Madalena Ventures Inc.

Quarterly Report

For the Three Months Ended March 31, 2009
(unaudited)

President's Message

In the midst of the world's current economic downturn, Madalena has made significant progress on developing its core exploration blocks in Tunisia and Argentina. Madalena has carefully monitored its working capital position, remained debt free, and continued to develop its exploration blocks during the first 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 conduct long term production tests on the TT2 discovery well drilled in 2008. 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. The TT2 well commenced production testing at the end of Q1 2009, demonstrating initial flow rates without the benefit of artificial lift equipment of approximately 230 barrels per day (35 barrels net) of 45 API light oil. The Company will continue test production through Q4 2009. 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 successfully completed the drilling of the CAN X-2 well on the Coiron Amargo block in February 2009. Testing completed on the Sierras Blancas formation zone demonstrated initial flowing rates of approximately 400 barrels per day of light crude oil production. Upon the recent completion of the test production period, the Company has secured a pumping unit and production is expected to commence by the end of May, 2009.

The Company made significant progress during the first 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 is expected to be completed by the end of Q2, 2009.

Madalena will closely monitor its ongoing capital expenditure for the balance of 2009, and intends to delay the tie-in of the gas and condensate well previously tested by the Company on the Curamhuele block until economic conditions improve.

Despite the current state of the financial and equity markets, Madalena is well positioned to survive and will continue to grow shareholder value. The Company remains debt free and has sufficient funds to complete all operations associated with the completion and tie in of the CAN X-2 exploration discovery well and the seismic evaluation programs on the Cortadera and Curamhuele blocks. Anticipated production from the CAN X-2 well will provide operating cash flow to enable Madalena to weather the current economic downturn. Management is focused on the evaluation of various mechanisms including off balance sheet financing 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"), as at and for the three months ended March 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, 2008 and 2007. 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 May 25, 2009. 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.

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 March 31,	2009	2008
Cash flow from operating activities	$ (630,558)	$ (122,403)
Change in non-cash working capital	(22,735)	(183,388)
Funds from operations	$ (653,293)	$ (305,791)

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 March 31,	2009	2008
Net loss and other comprehensive loss	$ (872,861)	$ (188,767)
Addback items not used in calculating operating netbacks		
Depletion, depreciation and accretion expense	105,004	99,553
Stock-based compensation expense	120,938	161,691
General and administrative expense	531,469	474,488
Foreign exchange (gain)/loss	185,247	(360,765)
Interest income	(7,165)	(91,628)
Operating netbacks	$ 62,632	$ 94,572

Operating netbacks are analyzed further under Results of Operations.

HIGHLIGHTS

As at and for the three months ended March 31,	2009	2008
Financial		
Petroleum and natural gas revenues	$ 113,538	$ 195,309
Interest income	7,165	91,628
Cash flow from operating activities	(630,558)	(122,403)
Cash flow from operating activities - basic and diluted(1)	(0.006)	(0.001)
Funds from operations(1)	(653,293)	(305,791)
Funds from operations per common share - basic and diluted(1)	(0.006)	(0.003)
Net loss for the period	(872,861)	(188,767)
Net loss per common share - basic and diluted	(0.008)	(0.002)
Capital expenditures	2,904,713	2,058,566
Total Assets	$23,595,416	$21,692,606
Operations		
Daily production		
Oil (bbls/d)	8	9
Natural gas (Mcf/d)	119	114
Natural gas liquids (bbls/d)	4	5
Oil equivalent (boe/d)	32	32
Average sales price		
Oil ($/bbl)	$ 48.62	$ 94.46
Natural gas ($/Mcf)	5.75	8.53
Natural gas liquids ($/bbl)	$ 42.96	$ 78.39
Oil equivalent ($/boe)	$ 39.42	$ 66.66
Operating netback per boe (1)	$ 21.74	$ 32.28

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

Highlights in the three months ended March 31, 2009 include:

- The Company remains debt free with a net working capital position of $3.7 million, and cash of $4.7 million at the end of Q1, 2009.
- In Tunisia, the Company received approval to conduct a long term production test of the Remada Sud TT-2 well. Production testing commenced at the end of March 2009 with flow rates of approximately 230 barrels per day (35 barrels per day net) without acidizing the formation or the use of bottom hole pumping equipment. The testing results will be used in conjunction with an ongoing appraisal plan to prepare a phased development plan for the entire Remada Sud concession which will be submitted to the Tunisian authorities in the fourth quarter of 2009.
- In Argentina, Madalena successfully completed the drilling of the CAN X-2 well on the Coiron Amargo block in February 2009. Initial testing completed on the Sierras Blancas formation zone demonstrated flowing rates of approximately 400 barrels per day of light crude oil production without the benefit of artificial lift equipment. Upon the recent completion of the test production period, the Company has secured a pumping unit and production is expected to commence during Q2, 2009. The Company also made significant progress during the first 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 is expected to be completed by the end of Q2, 2009.

- On January 1, 2009, Madalena Astral SA, a separate legal entity, was incorporated in Argentina. All assets liabilities and operations of the branch in Argentina were transferred effective January 1, 2009 to the SA in order to provide a separate legal entity for operating and risk management.

- Completion of the CAN X-2 well will satisfy 100% of the work commitments for the Coiron Amargo block. The Company has until November 2010 to satisfy the remaining work commitments on the Curamhuele and Cortadera blocks and may apply for a one year extension at the expiry date in the event work commitments are not completed by that date.

OVERVIEW

Tunisia

Testing of the Remada Sud TT-2 well (located on shore in south central Tunisia along the border of Libya) conducted in the last half of 2008 demonstrated that the well is capable of producing light crude oil. As a result, the Company filed a long term production testing plan which was approved by the Tunisia National Oil Company in March 2009. The well commenced production testing at the end of Q1 2009, demonstrating flow rates of approximately 230 bbls/ (35 bbls/d net), and will continue test production through Q4 2009. 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.

A formal plan for the phased development of the Remada Sud concession will be submitted to the Tunisia authorities in the fourth quarter of 2009. Continued development of the concession is dependant on the availability of capital.

Argentina

In the first quarter of 2009, the Company established a separate legal entity in Argentina to which all former Argentina branch operations were transferred. 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) in February 2009, identifying two potential hydrocarbon zones. Testing completed on the deeper zone in Q1 2009 demonstrated initial flow rates of 400 bbls/d (280 bbls/d net) of light crude oil. The zone is currently being tied in and production is expected to commence in Q2 2009. The second zone is not presently capable of commercial flow rates but the Company may consider fracture stimulation of the formation at a later date.

The Company commenced processing of the 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 Cortadera (located in the Province of Neuquen, Argentina approximately 700 miles southwest of Buenos Aires) blocks in 2008. The evaluation of the data is expected to be completed in Q2 2009.

The Company's share of the remaining work commitments at March 31, 2009 total $1,100,000 USD on the Cortadera block $1,225,000 USD on the Coiron Amargo block, and $1,131,000 USD on the Curamhuele block for a total of $3,456,000 USD. Final tie-in of the CAN X-2 well, expected to be completed in Q2 2009, will satisfy 100% of the work commitments for the Coiron Amargo block. The Company has until November 2010 to satisfy the remaining work commitments on the Curamhuele and Cortadera blocks and may apply for a one year extension at the expiry date in the event work commitments are not completed by that date. If the work commitments are not fulfilled by November 2010 (or by the end of any extension received), then the Company will forfeit its exploration and development rights on the respective 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 Q1 2009.

The Company has historically relied on interest income earned on its excess cash balances to fund a portion of general and administrative overhead. The continued decline in interest rates in the first quarter of 2009, together with lower excess cash balances has negatively impacted the interest income earned by the Company. In addition, with the establishment of the Company's Argentina legal entity and the significant increase in activities denominated in Argentina pesos in the first quarter of 2009, the Company realized a foreign exchange translation loss in the three months ended March 31, 2009 compared to gains reported throughout 2008.

There are no significant capital expenditures committed or planned for the Canadian properties in 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 months ended March 31, 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 and interest rates that will further reduce cash flows from operations, reliance on third party financing to fund exploration 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 March 31, 2009, the Company has a working capital surplus of approximately $3.7 million, including approximately $4.7 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". If the Company does not spend the required capital by November 2010 (extendable by one year by application), the rights to the specific block will be forfeited. The Company has budgeted, and has the available resources, to complete the work on the Coiron Amargo block by the end of Q2 2009. The remaining commitments on Cortadero and Curamhuele are expected to be funded from operating cash flows or additional financing.

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

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 March 31, 2009, Madalena averaged production of 32 boe/d compared to 32 boe/d in the first quarter of 2008. Although overall production remained relatively consistent, the Company's production mix changed slightly. Specifically, in the three months ended March 31, 2009 compared to 2008, oil production decreased to 8 bbs/d from 9 bbls/d, natural gas production increased to 119 Mcf/day from 114 Mcf/day, and natural gas liquids decreased to 4 bbls/d from 5 bbls/d. The increase in gas production in the first quarter of 2009 resulted from bringing one of the Company's significant gas producing wells back on production after being shut in during the fourth quarter of 2008. However, increased production from this well was largely offset by natural reserve declines across all the Company's producing properties.

Petroleum and natural gas revenue

Revenue for the three months ended March 31, 2009 totaled $113,538 compared to $195,309 in the first quarter of 2008. Revenue decreased in the first quarter of 2009 due almost entirely to a significant decrease in commodity prices. In the three months ended March 31, 2009, Madalena received an average of $48.62/bbl for oil, $5.75/Mcf for natural gas and $42.96/bbl for natural gas liquids, compared to $94.46/bbl for oil, $8.53/Mcf for natural gas and $78.39/bbl for natural gas liquids in the first quarter of 2008.

Royalties

In the three months ended March 31, 2009, crown royalties totaled $6,867 ($2.38/boe or 6.0% of revenue) compared to $43,177 ($14.83/boe or 22.1% of revenue) in the first quarter of 2008. Crown royalties decreased in magnitude and on a per boe basis in the first quarter of 2009 as a result of adjustments made to prior period crown royalty estimates by the joint venture operator for wells that were determined to be subject to lower royalty rates. In addition, gas crown royalties are dependent on commodity prices, and therefore, have decreased in the first quarter of 2009 in conjunction with lower natural gas prices in the period.

In three months ended March 31, 2009, gross overriding royalties ("GORR") totaled $4,934 ($1.71/boe or 4.3% of revenue) compared to $6,570 ($2.26/boe or 3.4% of revenue) in the first quarter of 2008. GORR decreased in magnitude and on a per boe basis in the first quarter of 2009 as a result of decreased production attracting these types of royalties.

Interest income

Interest income for the three months ended March 31, 2009 totaled $7,165 compared to $91,628 in the first quarter of 2008. Interest income decreased in the first quarter of 2009 due to the use of cash in exploration and development activities, particularly in Argentina and reduced interest rates on excess cash 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 and Argentine pesos. The Company increased its exposure to fluctuations in the Argentina peso in the first quarter of 2009 as capital spending in Argentina increased significantly compared to the first quarter of 2008. Consequently, the Company had significantly higher working capital balances denominated in Argentine pesos at March 31, 2009 (Argentine peso 4,167,236) compared to March 31, 2008 (Argentina peso 687,559). In addition, the Company's Tunisia activity decreased in the first quarter of 2009 compared to the first quarter of 2008 resulting in significantly lower U.S. dollar denominated working capital balances at March 31, 2009 (USD $235,535 deficiency) compared to March 31, 2008 (USD $3,362,520 surplus). As a result, the Company reported a foreign exchange loss of $185,247 in the three months ended March 31, 2009 compared to foreign exchange gain of $360,765 in the first quarter of 2008.

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

Operating expenses

Total operating expenses, including minimal transportation costs, totaled $39,105 ($13.58/boe) for the three months ended March 31, 2009 compared to $50,990 ($17.51/boe) in the first quarter of 2008. Total operating expenses decreased in magnitude and on a per boe basis in the first quarter of 2009 due to declining costs and efficiencies experienced by the operator.

Operating Netbacks

Three months ended March 31,	2009		2008	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenue	$ 113,538	$ 39.42	$ 195,309	$ 66.66
Royalties	11,801	4.10	49,747	16.98
Operating expenses, including transportation costs	39,105	13.58	50,990	17.40
Operating netback	$ 62,632	$ 21.74	$ 94,572	$ 32.28

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

The Company realized an operating netback of $21.74/boe for the three months ended March 31, 2009 compared to $32.28/boe in the first quarter of 2008. Netbacks decreased on a per boe basis in the first quarter of 2009 as a result of decreased commodity prices which were only partially offset by decreased royalty rates and operating expenses.

General and administrative ("G&A") expenses

G&A expenses increased to $531,469 for three months ended March 31, 2009 from $474,488 for the first quarter of 2008 as a result of increased administrative activity in Argentina in the first quarter of 2009. Also consistent with the increased exploration and drilling activity in Argentina, the Company capitalized $85,619 of G&A expenses in the three months ended March 31, 2009, compared to $54,738 in the first quarter of 2008.

Stock-based compensation ("SBC") expense

SBC expense in the three months ended March 31, 2009 totaled $120,938 compared to $161,691 in the first quarter of 2008. SBC expense reflects the amortization of stock options granted to employees and consultants which generally vest over three years. SBC expense decreased in the first quarter of 2009 as a result of a number of employee options becoming fully vested and no longer included in the SBC expense calculation.

SBC for consultants is capitalized to property and equipment to the extent that the consultant's activities are directly related to the exploration for or development of petroleum and natural gas reserves. SBC for consultants is revalued each reporting period based on the period end price of the Company's outstanding common stock. In the three months ended March 31, 2009, the Company capitalized $11,105 of SBC to property and equipment, compared to $39,453 in the first quarter of 2008. SBC capitalized decreased in the first quarter of 2009 due to a decrease in the fair value of these options at March 31, 2009 consistent with Madalena's decreasing share price.

At March 31, 2009, the Company has approximately $235,388 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 March 31, 2009 totaled $98,194 compared $98,101 in the first quarter of 2008. D&D expense remained consistent in the first quarter of 2009 due to a lower carrying value on the Company's Canadian oil and gas properties resulting from a ceiling test write down at December 31, 2008 totaling $795,000, offset by an increase in the depletion rate resulting from natural reserve declines. Only the Canadian oil and gas properties are subject to depletion as activity in Argentina and Tunisia is considered to be in the pre-production stage. Argentina and Tunisia capitalized pre-production costs are subject to impairment testing at least annually. There was no impairment to the total costs capitalized in these cost centers at March 31, 2009 or December 31, 2008.

Accretion expense associated with the Company's asset retirement obligation totaled $6,810 in the three months ended March 31, 2009 compared to $1,452 in the first quarter of 2008. Accretion expense increased in the first quarter of 2009 as a result of the asset retirement obligations recorded for the Argentina and Tunisia properties at December 31, 2008.

Net loss and other comprehensive loss

The Company realized a net loss of $872,861 for the three months ended March 31, 2009, compared to a net loss of $188,767 in the first quarter of 2008. The net loss in the first quarter of 2009 increased as a result of lower production revenue and interest income in addition to the foreign exchange loss recognized in the period.

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 Canadian 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. The Company does expect to be taxable in Argentina as a result of bringing the Can-X2 well on production in 2009; however operating losses and capital spending incurred in Argentina to date will offset any future tax expense. Consequently, no future tax asset has been recorded at March 31, 2009 or at December 31, 2008.

Capital expenditures

Three months ended March 31,	2009	2008
Argentina		
Geological and geophysical	$ 489,465	$ 195,368
Land	14,891	(331,775)
Drilling and completion	2,172,223	-
Other	226,122	76,350
	2,902,701	(60,057)
Tunisia		
Geological and geophysical	-	7,500
Land	-	-
Drilling and completion	-	2,075,138
	-	2,082,638
Canada		
Land	-	-
Drilling and completion	2,000	33,044
Well equipment and facilities	12	2,801
Other	-	140
	2,012	35,985
Total capital expenditures	$ 2,904,713	$ 2,058,566

In the three months ended March 31, 2009 Madalena incurred capital expenditures on petroleum and natural gas properties and office furniture and fixtures totaling $2,904,713 compared to $2,058,566 in the first quarter of 2008. Capital expenditures increased in the first quarter of 2009 due to increased activity in Argentina, partially offset by decreased exploration and development activity in Tunisia.

At March 31, 2009, approximately $1,064,894 of Value Added Taxes (“VAT”) incurred on Argentina capital expenditures was included in property and equipment (at December 31, 2008 - $865,143). The VAT is not recoverable from the Argentina Government, however the Company can retain VAT it collects on revenue produced to the extent that it has un-recovered VAT that it has previously paid.

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 excess cash balances and has revenue related to its Canadian oil and gas properties, but the cash generated from these activities is not sufficient to cover operating costs and general and administrative overhead.

The continued natural decline of the Canadian oil and gas reserves combined with significantly lower commodity prices in the first quarter of 2009 have negatively impacted funds from operations provided by the Canadian oil and gas properties. In addition, lower cash balances and lower interest rates in the three months ended March 31, 2009 resulted in significantly lower interest income compared to the first quarter of 2008. Consequently, the Company's funds from operations in the three months ended March 31, 2009 increased to an outflow of $653,293 compared to an outflow of $305,791 in the first quarter of 2008 (funds from operations is a non-GAAP measurement – see the previous discussion on non-GAAP measurements for a reconciliation to cash flow from operations). The Company anticipates bringing the Coiron Amargo CAN X-2 well on production in the second quarter of 2009 which should increase funds from operations; however, any delay in this production may increase the requirement of the Company to seek other sources of financing.

As a result of funding on-going exploration and development activities, primarily in Argentina, Madalena's working capital (including its cash and cash equivalents) decreased from $7,243,361 at December 31, 2008 to $3,689,766 at March 31, 2009. Historically, the Company raised funds from equity financings to fund exploration and development activities and overhead expenses, including completing a non-brokered private placement on April 4, 2008 for total proceeds of $2,450,000. However, current global economic conditions have negatively impacted the availability of debt and equity financing sources. Management believes that the Company's existing cash balances will be sufficient to meet current obligations since the Company has no outstanding debt or capital commitments coming due in 2009 and the Company's general and administrative overhead is relatively flexible and low cost. In addition, management has implemented an exploration and development program for 2009 which is intended to conserve cash given the current economic conditions (see previous discussion of Going Concern Considerations).

TRANSACTIONS WITH RELATED PARTIES

During the three months ended March 31, 2009 the Company incurred approximately $1,000 for legal services provided by a law firm in which one of the Company's directors was a partner. The services were provided at market rates and no amounts are due at March 31, 2009.

There were no transactions with related parties in the three months ended March 31, 2008 and no amounts due at December 31, 2008.

SHARE INFORMATION

At March 31, 2009 and May 25, 2009 the Company had 111,743,702 common shares outstanding. The Company had 11,155,000 and 10,630,000 stock options outstanding at March 31, 2009 and May 25, 2009, respectively.

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.

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 quarter of 2009, causing a loss of confidence in the broader 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 the broader credit markets to further deteriorate and stock markets to decline substantially. 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 may 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 March 31, 2009, including operating costs, are approximately $285,000.

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 March 31, 2009 are $13,000 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 March 31, 2009 is $58,000 USD.

The Company has agreed to work programs which have been approved by the Province of Neuquen in Argentina for three exploration blocks in the Province. The work programs require the Company to undertake specific activities on each block. At March 31, 2009 the Company's share of the remaining minimum work commitments is $3,456,000 USD. The Company has until November 2010 to complete these remaining work commitments. If the Company does not meet its work commitments it will forfeit its rights to the 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 months ended March 31, 2009.

INITIAL ADOPTION OF ACCOUNTING POLICIES

The following describes the accounting policies initially adopted by the Company in the first quarter 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.	To commence in Q2 2009 and 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.	To commence in Q2 2009 and continue through convergence.
• Develop a formal plan and timeline to address issues noted.	To commence in Q2 2009 and 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.

OUTLOOK

The Company has made significant progress towards completion of its exploration and development programs in both Tunisia and Argentina and exited the first quarter of 2009 with approximately $3.7 million of net working capital and $4.7 million of cash on hand. Given the current global economic conditions and difficulty in accessing external capital, much of the remainder of 2009 will be focused on conserving cash and exploration and development activities will be focused on high impact prospects requiring minimal capital.

The Company commenced production testing on the Remada Sud TT-2 well in Tunisia in the first quarter of 2009 and will continue the testing through the remainder of 2009. The well may initially realize minimal operating netbacks until oil prices improve and increased production volumes in the area can support the high fixed facility cost structure associated with development of the Remada Sud concession. Exploration programs for the remaining acreage in Remada Sud are currently being contemplated, but at a minimum will include a 3D seismic survey and an additional step-out well in the latter part of 2009. However, the timing of any significant further development will be dependent on the Company's ability to generate sufficient capital.

In Argentina, the Company has completed drilling its CAN X-2 exploratory well in the Coiron Amargo block. Testing of the well has been completed and the well will be brought onto production during the second quarter of 2009. Capital expenditures associated with the CAN X-2 well tie-in will be sufficient to fulfill the Company's work commitments for the Coiron Amargo block. Cashflow generated by the CAN X-2 well, together with a portion of Madalena's available cash on hand will be used to further develop the Coiron Amargo block and identify exploration prospects from the results of the seismic programs conducted on the Curamhuele and Cortadera blocks.

QUARTERLY FINANCIAL INFORMATION

As at and for the three months ended	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Operations				
Daily production				
Oil (bbl/d)	8	8	8	11
Natural gas (mcf/d)	119	82	108	96
Natural gas liquids (bbl/d)	4	3	3	4
Oil equivalent (boe/d)	32	25	29	31
Average sales price				
Oil price ($bbl)	$ 48.62	$ 64.09	$ 118.31	$ 121.26
Natural gas price ($/mcf)	5.75	7.52	8.17	11.32
Natural gas liquids price ($/bbl)	$ 42.96	$ 55.90	$ 108.00	$ 106.20
Oil equivalent price ($/boe)	$ 39.42	$ 52.36	$ 73.56	$ 91.65
Operating net back ($/boe)	$ 21.74	$ 24.21	$ 43.59	$ 43.26
Financial				
Petroleum and natural gas revenues	$ 113,538	$ 117,665	$ 196,260	$ 255,466
Interest income	7,165	41,349	61,313	70,188
Net loss	(872,861)	(869,238)	(246,875)	(528,911)
Basic and diluted per share	(0.008)	(0.008)	(0.002)	(0.005)
Capital expenditures	2,904,713	3,335,224	2,607,546	424,618
Working capital	$ 3,689,766	$ 7,243,361	$ 10,373,391	$ 12,978,586
Shares outstanding (000's)	111,744	111,744	111,744	111,744

As at and for the three months ended	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Operations				
Daily production				
Oil (bbl/d)	9	18	8	28
Natural gas (mcf/d)	114	136	180	155
Natural gas liquids (bbl/d)	5	6	7	8
Oil equivalent (boe/d)	32	47	45	62
Average sales price				
Oil price ($bbl)	$ 94.46	$ 77.07	$ 78.66	$ 71.42
Natural gas price ($/mcf)	8.53	6.32	6.04	8.31
Natural gas liquids price ($/bbl)	$ 78.39	$ 65.82	$ 65.26	$ 58.81
Oil equivalent price ($/boe)	$ 66.66	$ 56.75	$ 48.38	$ 60.88
Operating net back ($/boe)	$ 32.28	$ 31.74	$ 25.38	$ 43.14
Financial				
Petroleum and natural gas revenues	$ 195,309	$ 245,704	$ 200,514	$ 341,338
Interest income	91,628	128,382	164,981	177,874
Net loss	(188,767)	(3,624,807)	(462,486)	(836,521)
Basic and diluted per share	(0.002)	(0.030)	-	(0.008)
Capital expenditures	2,058,566	2,079,747	92,069	2,487,592
Working capital	$ 11,232,647	$ 13,236,239	$ 15,144,359	$ 15,380,251
Shares outstanding (000's)	107,369	107,369	107,369	107,369

Interim Consolidated Financial Statements of

MADALENA VENTURES INC.

As at and for the three months ended March 31, 2009
(unaudited)

MADALENA VENTURES INC.
Consolidated Balance Sheets (unaudited)

As at	March 31, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 4,660,428	$ 7,861,868
Accounts receivable	288,287	235,274
Prepaid expenses	60,386	90,814
	5,009,101	8,187,956
Property and equipment (note 5)	18,586,315	15,686,991
	$ 23,595,416	$ 23,874,947
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,319,335	$ 944,595
Asset retirement obligations (note 6)	442,925	356,378
	1,762,260	1,300,973
Commitments (note 10)		
Shareholders' equity		
Share capital and warrants (note 7)	31,491,768	31,491,768
Contributed surplus (note 7)	6,841,294	6,709,251
Deficit	(16,499,906)	(15,627,045)
	21,833,156	22,573,974
	$ 23,595,416	$ 23,874,947

See accompanying notes to the interim consolidated financial statements.

MADALENA VENTURES INC.

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

For the three months ended March 31,	2009	2008
Revenue		
Petroleum and natural gas	$ 113,538	$ 195,309
Royalties	(11,801)	(49,747)
	101,737	145,562
Interest income	7,165	91,628
Foreign exchange gain/(loss)	(185,247)	360,765
	(76,345)	597,955
Expenses		
Operating	39,105	50,990
General and administrative	531,469	474,488
Stock-based compensation	120,938	161,691
Depletion, depreciation and accretion	105,004	99,553
	796,516	786,722
Net loss and other comprehensive loss	(872,861)	(188,767)
Deficit - beginning of the period	(15,627,045)	(13,793,254)
Deficit - end of the period	$ (16,499,906)	$ (13,982,021)
Net loss and other comprehensive loss per common share - basic and diluted	$ (0.008)	$ (0.002)
Weighted average number of shares: Basic and diluted	111,743,702	107,368,699

See accompanying notes to the interim consolidated financial statements.

MADALENA VENTURES INC.

Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31,	2009	2008
Cash provided by (used in):		
Operating activities		
Net loss and other comprehensive loss	$ (872,861)	$ (188,767)
Items not involving cash		
Stock-based compensation	120,938	161,691
Depletion, depreciation and accretion	105,004	99,553
Unrealized foreign exchange gain	(4,411)	(360,765)
Abandonment costs	(1,963)	(17,503)
	(653,293)	(305,791)
Change in non-cash working capital items (note 9)	22,735	183,388
	(630,558)	(122,403)
Investing activities		
Additions to property and equipment	(2,904,713)	(2,058,566)
Change in non-cash working capital items (note 9)	310,995	(20,881)
	(2,593,718)	(2,079,447)
Change in cash and cash equivalents	(3,224,276)	(2,201,850)
Cash and cash equivalents, beginning of the period	7,861,868	13,082,472
Impact of foreign exchange on cash balances	22,836	360,765
Cash and cash equivalents, end of the period	$ 4,660,428	$ 11,241,387

See accompanying notes to the interim consolidated financial statements.

1. Nature of business and basis of presentation

Madalena Ventures Inc. (“Madalena” or the “Company”) is 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 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. Presently, Madalena has minimal production and limited cash flow from operating activities. The Company currently relies on equity financing to pay for exploration activities and overhead expenses. Therefore, 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. The outcome of these matters cannot be predicted at this time.

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.

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. As 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 months ended March 31, 2009 or 2008. At March 31, 2009 the Company had $53,508 of accounts receivable due from its Argentina operator which is 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 March 31, 2009, the Company has a working capital surplus of $3,689,766 (including cash of $4,660,428) which, given planned capital expenditures, administrative overhead requirements and commitments, is sufficient to meet capital and operating commitments in the current year.

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 volume for the period or the balance at the end of the period.

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	$ 11,000
Natural gas produced in the period	$0.50/mcf	5,000
Foreign exchange - effect of change in market factor for:		
USD denominated financial assets and liabilities	3%	13,000
ARS denominated financial assets and liabilities	3%	114,000
Interest rates - effect of change in market factor for:		
Interest bearing accounts and discount notes	50 basis points	$ 18,000

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 March 31, 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 March 31, 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 March 31, 2009:

	Balance denominated in		Total CAD
	USD	ARS	equivalent
Cash and cash equivalents	86,047	5,803,237	2,034,045
Accounts receivable	-	364,465	120,929
Accounts payable and accrued liabilities	270,790	2,030,620	1,015,308

5. Property and equipment

As at March 31, 2009	Cost	Accumulated depletion and depreciation	Net book value
Canadian petroleum and natural gas properties	$ 10,517,872	$ (8,410,341)	$ 2,107,531
Argentina pre-production costs	10,794,423	-	10,794,423
Tunisia pre-production costs	5,645,649	-	5,645,649
Furniture and fixtures	114,213	(75,501)	38,712
	$ 27,072,157	$ (8,485,842)	$ 18,586,315

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 March 31, 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 March 31, 2009 include $1,064,894 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.

Net revenue realized from the testing of wells in pre-production stage cost centers is credited against the full cost pool. During the three months ended March 31, 2009, there was no net revenue received from preliminary testing of an Argentina well (for the year ended December 31, 2008 - $142,867). There has been no commercial or significant testing revenue to date from the Tunisian cost center.

General and administrative expenses and stock-based compensation totaling $85,619 and $11,105, respectively, directly related to exploration and development activities were capitalized in the three months ended March 31, 2009 (2008 – $54,738 and $39,453, respectively). The depletion calculation for Canadian petroleum and natural gas properties for the three months ended March 31, 2009 includes future development costs of proved reserves of $441,250 (2008 - $380,000).

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 March 31, 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. A reconciliation of the total asset retirement obligations is provided below:

As at and for the period ended	March 31, 2009	December 31, 2008
Balance, beginning of period	$ 356,378	$ 114,913
Obligations accrued	81,700	256,290
Accretion expense	6,810	5,810
Costs incurred	(1,963)	(20,635)
Balance, end of period	$ 442,925	$ 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 three months ended March 31, 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 March 31, 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	March 31, 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	-	-	1,055,000	0.105
Forfeited	-	-	(50,000)	0.85
Outstanding - end of the period	11,155,000	0.57	11,155,000	0.57
Exercisable - end of the period	9,218,333	0.58	7,608,333	0.58

The following table presents the estimated remaining life of outstanding stock options and the number of shares that may be issued at March 31, 2009:

	Outstanding		
Exercise Price	Number of options	Weighted average remaining life (years)	Number of options exercisable
$ 0.105	1,025,000	4.67	125,000
$ 0.12	1,000,000	1.52	1,000,000
$ 0.41	330,000	1.94	310,000
$ 0.60	2,150,000	3.22	1,583,333
$ 0.66	4,300,000	1.91	4,300,000
$ 0.70	100,000	3.55	33,333
$ 0.73	1,100,000	1.97	1,100,000
$ 0.85	1,150,000	2.53	766,667
	11,155,000	2.46	9,218,333

On May 15, 2009, 525,000 fully vested stock options were forfeited by a former director of the Company.

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 March 31, 2009 are: risk free interest rate of 3.36% (3.37% at December 31, 2008), expected life of 3.55 years (3.59 years at December 31, 2008), expected volatility of 82.3% (79.6% at December 31, 2008), and 0% dividend yield (0% at December 31, 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	March 31, 2009	December 31, 2008
Balance - beginning of the period	$ 6,709,251	$ 3,071,925
Stock-based compensation expensed	120,938	648,956
Stock-based compensation capitalized	11,105	88,370
Balance transferred on expiration of warrants	-	2,900,000
Balance - end of the period	$ 6,841,294	$ 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:

	Three months ended March 31, 2009			
	Canada	Argentina	Tunisia	Total
Gross revenue, including interest	$ 120,698	$ -	$ 5	$ 120,703
Net loss and other comprehensive loss	$ (628,209)	$ (225,300)	$ (19,352)	$ (872,861)

	Three months ended March 31, 2008			
	Canada	Argentina	Tunisia	Total
Gross revenue, including interest	$ 286,937	$ -	$ -	$ 286,937
Net loss and other comprehensive loss	$ (142,974)	$ (27,960)	$ (17,833)	$ (188,767)

	As at and for the three months ended March 31, 2009			
	Canada	Argentina	Tunisia	Total
Property and equipment, net	$ 2,146,243	$ 10,794,423	$ 5,645,649	$ 18,586,315
Property and equipment expenditures	2,012	2,902,701	-	2,904,713
Total assets	$ 5,081,124	$ 12,831,517	$ 5,682,775	$ 23,595,416

	As at and for the three months ended March 31, 2008			
	Canada	Argentina	Tunisia	Total
Property and equipment, net	$ 3,195,950	$ 2,427,324	$ 4,475,758	$ 10,099,032
Property and equipment expenditures	35,985	(60,057)	2,082,638	2,058,566
Total assets	$ 13,774,140	$ 3,237,115	$ 4,681,351	$ 21,692,606

9. Supplemental cash flow information

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

For the three months ended March 31,	2009	2008
Accounts receivable	$ (53,013)	$ 2,279
Prepaid expenses	30,428	10,004
Accounts payable and accrued liabilities	374,740	150,224
Foreign exchange	(18,425)	-
Change in non-cash working capital	$ 333,730	$ 162,507
Attributable to:		
Operating activities	$ 22,735	$ 183,388
Investing activities	310,995	(20,881)
	$ 333,730	$ 162,507

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 March 31, 2009 are as follows:

2009	$ 97,000
2010	129,000
2011	59,000
Total	$ 285,000

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 March 31, 2009 are as follows:

	USD
2009	$ 20,000
2010	27,000
2011	11,000
Total	$ 58,000

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 March 31, 2009 is $13,000 USD.

The Company agreed to work programs in the Province of Neuquen in Argentina for three exploration blocks granted by the Province. The work programs require the Company to undertake specific activities on each block. At March 31, 2009 the Company's share of the remaining minimum work commitments is approximately $3,456,000 USD. The Company has until November 2010 to complete these remaining work commitments. If the Company does not meet its work commitments it will forfeit its rights to 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 March 31, 2009 the Company expended approximately $1,000 on services provided by the law firm.

DIRECTORS
Raymond G. Smith
Chairman,
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 Reid
Partner, Burnet, Duckworth & Palmer LLP

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

OFFICERS
Kenneth L. Broadhurst
President and Chief Executive Officer

Dwayne H. Warkentin
Senior Vice President and Chief Operating Officer

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

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Calgary, Alberta

BANKERS
BMO Bank of Montreal

AUDITORS
KPMG LLP
Calgary, Alberta

INDEPENDENT ENGINEERS
Paddock Lindstrom & Associates Ltd.

REGISTRAR AND TRANSFER AGENT
Inquiries regarding change of address, registered
shareholdings, stock transfers or lost certificates should be
directed to:
Alliance Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING
TSX Venture Exchange
Trading Symbol: "MVN"