreed to participate in two 3D seismic exploration programs to further delineate structures on the Remada Sud property. This additional seismic information was to be used to submit a phased development plan to ETAP (the Tunisian Governments Exploration Authority) and was expected to include a minimum of one additional TT-2 development well, which was anticipated to be drilled in 2010.

In March 2010, the Company sold its interest in the Remada Sud Permit in Tunisia for cash consideration of $4 million USD. The Company intends to use proceeds from the sale for the ongoing exploration and development of the Corporation's core high working interest projects in the Neuquén Basin of Argentina.

Canada

In early 2006, Madalena participated in a development drilling project in Canada that was intended to provide the Company with funds from operations to cover general and administrative costs and allow management to focus on international opportunities. Unfortunately, the results of the Canadian development program were disappointing and did not provide the anticipated cash flow. In the third quarter of 2009, Madalena completed the sale of its share of the Canadian properties for $554,000 and used the proceeds to cover ongoing expenditures. The sale resulted in a change in the Company's depletion rate by more than 20%, a disposal of the Company's entire Canadian cost center, and a gain recorded on the disposition in the amount of $27,708.

Financial and Operating Results

	Three Months Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
Financial Information				
Interest income	$ 254	$ 41,349	$ 9,412	$ 264,478
Funds used in operations	(568,763)	(871,809)	(2,507,088)	(2,020,666)
Funds used in operations per share	(0.005)	(0.008)	(0.022)	(0.018)
Cash flow used in operating activities	(603,588)	(1,046,615)	(2,740,869)	(1,903,776)
Cash flow used in operating activities per share	(0.005)	(0.009)	(0.024)	(0.017)
Cash flow from discontinued operations	30,094	185,455	665,218	423,953
Cash flow from discontinued operations per share	-	0.002	0.006	0.004
Net loss from continuing operations	(2,721,222)	(33,916)	(4,942,889)	(1,061,935)
Net loss from continuing operations per share	(0.024)	-	(0.044)	(0.010)
Net loss and other comprehensive loss	(2,721,709)	(869,238)	(6,363,349)	(1,833,791)
Net loss and other comprehensive loss per share	(0.024)	(0.008)	(0.057)	(0.017)
Total assets	27,697,901	23,874,947	27,697,901	23,874,947
Working capital	8,871,993	7,243,361	8,871,993	7,243,361
Capital expenditures	135,713	3,335,223	5,788,312	8,425,954
Debt	-	-	-	-

(1) See "*Non-GAAP measurements*" above. All amounts per common share are basic and diluted amounts per common share.

RESULTS OF OPERATIONS

The following paragraphs provide information about the results of Madalena's on-going operations for the quarter and year ended December 31, 2009. See the paragraphs entitled "Results From Discontinued Operations" for information on Madalena's discontinued operations for the quarter and year ended December 31, 2009.

Interest Income

Interest income for the year ended December 31, 2009 totaled $9,412 compared to $264,478 in 2008. The decrease in interest income in 2009 is due to the use of cash reserves to pay for exploration and development activities in Tunisia and Argentina, pay general and administrative expenses 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 year ended December 31, 2009 the Company experienced a foreign exchange loss of $556,300 compared to a foreign exchange gain of $1,299,708 in 2008.

The Company incurred a foreign exchange loss in 2009 as a result of the Canadian dollar strengthening throughout the year against both the US dollar and Argentina. The Company incurred a foreign exchange gain in 2008 due to the weakening of the Canadian dollar against both the US dollar and Argentine peso, particularly in the fourth quarter of 2008.

Currently, the Company does not hedge its exposure to foreign currency fluctuations.

General and administrative (“G&A”) expenses

G&A expenses totaled $1,964,104 for the year ended December 31, 2009 compared to $1,946,419 in 2008. In 2009, Canadian G&A expenses declined by $103,171 due primarily to lower travel and legal costs. This decline was offset by higher G&A costs in Argentina associated with greater activity in the country during the year.

Stock-based compensation (“SBC”) expense

SBC expense in the year ended December 31, 2009 totaled $260,860 compared to $648,956 in 2008. SBC expense decreased in 2009 because options granted in February and March of 2006 were amortized by the end of the first quarter of 2009.

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 year ended December 31, 2009, the Company capitalized $35,395 of SBC to property and equipment, compared to $88,370 in 2008. The decrease in capitalized SBC expense in 2009 is due to reduced stock prices in 2009 which are used in calculating consultants SBC.

At December 31, 2009, the Company has approximately $121,000 of unamortized SBC that will be charged to income over the remaining vesting period of the outstanding options.

Depreciation and accretion expense

Depreciation and accretion expense for the year ended December 31, 2009 totaled $60,371 compared to $30,746 in 2008. Accretion expense increased in 2009 as a result of accruing additional asset retirement obligations on the test wells drilled in Tunisia and Argentina.

Write-down of pre-production costs

In March 2010, the Company sold its interest in the Remada Sud Permit in Tunisia for cash consideration of $4 million USD. As a result of the sale and disposal of the Company’s Tunisia cost center, the Company recorded a write-down and reduced the carrying value of the Tunisia cost center at December 31, 2009 by $2,110,666.

Net loss and other comprehensive loss

The Company realized a net loss of $6,363,349 for the year ended December 31, 2009, compared to a net loss of $1,833,791 in 2008. Net loss increased in 2009 because of a decline in interest income, foreign exchange losses and a write-down of Tunisia pre-production costs somewhat offset by reductions in stock-based compensation. In addition, the net loss from discontinued operations in the year ended December 31, 2009 increased as a result of a ceiling test charge to the carrying value of the Canadian oil and gas properties.

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.

Funds from (used in) operations

Funds from operations are negative as the Company's activities in Argentina and Tunisia are in the pre-production stage at December 31, 2009 and the Company has no other source of revenue other than interest income on cash balances. Funds used in operations increased to $2,507,088 for the year ended December 31, 2009, compared to funds used in operations of $2,020,666 in 2008. Funds used in operations increased in 2009 as a result of realized foreign exchange losses and lower interest income in the year.

Capital expenditures

The following table summarizes the capital expenditures incurred for ongoing operations. Capital additions for discontinued operations are summarized in the paragraph on discontinued operations.

Year ended December 31,	2009	2008
Argentina:		
Geological and geophysical	$ 377,627	$ 4,798,583
Land	74,809	(123,698)
Drilling and completion	2,837,334	97,269
Well equipment and facilities	1,019,540	-
Other	908,250	281,587
	5,217,560	5,053,741
Tunisia:		
Geological and geophysical	435,446	265,742
Drilling and completion	298,108	2,939,374
Other	(187,623)	-
	545,931	3,205,116
Canada:		
Other	3,193	141
	3,193	141
Total Capital Expenditures	$ 5,766,684	$ 8,258,998

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 TT-2 well on the Remada Sud block were incurred in the first quarter of 2008. In 2009, the Company agreed to participate in two 3D seismic exploration programs and received adjustments from the operator with respect to costs for the TT-2 well.

RESULTS FROM DISCONTINUED OPERATIONS

In August 2009, the Company completed the sale of all of its Canadian petroleum and natural gas properties for cash proceeds of $554,000 prior to closing adjustments and the assumption by the purchaser of all abandonment obligations which were recorded in the accounts in the amount of $100,656. The sale resulted in a change in the Company's depletion rate by more than 20%, a disposal of the Company's entire Canadian cost center, and a gain recorded on the disposition in the amount of $27,708. Madalena has reclassified property and equipment and asset retirement obligations for the Canadian properties as separate assets and liabilities on the balance sheet, and has also reclassified the net loss from discontinued operations as a separate item on the income statement. All comparative figures have also been reclassified.

The following table provides information on the results recorded as loss from discontinued operations during the years ended December 31, 2009 and 2008.

Loss from discontinued operations for the year ended December 31	2009	2008
Petroleum and natural gas revenues	$ 244,786	$ 764,700
Royalties	(31,322)	(214,568)
Operating costs	(85,485)	(164,188)
Depletion	(1,576,147)	(1,157,800)
Loss from discontinued operations	(1,448,168)	(771,856)
Gain on sale of property and equipment	27,708	-
Loss from discontinued operations	$ (1,420,460)	$ (771,856)

The following table provides information on the gain on sale of property and equipment used in discontinued operations for the year ended December 31, 2009.

Cash proceeds	$ 554,000
Asset retirement obligations	100,656
Working capital adjustments	14,056
Net book value of property and equipment related to discontinued operations	(641,004)
Gain on sale of property and equipment used in discontinued operations	$ 27,708

The following information is a summary of the results from the Canadian properties for the years ended December 31, 2009 and 2008.

Production

Year ended December 31	2009	2008
Daily production		
Oil (bbls/d)	7	9
Natural gas (Mcf/d)	94	100
Natural gas liquids (bbls/d)	4	4
Oil equivalent (boe/d)	26	30
Average sales price		
Oil ($ /bbl)	$ 56.38	$ 101.70
Natural gas ($ /Mcf)	5.06	8.88
Natural gas liquids ($ /bbl)	40.13	86.37
Oil equivalent ($ boe)	38.84	69.64
Operating netback ($ /boe)	$ 20.31	$ 35.15

Production from January 1, 2009 to August 27, 2009 averaged 26 boe/d compared to 30 boe/d for the year ended December 31, 2009. The decrease is due to natural declines in production from the wells.

Petroleum and natural gas revenue

Petroleum and natural gas revenue for the year ended December 31, 2009 was $244,786 compared to $764,700 in 2008. Revenue decreased in 2009 due to production declines, reduced commodity prices and the sale of the Canadian properties August 27, 2009.

Royalties

Crown royalties and GORR totaled $31,322 for the year ended December 31, 2009 compared to $214,568 in 2008. Royalty expense decreased significantly 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.

Operating expenses

Operating expenses totaled $85,485 for the year ended December 31, 2009 compared to $164,188 in 2008. Total operating expenses decreased 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

Year ended December 31	2009		2008	
	Amount	Per BOE	Amount	Per BOE
Petroleum and natural gas revenues	$ 244,786	$ 38.84	$ 764,700	$ 69.64
Royalties	(31,322)	(4.97)	(214,568)	(19.54)
Operating costs	(85,485)	(13.56)	(164,188)	(14.95)
Operating netback	$ 127,979	$ 20.31	$ 385,944	$ 35.15

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

The Company realized an operating netback of $20.31/boe prior to disposing of its Canadian oil and gas assets in August 2009 compared to $35.15/boe for the year ended December 31, 2008. Netbacks 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.

Significant Fourth Quarter Events

(See also Quarterly Financial Information)

In December 2009, the Company completed a public offering of 66,667,000 units at an issue price of $0.15 per unit for gross proceeds to Madalena of $10,000,050. Each unit consisted of one common share and one-half (1/2) common share purchase warrant. Each whole warrant issued entitles the holder thereof to purchase one common share at a price of $0.25 per share until December 30, 2010. The Company also issued 3,333,350 agents' warrants. Each agent warrant entitles the holder thereof to purchase one common share at a price of $0.15 per share until December 30, 2010.

In March 2010, the Company sold its interest in the Remada Sud Permit in Tunisia for cash consideration of US$4 million. As a result of the sale and disposal of the Company's Tunisia cost center, the Company recorded a write-down and reduced the carrying value of the Tunisia cost center at December 31, 2009 by $2,110,666.

LIQUIDITY AND CAPITAL RESOURCES

Madalena is in the initial exploration stage on its international oil and gas prospects. The Company earns interest income on its cash reserves, but the cash generated from interest income is not sufficient to cover operating costs and other overhead.

At December 31, 2009 Madalena had working capital of $8,871,993 compared to $7,243,361 at December 31, 2008. Working capital was used in 2009 to fund seismic exploration and drilling activity in Argentina, exploration activity in Tunisia and operating cash flow requirements. In December 2009, Madalena replenished its cash reserves by completing a public offering of 66,667,000 units at an issue price of $0.15 per unit for gross proceeds to Madalena of $10,000,050.

The Company had negative funds from operations in the year ended December 31, 2009 totaling $2,507,088 compared to negative funds from operations of $2,020,666 in 2008. Negative funds from operations increased in 2009 as a result of foreign exchange losses in the year and lower interest income.

Historically, the Company has raised funds from equity financings to fund its exploration and development activities and operating cash flow requirements. The Company's ability to continue operations is dependent on raising sufficient capital to complete planned exploration and development activities, successfully producing economic quantities of petroleum and natural gas from its exploration properties in Argentina, properly managing its existing cash resources, identifying additional commercial oil and gas reserves, and generating profitable operations. The Company has no outstanding debt.

While there has been improvement in global economic conditions, there continues to be restrictions on access to debt and equity financing sources. As a result, the Company has taken additional steps to strengthen its liquidity and capital resources by entering into the multi-well drilling program farmout on its Coiron Amargo block with a company operating in the Neuquén basin and the completion, subsequent to year end, of the sale of the Company's Tunisian assets for cash consideration of US$4 million. Other opportunities to further strengthen the liquidity and capital resources of the Company may be considered including 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

TRANSACTIONS WITH RELATED PARTIES

In 2009, the Company incurred fees of $156,931 payable to a law firm in which a director of the Company is a partner. There were no related party transactions in the comparative period for 2008 as the director joined the Company in the first quarter of 2009.

SHARE INFORMATION

At December 31, 2009 the Company had 178,410,702 common shares, 33,333,500 warrants, 3,333,350 agents' warrants and 10,405,000 stock options outstanding. At April 21, 2010, the Company had 178,449,952 common shares, 33,308,500 warrants, 3,319,100 agents' warrants and 15,005,000 stock options outstanding.

QUARTERLY FINANCIAL INFORMATION

	Interest Income	Funds Used In Operations	Net Loss	Net Loss Per Share
2009				
Fourth quarter	$ 254	$ (568,763)	$ (2,721,709)	$ (0.024)
Third quarter	643	(731,670)	(692,859)	(0.006)
Second quarter	1,350	(473,078)	(2,075,920)	(0.019)
First quarter	7,165	(733,577)	(872,861)	(0.008)
Total	$ 9,412	$ (2,507,088)	$ (6,363,349)	$ (0.057)
2008				
Fourth quarter	$ 41,349	$ (871,809)	$ (869,238)	$ (0.008)
Third quarter	61,313	(371,579)	(246,875)	(0.002)
Second quarter	70,188	(396,832)	(528,911)	(0.005)
First quarter	91,628	(380,446)	(188,767)	(0.002)
Total	$ 264,478	$ (2,020,666)	$ (1,833,791)	$ (0.017)

Net loss in the fourth and second quarter of 2009 was impacted by a write-down of Tunisia pre-production costs and a ceiling test reduction in the carrying value of the Canadian oil and gas properties, respectively.

SELECTED ANNUAL INFORMATION

Years ended December 31	2009	2008	2007
Interest income	$ 9,412	$ 264,478	$ 661,293
Net loss and other comprehensive loss	(6,363,349)	(1,833,791)	(6,033,587)
Net loss and other comprehensive loss per share	(0.057)	(0.017)	(0.056)
Total assets	27,697,901	23,874,947	21,546,055
Working capital	8,871,993	7,243,361	13,236,239
Capital expenditures	5,788,312	8,425,954	5,360,596
Debt	-	-	-

BUSINESS RISKS AND UNCERTAINTIES

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.

Foreign operations

Following the sale of the Company's Canadian oil and gas assets in 2009 and sale of Tunisian assets in March 2010, the Company's only significant remaining investment is in Argentina. A number of risks are associated with conducting foreign operations over which the Company has no control, including currency instability, potential and actual civil disturbances, restriction of funds movement outside of these countries, the ability of joint venture partners to fund their obligations, changes of laws affecting foreign ownership and existing contracts, crude oil and natural gas price and production regulation, royalty rates, potential expropriation of property without fair compensation, retroactive tax changes and possible interruption of oil deliveries.

Global financial downturn

Market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions during the latter part of 2008 have caused significant volatility to commodity prices and global stock markets. 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 and the ability of companies to raise money in the capital markets.

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. 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.

CONTRACTUAL OBLIGATIONS

The Company has lease commitments for office space and rental accommodations in Canada and Argentina. The total estimated remaining lease payments at December 31, 2009, including operating costs, are approximately $271,000.

On acquisition of the Argentine exploration properties the Company and its joint venture partners agreed to work programs with the Province of Neuquen in Argentina. The work programs require that a total of $10,500,000 USD be spent by November 2010 of which Madalena's share is $8,722,222 USD. The Company and its partners are entitled to apply for a minimum one year extension to the November 2010 deadline.

At December 31, 2009, the Company estimates that its share of the remaining amount to be spent to satisfy the total dollar value of the work program is $155,000 USD which the Company expects to exceed if further planned expenditures are undertaken by the Company. At Cortadera and Curamhuele, if one well is not drilled on each block by November of 2010, or if an application to extend the deadline is accepted and the wells are not drilled prior to the extension deadline, the Company could forfeit its right to the non-producing portions of the Cortadera and Curamhuele exploration blocks.

OUTLOOK

The Company has experienced a high level of success in its international exploration and development projects. Following the sale of the Company's Tunisia assets in March 2010, the Company's focus in 2010 will be on its high impact, high working interest core areas in the Neuquén Basin of Argentina.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2009 audited consolidated financial statements. Preparing financial statements in accordance with Canadian GAAP requires management to make certain judgments and estimates.

Costs centers where planned principal operations have not commenced are considered to be in the pre-production stage whereby costs associated with exploration for and evaluation of oil and gas reserves, net of any preliminary testing revenue, are capitalized but excluded from the calculation of depletion and the ceiling test. These costs must be assessed to ascertain whether impairment has occurred.

The fair value of the asset retirement obligations are estimated and recorded on a discounted basis over the expected life of the assets. Factors that may affect the fair value of these obligations include the expected costs to complete the retirement, the useful lives of the assets and the discount rate applied. Cost estimates may vary as the extent of work required changes either as a result of operational considerations or changes to environmental legislation.

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 year ended December 31, 2009.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

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

<u>Goodwill and intangible assets</u>

Effective January 1, 2009, the Company adopted a new Canadian accounting standard for "*Goodwill and Intangible Assets*", clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. The adoption of this standard had no impact on the Company's consolidated financial statements.

<u>Credit risk and the fair value of financial assets and financial liabilities</u>

Effective January 1, 2009, the Company adopted a new Canadian accounting abstract for "Credit Risk and Fair Value of Financial Assets and Financial Liabilities". The abstract provides guidance on the implications of credit risk in determining the fair value of an entity's financial assets and financial liabilities. The guidance clarifies that an entity's own credit risk and the credit risk of counterparties should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments, for presentation and disclosure purposes. The adoption of this abstract had no impact on the Company's consolidated financial statements.

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 new 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.

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, identifying and implementing associated changes to processes and information systems, updating and ensuring compliance with internal controls and educating staff and other stakeholders. The convergence plan has been designed with sufficient flexibility to adapt to changes and new developments in existing Canadian GAAP and IFRS standards.

In 2009 the Company continued its research and planning for convergence to IFRS. Management has identified a number of key accounts that will be impacted by IFRS, the most significant of which is property and equipment the differences for which are as follows:

- First time adoption exemption – the International Accounting Standards Board has approved exemptions for the retrospective application of IFRS for first time adopters. Of most relevance to the Company is an exemption that allows full cost oil and gas companies to elect, at the date of transition to IFRS, to measure exploration evaluation assets at the amount determined under Canadian GAAP and to measure oil and gas assets in the development or production phases by allocating the amount determined under Canadian GAAP to the underlying assets pro-rata using reserve volumes or reserve values as of that date.

- Re-classification of exploration and evaluation ("E&E") expenditures from property and equipment ("PP&E") on the consolidated balance sheet – this will consist of the book value of the Company's undeveloped land that relates to its Argentina properties which are currently excluded from the depletion calculation and are assessed for impairment. E&E assets will not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment.

- Defining for future depletion expense and impairment calculations, the definition of a cash generating unit.

In addition, foreign currency translation methods and the functional currency of the Company's foreign operations must be re-evaluated – under IFRS, the functional currency emphasizes the currency that determines the pricing of the transactions that are undertaken, rather than focusing on the currency in which those transactions are denominated.

At this time, the impact on the Company's financial position and results of operations is not reasonably determinable for the accounting policy differences previously identified. Madalena's implementation plan includes the assessment of accounting policy alternatives and systems changes and the Company will commence the calculation of 2010 results under IFRS in the second half of 2010.

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STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: "MVN"