Madalena Ventures Inc.

Annual Report

For the Year Ended December 31, 2010

President's Message

This past year featured a number of significant events in the development of the Company which have created a positive outlook for the future. In early 2010, we re-evaluated our projects and with the sale of our Tunisian assets, put the focus of the Company solely on its core, high interest projects in Argentina. We also focused on ensuring that our exploration prospects would be drilled in a timely manner. This resulted in exploration drilling in the second half of the year on both the Coiron Amargo and Curamhuele Blocks and a farm-out of a potential high impact exploration well to be drilled on the Cortadera Block in the second quarter of 2011. Finally, there was a growing appreciation during the year within the oil and gas and industry of Argentina's conventional and unconventional oil and gas resources.

While field activity has increased, Madalena has only just begun to explore and develop the potential within its three exploration blocks. On a gross basis, Madalena's blocks compromise over 437 sections of land and are ideally situated within the Neuquén Basin providing both conventional and unconventional prospects. Both the Curamhuele and Cortadera blocks on the western edge of the basin provide significant exposure to tight sands in the Mulichinco formation and thick shales in the Vaca Muerta formation. In the central portion of the basin, Madalena is beginning to generate early cash flow from conventional trapped reservoirs in the Coiron Amargo block while it continues to evaluate the potential for oil production from the Vaca Muerta shale formation that underlies the entire block.

Argentina's emerging shale gas and oil potential has attracted considerable interest amongst major international oil and gas companies who have moved into the basin adjacent to Madalena's acreage. In April 2011, the US Energy Information Administration released a report on World Shale Gas Resources where Argentina ranked third with 774 Tcf of technically recoverable shale gas resources among a study of 32 countries behind the China and the United States. Initial results from several vertical wells drilled into the Vaca Muerta formation on the Loma La Lata block close to the Coiron Amargo block have been positive with both oil and gas tests. A number of major companies are also expected to complete their own significant vertical and horizontal exploration wells into the shale formations over the coming months and those results will be closely monitored by the industry. One of these wells will be the CorS x-1 vertical exploration well to be drilled this quarter on the Cortadera Block by Apache. The well will target primarily the Mulichinco and Vaca Muerta formations with a planned total depth of 13,780 feet and under terms of our farm-out agreement with Apache, is to be drilled at no cost to the Company.

In 2011, Madalena will continue to be active on all three of its blocks. Despite a disappointing drilling result earlier this year from the Curamhuele truncation play, drilling of the Yapai X-1001 thrust play is currently underway as well as planning for additional targets on the block. The Curamhuele Block remains highly prospective with two proven hydrocarbon wells and the underlying Vaca Muerta shale which as yet remains untested. On the Coiron Amargo Block, the CAS X-1 well drilled earlier this year in the southern portion of the block has been cased for testing and drilling is underway on a fourth well in the northern portion of the block. Further appraisal and development drilling on the block is anticipated as well as a future Vaca Muerta oil well. Due to increased energy demand in Argentina, there is anticipation that oil and gas prices will continue to improve and Madalena will continue to seek to increase cash flow from its emerging production base.

We look forward to reporting our progress throughout the remainder of the year.

(signed) "Dwayne Warkentin"

Dwayne Warkentin
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is provided by management of Madalena Ventures Inc. ("Madalena" or the "Company"), for the years ended December 31, 2010 and 2009. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009. The Company's financial statements and other public disclosure documents, including its annual information form ("AIF"), are filed on SEDAR at www.sedar.com. The commentary in this MD&A is based on information available to April 28, 2011. 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" and "funds from operations per share" 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 cash flow used in operating activities to funds used in operations:

Year ended December 31	2010	2009
Cash flow used in operating activities	$ (3,040,347)	$ (2,642,064)
Change in non-cash working capital	299,646	270,891
Funds used in operations	$ (2,740,701)	$ (2,371,173)

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 and operating expenses. Additional information on operating netbacks is provided in "Netbacks".

HIGHLIGHTS

Highlights in the year ended December 31, 2010 include:

- Sale of Tunisian assets to focus on core, high interest projects in Argentina;
- Extension of exploration period on all three Argentina exploration blocks;
- Completion of the drilling of two successful exploration wells on the Coiron Amargo Block;
- Commencement of exploration drilling program on the Curamhuele Block;
- Significant farm-out of the Cortadera Block to Apache Energia Argentina S.R.L;
- Completion of $26.5 million bought deal equity financing in November 2010; and
- Production in December 2010 of 179 barrels of oil per day.

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 currently has production and exploration operations in Argentina and is focused on international oil and gas opportunities in South America.

In November 2010, the Company issued 40,775,000 common shares at an issue price of $0.65 per share for gross proceeds to Madalena of $26,503,750. The Company also received in 2010 gross proceeds of $8,833,378 from the exercise of warrants. The Company exited 2010 in a strong financial position and anticipates in 2011 participating in a mix of exploration, appraisal and development type expenditures across its portfolio of high working interest projects in the Neuquén Basin of Argentina.

<u>Coiron Amargo Block</u>

In August and September 2010 the Company drilled the CAN X-3 and CAN X-1 exploration wells, respectively, in the northern portion of the block. Both wells encountered hydrocarbon potential in the Vaca Muerta and Sierras Blancas formations. In the fourth quarter of 2010, both wells tested oil from the Sierras Blancas formation and were placed on production along with the Company's CAN X-2 well drilled in 2009. To date, production from the wells has been restricted until the drilling of CAN X-4 has been completed and production can be gathered to a central facility to include gas sales. Due to the successful fracture stimulation of the CAN

X-1 well, further fracture stimulation treatments on the other Sierras Blancas production wells is being examined. Additional capital expenditures are planned in 2011 to increase production and sales from the area.

Information gathered from the CAN X-3 and CAN X-1 wells on the Vaca Muerta formation has been combined by the joint venture group with other regional and analogous information and studies. In 2011, the Company plans to test the Vaca Muerta shale formation. The Company may also re-enter the CAN X-2 well and drill a horizontal leg into the formation.

In March 2011, the Company drilled the CAS X-1 exploration well in the southern portion of the block. Both oil and gas shows were evident during the drilling of the Vaca Muerta and Sierras Blancas formations. Based on electric logs, the Vaca Muerta formation is similar to the Vaca Muerta formation encountered in the previous three wells drilled on the northern portion of the block. In addition, the Company acquired for further study nine sidewall cores at various intervals over the entire formation. The Sierras Blancas formation has a potential gross hydrocarbon column of 75 feet and two sidewall cores were obtained in the formation for further study. The coring and electric log information will be used by the joint venture in planning a completion and testing program for the well.

After previously drilling the CAN X-3 and CAN X-1 wells at no cost to Madalena, the Farmee elected to exercise its option and enter into the second stage of a multi-well drilling program (“Farm-out”) to earn an additional working interest in the block. The CAS X-1 well is the first well in the second stage of the Farm-out and is situated 16 km south of the CAN wells. Madalena’s working interest in the block will decrease from 52.5% to 35% in the event the final two option wells are drilled and completed. The fourth well under the Farm-out is the CAN X-4 well currently being drilled in the northern portion of the block between the CAN X-1 and CAN X-2 wells.

Curamhuele Block

In April 2011, the Company completed drilling the Curamhuele X-1001 exploration well (truncation play) to a total depth of 8,430 feet without encountering commercial quantities of hydrocarbons and subsequently abandoned the well. The Company has now commenced drilling the Yapai X-1001 well (thrust play prospect) to a minimum planned depth of 8,600 feet depth to penetrate the Lower Troncoso, Avile and Mulichinco formations. Two previous wells drilled on the block, Curamhuele X-1 and Yapai X-1, have been drilled into the Mulichinco formation and will be reviewed for potential re-entry to test the third play on the block, the Vaca Muerta shale formation.

The Company has a 90% working interest in the block following the Company’s agreement in October 2010 to acquire the operator’s 20% working interest in the block.

Cortadera Block

In March 2011, the Company received final government approval of a farm-out agreement for the Cortadera Block with Apache Energia Argentina S.R.L. ("Apache"). The terms of the farm-out provide for Apache to carry Madalena's exploration commitments on the block including the drilling of at least one exploration well on the block to earn a 50% working interest in the block. Madalena will retain a 40% working interest in the block. The capital commitment under the farm-out is US$6 million. The earning well, CorS x-1, is planned to target the Quintuco, Mulichinco, Vaca Muerta shale and Tordillo formations and is expected to commence drilling in mid to late May 2011.

Financial and Operating Results

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Year Ended December 31, 2010	Year Ended December 31, 2009
Financial Information				
Revenue	$ 247,721	$ 254	$ 307,073	$ 9,412
Funds used in operations (1)	(751,700)	(452,596)	(2,740,701)	(2,371,173)
Funds used in operations per share (1)	-	-	(0.01)	(0.02)
Cash flow used in operating activities	(1,056,413)	(524,531)	(3,040,347)	(2,642,064)
Cash flow used in operating activities per share	(0.01)	(0.01)	(0.02)	(0.02)
Cash flow from (used in) discontinued operations	167,475	(588,767)	3,693,380	665,218
Cash flow from (used in) discontinued operations per share	-	(0.01)	0.02	0.01
Net loss from continuing operations	(2,150,275)	(610,556)	(4,420,272)	(2,832,223)
Net loss from continuing operations per share	(0.01)	(0.01)	(0.02)	(0.03)
Net loss and other comprehensive loss	(1,841,434)	(2,721,709)	(4,038,752)	(6,363,349)
Net loss and other comprehensive loss per share	(0.01)	(0.02)	(0.02)	(0.06)
Total assets	63,104,062	27,697,901	63,104,062	27,697,901
Working capital	37,033,741	8,871,993	37,033,741	8,871,993
Capital expenditures	6,600,511	135,713	7,174,904	5,788,312
Debt	-	-	-	-
Production				
Oil production (barrels per day) (2)	105	-	105	-

(1) See "*Non-GAAP measurements*" above. All amounts per common share are basic and diluted amounts per common share.
(2) Average daily oil production since October 1, 2010

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, 2010. See the paragraphs entitled "Results from Discontinued Operations" for information on Madalena's discontinued operations for the quarter and year ended December 31, 2010.

Oil and gas revenue

Oil and gas revenue in the year and fourth quarter ended December 31, 2010 was $241,381 compared to $nil for the corresponding periods in 2009. The increase in oil and gas revenue in 2010 is due to the recognition of oil and gas sales revenue from the Coiron Amargo Block in the fourth quarter of 2010 after two new wells drilled on the block were placed on production and the block was no longer classified as an unproven property. The Company's share of oil production from the Coiron Amargo Block in the fourth quarter and year ended December 31, 2010 was 9,625 barrels or 105 barrels per day when calculated over the entire fourth quarter. The Company's share of December 2010 oil production was 179 barrels per day. Oil production from the block is currently stored and periodically sold once a sufficient quantity is reached.

Royalties

Royalty expense totaled $42,686 in the year and fourth quarter ended December 31, 2010. Production from the Coiron Amargo Block is subject to a 15% provincial royalty rate until the block is converted from an exploration concession to an exploitation concession. On conversion of the block to an exploitation concession, a 12% provincial royalty is payable to the Province of Neuquén.

Interest Income

Interest income for the year was $108,378 compared to $9,412 in 2009 due to higher cash balances during the year. Interest income in the fourth quarter of 2010 was $49,026 compared to $254 in the fourth quarter of 2009. Interest income increased significantly in the fourth quarter of 2010 due to higher cash balances related to the completion of the Company's equity financing in November 2010 and the exercise of warrants.

Operating costs

Operating costs in the fourth quarter and year ended December 31, 2010 totaled $93,887 compared to $nil for the comparable periods in 2009. Operating costs increased as the Coiron Amargo Block was no longer categorized as an unproven property in the fourth quarter of 2010.

Netbacks

Year ended December 31	2010		2009	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenues	$ 241,381	$ 55.06	$ -	$ -
Royalties	(42,686)	(9.74)	-	-
Operating costs	(93,887)	(21.42)	-	-
Operating netback (1)	$ 104,808	$ 23.90	$ -	$ -

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

The Company realized an operating netback of $23.90/boe in the three and twelve months ended December 31, 2010. On a boe basis, operating costs in the period were higher than future expected operating costs due to costs associated with new field operations and expected operating efficiencies associated with increased production. In 2009, all test production revenues, operating costs and royalties related to production from the Coiron Amargo Block in Argentina were capitalized for accounting purposes.

General and administrative ("G&A") expenses

G&A expenses totaled $2,792,647 for the year ended December 31, 2010 compared to $1,964,104 in 2009. G&A expenses increased as a result of higher compensation costs, higher professional fees and increased legal and registration costs in Argentina. G&A expenses increased to $778,817 in the fourth quarter of 2010 from $543,502 for the fourth quarter of 2009 primarily as a result of higher professional fees associated with business development activities and reporting requirements.

A breakdown of general and administrative expenses is as follows:

	Three months ended December 31,		Year ended December 31,	
	2010	2009	2010	2009
Corporate expenses:				
Compensation	$ 137,871	$ 129,992	$ 884,157	$ 535,458
Office and administration	48,023	103,198	245,346	295,986
Professional fees	221,841	137,367	561,048	336,202
Travel	57,395	25,187	184,728	170,119
	465,130	395,744	1,875,279	1,337,765
International expenses	313,687	147,758	917,368	626,339
	$ 778,817	$ 543,502	$ 2,792,647	$ 1,964,104

Stock-based compensation ("SBC") expense

SBC expense in the year ended December 31, 2010 totaled $1,533,515 compared to $260,860 in 2009. SBC expense increased in the year due to new option grants in 2010 compared to the prior year when a number of employee options had become fully vested. SBC expense increased to $1,311,590 in the fourth quarter of 2010 compared to $23,777 in the fourth quarter of 2009 due to new option grants in 2010 a third of which vested immediately.

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 year ended December 31, 2010, the Company capitalized $72,866 of SBC to property and equipment, compared to $35,395 in 2009. The increase in capitalized SBC expense in 2010 is due to an increase in the number of options granted to consultants and in increase in stock prices used to calculate SBC for consultant's options.

At December 31, 2010, the Company has approximately $3,100,000 (2009 - $121,000) of unamortized SBC that will be charged to income over the remaining vesting period of the outstanding options.

Foreign exchange loss (gain)

The Company's operations in Argentina are subject to foreign exchange rate fluctuations for account balances denominated in US dollars and Argentine pesos. For the year ended December 31, 2010 the Company experienced a foreign exchange loss of $181,065 compared to a foreign exchange loss of $556,300 in 2009. The Company incurred higher foreign exchange losses in 2009 as a result of significant fluctuations that year between the Canadian dollar and the US dollar and Argentina peso. Foreign exchange losses increased to $125,239 in the fourth quarter of 2010 compared to $18,422 in the fourth quarter of 2009 due to greater cash balances in Argentina in the period. Currently, the Company does not hedge its exposure to foreign currency fluctuations.

Depletion, depreciation and accretion expense

Depletion, depreciation and accretion expense for the year ended December 31, 2010 totaled $126,231 compared to $60,371 in 2009. Accretion expense increased in 2010 as a result of accruing additional asset retirement obligations on wells drilled in Argentina during the year. Depletion, depreciation and accretion expense increased in the fourth quarter of 2010 to $88,463 compared to $25,109 in the fourth quarter of 2009 due to depletion expense recorded on production from the Coiron Amargo Block 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 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.

Net loss from continuing operations

The Company realized a net loss from continuing operations of $4,420,272 for the year ended December 31, 2010, compared to a net loss of $2,832,223 in 2009. Net loss from continuing operations increased due to higher general and administrative expenses and stock-based compensation expense, partially offset by oil revenue from the Coiron Amargo Block, higher interest income on cash balances and lower foreign exchange losses.

Net loss from continuing operations increased in the fourth quarter of 2010 to $2,150,275 compared to $610,556 in the fourth quarter of 2009 due to higher general and administrative expenses, stock based compensation and foreign exchange losses partially offset by oil revenue from the Coiron Amargo Block and higher interest income on cash balances.

Net loss and other comprehensive loss

The Company realized a net loss of $4,038,752 for the year ended December 31, 2010, compared to a net loss of $6,363,349 in 2009. Net loss decreased in 2010 primarily due to a write-down in 2009 of the carrying value of the Tunisia cost center at December 31, 2009 by $2,110,666 and cost adjustments recorded in 2010. See "Results from Discontinued Operations". Higher general and administrative expenses and stock based compensation expense in 2010 was partially offset by oil revenue in 2010 from the Coiron Amargo Block, higher interest income and lower foreign exchange losses in the year.

Funds used in operations

Funds used in operations increased to $2,740,701 for the year ended December 31, 2010, compared to funds used in operations of $2,371,173 in 2009. Funds used in operations increased as a result of higher general and administrative expenses partially offset by oil revenue from the Coiron Amargo Block, higher interest income on cash balances and lower foreign exchange losses.

Funds used in operations increased in the fourth quarter to $751,700 compared to $452,596 in the fourth quarter of 2009 due to higher general and administrative expenses and foreign exchange losses partially offset by oil revenue from the Coiron Amargo Block and higher interest income on cash balances.

Capital expenditures

		Three months ended December 31,		Twelve months ended December 31,	
		2010	2009	2010	2009
Argentina:					
	Geological and geophysical	$ 35,935	$ 72,808	$ 212,057	$ 377,627
	Land	905,347	-	963,740	74,809
	Drilling and completion	5,385,840	163,126	5,540,855	2,837,334
	Well equipment and facilities	-	35,349	21,512	1,019,540
	Other	581,083	(34,530)	718,562	908,250
		6,908,205	236,753	7,456,726	5,217,560
Tunisia:					
	Geological and geophysical	(223,161)	(33,595)	(189,878)	435,446
	Drilling and completion	(82,414)	(1,620)	(79,814)	298,108
	Other	(4,283)	(65,825)	(17,743)	(187,623)
		(309,858)	(101,040)	(287,435)	545,931
Canada:					
	Other	2,164	-	5,613	24,821
		2,164	-	5,613	24,821
Total Capital Expenditures		$ 6,600,511	$ 135,713	$ 7,174,904	$ 5,788,312

Prior to completion of the CAN X-3 and CAN X-1 exploration wells drilled in August and September, 2010, respectively, all test production revenues, operating costs, and royalties was capitalized for accounting purposes and therefore excluded from production and revenue information. In 2010, net operating revenue of $19,540 (2009 – costs of $250,042) was credited to Argentina pre-production costs.

In the year ended December 31, 2010, the Company incurred capital expenditures on petroleum and natural gas properties and office furniture and fixtures totaling $7,174,904 compared to $5,788,312 in 2009. Capital expenditures increased in 2010 as the Company acquired its partner's interest in the Curamhuele Block and commenced drilling the Curamhuele X-1001 exploration well on the block. Drilling and completion expenditures in 2009 were primarily related to drilling the CAN X-2 exploration well on the Coiron Amargo Block. Under the terms of a previous farm-out of the Coiron Amargo Block, the Company did not incur any capital costs in 2010 associated with drilling the CAN X-3 and CAN X-1 wells.

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. The Company has reclassified its comparative figures to record the net loss from discontinued operations as a separate item on the income statement.

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 reclassified comparative figures associated with the Tunisia property as separate assets and liabilities on the balance sheet. The Company also recorded a write-down and reduced the carrying value of the Tunisia cost center at December 31, 2009 by $2,110,666.

The Company recorded income from discontinued operations of $381,520 for the year ended December 31, 2010 compared to a loss from discontinued operations of $3,531,126 in 2009. Income from discontinued operations increased as the Company recorded write-downs of its Canadian oil and gas properties and Tunisia cost center in 2009 and recorded cost adjustments in 2010.

The following table provides information on the results recorded as income (loss) from discontinued operations for the three and twelve months ended December 31, 2010:

	Three months ended December 31,		Twelve months ended December 31,	
	2010	2009	2010	2009
Canada:				
Petroleum and natural gas revenues	$ -	$ (269)	$ -	$ 244,786
Royalties	8	(885)	42,330	(31,322)
Operating costs	(1,028)	667	(2,703)	(85,485)
Depletion	-	-	-	(1,576,147)
Gain on sale of property and equipment	-	-	-	27,708
	(1,020)	(487)	39,627	(1,420,460)
Writedown of Tunisia pre-production costs	-	(2,110,666)		(2,110,666)
Gain on sale of Tunisia property and equipment	309,861	-	341,893	-
Income (loss) from discontinued operations	$ 308,841	$ (2,111,153)	$ 381,520	$ (3,531,126)

The following table provides information on the gain on sale of property and equipment used in discontinued operations for the year ended December 31, 2010:

Gain on sale for the year ended December 31	2010	2009
Cash proceeds	$ 4,084,400	$ 554,000
Asset retirement obligations	50,968	100,656
Working capital adjustments	202,860	14,056
Net book value of property and equipment	(3,996,335)	(641,004)
Gain on sale of property and equipment	$ 341,893	$ 27,708

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2010 Madalena had working capital of $37,033,741 compared to $8,871,993 at December 31, 2009. Working capital increased as a result of the sale in March 2010 of the Company's interest in the Remada Sud Permit in Tunisia, completion of an equity offering in November 2010 for gross proceeds to Madalena of $26,503,750 and the exercise of warrants.

The Company had negative funds from operations in the fourth quarter and year ended December 31, 2010 totaling $751,700 (2009 – $452,596) and $2,740,701 (2009 – $2,371,173), respectively. Negative funds from operations increased in 2010 as a result of higher general and administrative expenses partially offset by oil revenue from the Coiron Amargo Block, higher interest income on cash balances and lower foreign exchange losses.

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 successfully producing economic quantities of petroleum and natural gas from its exploration properties in Argentina, raising sufficient capital to complete planned exploration and development activities, properly managing its existing cash resources, identifying additional commercial oil and gas reserves, and generating profitable operations. The Company has no outstanding debt.

TRANSACTIONS WITH RELATED PARTIES

In 2010, the Company incurred fees of $132,161 (2009 - $156,931) payable to a law firm in which a director of the Company is a partner.

SHARE INFORMATION

At December 31, 2010, the Company had 257,285,885 common shares and 16,565,000 stock options outstanding. On April 28, 2011, the Company had 259,995,517 common shares and 12,455,368 stock options outstanding.

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 economic uncertainty;
- Risks associated with operating in foreign jurisdictions;
- Competition with more established companies and the availability of services;
- 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;
- Uncertainty as to the nature of evolving environmental legislation that is likely to result in stricter standards and enforcement; 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 Company will seek 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;
- Working with established industry partners; 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 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.

Market uncertainty

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 and uncertain global markets may impair the Company's ability to access 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, 2010, including operating costs, are approximately $437,000.

On acquisition of the Argentina exploration properties the Company and its joint venture partners agreed to work programs with the Province of Neuquen in Argentina. The work programs required that a total of US$10,500,000 be spent by November 2010 of which Madalena's share was US$8,722,222. At December 31, 2010, the Company has met its share of the amount to be spent to satisfy the total dollar value of the initial work programs.

The Company has received an extension of the exploration period on all three of its exploration blocks in Argentina. On the Coiron Amargo and Curamhuele Blocks, the Company has received extension periods totaling three years on each block commencing from the end of their initial three year exploration periods on November 9, 2010. The first extension period is a one year continuation to the existing exploration period to be followed by a new two year exploration period. The subsequent new two year exploration periods for Coiron Amargo and Curamhuele will require additional gross work commitments the equivalent of US$3.1 million and US$2.0 million, respectively, which will include the drilling of at least one well on each block. These drilling commitments will be fulfilled by Madalena's current drilling programs on the blocks.

On the Cortadera Block, the Company received an extension of the exploration period commencing on October 26, 2010. The first extension period is a one year continuation to the existing exploration period to be followed by a new two year exploration period. The extension requires an additional gross work commitment the equivalent of US$6.0 million which may be fulfilled through conducting additional seismic or the drilling of a well. Drilling of the. CorS x-1 well planned for the second quarter of 2011 is expected to fulfill the new work commitment.

There will be no requirement to relinquish non-commercial or non-prospective acreage on any of the blocks until the end of the one year continuation. All three exploration blocks qualify for an additional one year extension period at the end of their second exploration periods in the fourth quarter of 2013.

OUTLOOK

Recent extensions to the exploration period of all three exploration blocks in Argentina combined with proceeds from the Company's November 2010 equity financing allows the Company to move forward with its exploration and development plans.

The amount of capital deployed in 2011 amongst the Company's three blocks will be dependent on a number of factors including the success of the Coiron Amargo and Cortadera farm-out wells, drilling operations on the Curamhuele Block, agreement amongst the joint venture parties regarding future exploration and or appraisal drilling programs and rig availability. While the Company will no longer have a majority interest in the Coiron Amargo and Cortadera Blocks after completion of the farm-outs, the Company takes an active role in the future development of the blocks in order to plan for future capital commitments and maximize cash flow from the blocks.

As the Company's current blocks mature, the Company will look to acquire new, underexplored acreage within its regional geographic area as well as evaluate other acquisition opportunities as they arise.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2010 audited consolidated financial statements. Preparing financial statements in accordance with Canadian GAAP requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. There were no changes to Madalena's critical accounting estimates during the three and twelve month periods ended December 31, 2010.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

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 requires the restatement, for comparative purposes, of amounts reported by Madalena for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

Madalena commenced its IFRS convergence project in 2008 and is currently executing a specific convergence plan which includes assessing and quantifying anticipated impacts, determining appropriate changes to accounting policies and disclosures, identifying and implementing associated changes to processes and information systems, updating and ensuring compliance with internal controls and educating staff and other stakeholders.

Management has identified key areas of impact related to the conversion to IFRS, the most significant of which is property and equipment ("PP&E"), the differences for which are as follows:

- First time adoption exemption – IFRS 1, First-time Adoption of International Financial Reporting Standards, generally requires first-time adopters to retrospectively apply IFRS. However, the standard does provide certain optional exemptions from the retrospective application of IFRS, including the full cost exemption that allows full cost oil and gas companies to elect, at the date of transition to IFRS, to measure exploration and evaluation ("E&E") assets at the amount determined under Canadian GAAP. The Company will use this exemption.

- Re-classification of E&E expenditures from PP&E on the consolidated balance sheet – under IFRS, E&E expenditures are those that are incurred after the right to explore is obtained and before technical feasibility and commercial viability is demonstrable. E&E expenditures are capitalized and classified separately on the balance sheet. All of Madalena's oil and gas assets at the IFRS opening balance sheet date are in the E&E phase, and as a result, the Company will utilize the full cost exemption discussed above and re-classify approximately $17.2 million of book value at January 1, 2010 from PP&E to E&E. Under Canadian GAAP E&E assets are excluded from the depletion calculation and are assessed for impairment on an annual basis. Under IFRS, E&E assets will not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment. When an area or project is determined to be technically feasible and commercially viable, it enters the development and production phase and the associated E&E costs will be transferred to PP&E. Unrecoverable E&E costs associated with an area or project will be expensed.

- Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed at the cash generating unit (CGU) level as opposed to under Canadian GAAP where the entire PP&E balance attributed to the country cost center is subject to the full cost ceiling test. Impairment calculations will be performed at the CGU level based on discounted cash flows using either total proven or proven plus probable reserves. Impairments recognized under Canadian GAAP are not reversed, however under IFRS impairment can be reversed in future periods if there are indicators of reversal. The Company does not anticipate an impairment of PP&E assets upon conversion to IFRS.

- Calculation of future depletion expense for PP&E – Under IFRS, the Company has the option to use either proved reserves or proved plus probable reserves in the depletion calculation. The Company anticipates that it will use proved plus probable reserves in determining future depletion expense for PP&E.

- Asset retirement obligation (ARO) – The major difference between current Canadian GAAP and IFRS is the discount rate used to measure ARO. Under current Canadian GAAP, a credit adjusted risk free rate is used, whereas IFRS allows the use of a risk free rate when the estimated cash flows are risked. The Company has made a preliminary decision to use a risk free interest rate. Under Canadian GAAP, existing liabilities are not re-measured using current discount rates, whereas under IFRS ARO is remeasured at each reporting date using the best estimate of expenditure to be incurred and current discount rates. As a result of the change in discount rates, the ARO is estimated to decrease by approximately $0.1 million at January 1, 2010, with the offsetting amount being charged to deficit.

Other key differences identified by the Company that may impact the financial statements include stock-based compensation and foreign currency translation. With respect to stock-based compensation, the Company must estimate a forfeiture rate at grant date as opposed to recognizing the impact of forfeitures when they occur. In addition, stock-based compensation will be expensed using a graded vesting schedule rather than the straight-line method utilized by the Company. At this time the Company does not anticipate the impact of the stock-based compensation differences, on transition, to be material.

The Company's 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 Company anticipates that its Argentina and Barbados subsidiaries will have a functional currency change. Converting the subsidiaries' financial statements into the Company's presentation currency (Canadian dollars) will result in a cumulative translation difference. The Company will elect to utilize the first time adoption exemption available in IFRS 1 and thus set the cumulative translation difference to zero at the transition balance sheet date with the difference recorded directly to retained earnings. The estimated charge to retained earnings at January 1, 2010 is approximately $2.0 million.

Any changes in accounting policies required to address reporting and first-time adoption of IFRS will be made in consideration of the integrity of internal control over financial reporting and disclosure controls and procedures. However, the Company does not expect that any material changes in control procedures will be required as a result of the transition to IFRS.

At this time, the impact on the Company's financial position and results of operations for the accounting policy differences previously identified are not finalized. The Company anticipates completing assessing accounting policy alternatives, finalizing the opening and interim 2010 results under IFRS and making any necessary system changes in the second quarter of 2011.

QUARTERLY FINANCIAL INFORMATION

	Net Revenue	Net Loss	Net Loss Per Share
2010			
Fourth quarter	$ 247,721	$ (1,747,547)	$ (0.01)
Third quarter	13,487	(670,368)	-
Second quarter	17,492	(733,878)	-
First quarter	28,373	(886,959)	(0.02)
Total	$ 307,073	$ (4,038,752)	$ (0.03)
2009			
Fourth quarter	$ 254	$ (2,721,709)	$ (0.02)
Third quarter	643	(692,859)	(0.01)
Second quarter	1,350	(2,075,920)	(0.02)
First quarter	7,165	(872,861)	(0.01)
Total	$ 9,412	$ (6,363,349)	$ (0.06)

SELECTED ANNUAL INFORMATION

Years ended December 31	2010	2009	2008
Net revenue	$ 307,073	$ 9,412	$ 264,478
Net loss and other comprehensive loss	(4,038,752)	(6,363,349)	(1,833,791)
Net loss and other comprehensive loss per share	(0.02)	(0.06)	(0.02)
Total assets	63,104,062	27,697,901	23,874,947
Working capital	37,033,741	8,871,993	7,243,361
Capital expenditures	7,174,904	5,788,312	8,425,954
Debt	-	-	-

Consolidated Financial Statements of

MADALENA VENTURES INC.

As at and for the years ended December 31, 2010 and 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Madalena Ventures Inc.

We have audited the accompanying consolidated financial statements of Madalena Ventures Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Madalena Ventures Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[signed] "KPMG LLP"

Chartered Accountants

Calgary, Canada
April 28, 2011

MADALENA VENTURES INC.
Consolidated Balance Sheets

As at December 31	2010	2009
Assets		
Current assets		
Cash and cash equivalents	$ 40,719,947	$ 10,131,040
Accounts receivable	1,033,938	187,193
Prepaid expenses	333,688	154,972
Inventory (note 3)	259,970	-
	42,347,543	10,473,205
Property and equipment (note 4)	20,756,519	13,143,782
Property and equipment related to discontinued operations (note 5)	-	4,080,914
	$ 63,104,062	$ 27,697,901
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 5,313,802	$ 1,601,212
Asset retirement obligations (note 6)	582,429	304,370
Asset retirement obligations related to discontinued operations (note 5)	-	50,968
	5,896,231	1,956,550
Shareholders' equity		
Share capital (note 7)	75,400,705	38,345,561
Warrants (note 7)	-	2,380,678
Contributed surplus (note 8)	7,836,272	7,005,506
Deficit	(26,029,146)	(21,990,394)
	57,207,831	25,741,351
	$ 63,104,062	$ 27,697,901

Commitments (note 12)

See accompanying notes to the consolidated financial statements

On behalf of the Board:

[signed] “Ray Smith”

Ray Smith
Chairman

[signed] “Keith Macdonald”

Keith Macdonald
Director

MADALENA VENTURES INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31		2010		2009
Revenue				
Oil and gas	$	241,381	$	-
Royalties		(42,686)		-
		198,695		-
Interest income		108,378		9,412
		307,073		9,412
Expenses				
Operating		93,887		-
General and administrative		2,792,647		1,964,104
Stock-based compensation		1,533,515		260,860
Foreign exchange loss		181,065		556,300
Depletion, depreciation and accretion		126,231		60,371
		4,727,345		2,841,635
Loss from continuing operations		(4,420,272)		(2,832,223)
Income (loss) from discontinued operations (note 5)		381,520		(3,531,126)
Net loss and other comprehensive loss		(4,038,752)		(6,363,349)
Deficit - beginning of the year		(21,990,394)		(15,627,045)
Deficit - end of the year	$	(26,029,146)	$	(21,990,394)
Weighted average number of shares:				
Basic and diluted		190,421,925		112,109,001
Loss from continuing operations per share:				
Basic and diluted	$	(0.02)	$	(0.03)
Income (loss) from discontinued operations per share:				
Basic and diluted	$	-	$	(0.03)
Net loss and other comprehensive loss per share:				
Basic and diluted	$	(0.02)	$	(0.06)

See accompanying notes to the consolidated financial statements

MADALENA VENTURES INC.
Consolidated Statements of Cash Flows

For the years ended December 31	2010	2009
Cash provided by (used in):		
Operating activities		
Loss from continuing operations	$ (4,420,272)	$ (2,832,223)
Items not involving cash:		
Stock-based compensation	1,533,515	260,860
Depletion, depreciation and accretion	126,231	60,371
Unrealized foreign exchange loss	19,825	139,819
	(2,740,701)	(2,371,173)
Change in non-cash working capital items (note 11)	(299,646)	(270,891)
	(3,040,347)	(2,642,064)
Discontinued operations (note 5)		
Income (loss) from discontinued operations	381,520	(3,531,126)
Items not involving cash:		
Depletion included in discontinued operations	-	1,576,147
Write-down of pre-production costs	-	2,110,666
Unrealized foreign exchange gain	(10,800)	(155,073)
Gain on sale of property and equipment	(341,893)	(27,708)
Non-cash adjustments to purchase price	-	14,056
Abandonment costs	-	(2,570)
Additions to discontinued property and equipment	287,439	(21,628)
Proceeds on sale of property and equipment	4,084,400	554,000
Change in non-cash working capital (note 11)	(707,286)	148,454
	3,693,380	665,218
Financing activities		
Issue of common shares	35,594,128	10,000,050
Share issue costs	(1,695,277)	(765,579)
Change in non-cash working capital items (note 11)	(120,134)	124,014
	33,778,717	9,358,485
Investing activities		
Additions to property and equipment	(7,462,343)	(5,766,684)
Change in non-cash working capital items (note 11)	3,703,005	812,854
	(3,759,338)	(4,953,830)
Change in cash and cash equivalents	30,672,412	2,427,809
Cash and cash equivalents, beginning of the year	10,131,040	7,861,868
Impact of foreign exchange on cash balances	(83,505)	(158,637)
Cash and cash equivalents, end of the year	$ 40,719,947	$ 10,131,040

See accompanying notes to the 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 Argentina.

These 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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), within reasonable limits of materiality and the framework of significant accounting policies described below. Certain comparative information has been reclassified to be consistent with current year presentation. The Company’s reporting currency is Canadian dollars ($).

2. Significant accounting policies

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Madalena Austral S.A., Madalena Ventures International Holding Company Inc. and Madalena Ventures International Inc.

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and short-term money market investments with an original maturity of less than three months.

Inventory

Inventory of crude oil is valued at the lower of average cost and net realizable value. Cost is determined on a first in - first out basis and relates to the direct cost of production.

Property and equipment

The Company follows the full cost method of accounting for expenditures on petroleum and natural gas properties. All costs associated with the exploration for and the development of oil and gas reserves are capitalized in country-based cost centers. Capitalized costs include drilling costs, lease rentals on non-producing properties, tangible production equipment, asset retirement obligations and general and administrative expenses directly attributable to exploration and development activities.

Costs accumulated in each cost center together with an estimate of future costs to develop proved reserves are depleted using the unit of production method, based on estimated proved petroleum and natural gas reserves, before royalties. Reserves and production are converted to equivalent units of petroleum based on relative energy content of six thousand cubic feet of natural gas to one barrel of petroleum. Costs of acquiring and evaluating significant unproved petroleum and natural gas interests are excluded from the depletion calculation until it is determined that proved reserves are attributable to such interests, or until impairment occurs.

Cost centers with associated proved reserves are subject to a ceiling test to determine if the net accumulated costs are recoverable. Costs are considered recoverable if the sum of the undiscounted cash flows expected from proved reserves plus the cost, less any impairment, of unproved petroleum and natural gas interests exceeds the carrying amount of the cost center. If the carrying amount is not recoverable an impairment loss is recognized equal to the excess of the cost center carrying amount over the sum of the discounted cash flows from the production of proved and probable reserves and the cost, less any impairment, of unproved petroleum and natural gas interests. The volumes and cash flows associated with proved and probable reserves are determined by independent engineers, using expected future product prices and costs and discounted using a risk-free interest rate.

Costs of acquiring and evaluating unproved properties and major development projects, net of any preliminary testing revenue, are capitalized but excluded from the calculation of depletion and the ceiling test. Instead, these costs are evaluated at each reporting period to determine if the costs recorded are recoverable. Any costs that are considered unlikely to be recovered are written off.

Proceeds on sale or disposition of oil and gas properties are credited to the applicable cost center unless this results in a change in the depletion and depreciation rate by 20 percent or more, in which case a gain or loss is recognized.

Office furniture, equipment and other assets are recorded at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using a 20% declining balance basis for Canadian office furniture and equipment, a straight line basis over 3 - 10 years for Argentine office furniture and equipment, and a straight line basis over the term of the lease for all leasehold improvements.

Asset retirement obligations

The Company recognizes an asset retirement obligation in the period in which a well is drilled and a reasonable estimate of the fair value of the future costs associated with removal, site restoration and asset retirement, can be made. The fair value of the estimated asset retirement obligation is recorded as a long-term liability with a corresponding increase in the carrying amount of the related cost center. These costs are then amortized using the unit of production method and included in depletion, depreciation and accretion expense. The carrying amount of the liability is increased each reporting period due to the passage of time with the related accretion included in depletion, depreciation and accretion expense. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation and charge to Property and Equipment. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized in the Company’s earnings in the period in which the settlement occurs.

Future income taxes

The Company uses the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on the difference between the financial accounting and tax basis of the Company’s assets and liabilities, and measured using the substantively enacted tax rates and laws anticipated to apply to the years in which the differences will reverse. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period that the change is substantively enacted. The Company records a future income tax asset only when it is more likely than not to be realized in the future.

Revenue recognition

Petroleum and natural gas revenues are recognized when title and risks pass to the purchaser and payment is reasonably assured.

Stock-based compensation

The Company follows the fair value method of accounting for stock options. The fair value of each option is calculated based on the Black-Scholes option pricing model and is charged to income over the vesting period of the option, with a corresponding increase recorded in contributed surplus. Upon exercise of the stock option, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

The fair value of stock options issued to non-employees is re-measured at each reporting date until the consultants' performance or the amortization period is complete (which ever is shorter). Changes to the fair value are amortized over the remaining vesting period of the options.

Per share amounts

Basic per share amounts are computed by dividing period earnings by the weighted average number of common shares outstanding during the period. Diluted amounts are computed using the treasury stock method. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations in computing diluted per share amounts.

Joint interests

Substantially all of the Company's operations are conducted jointly with others, and accordingly, the financial statements reflect only the Company's interest in such activities.

Foreign currency translation

The Company has petroleum exploration and development operations in Argentina. Operations in Argentina are considered "integrated foreign operations" for accounting purposes and the financial results are translated to Canadian dollars using the temporal method. Under the temporal method, foreign denominated monetary assets and liabilities are translated at the exchange rate prevailing at the period end; non-monetary assets, liabilities and related depletion, depreciation and accretion are translated at historic rates; and revenues and expenses are translated at the rate in effect at the time of the transaction. Foreign exchange gains or losses arising from the translation of these balances are included in net income in the period.

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingencies. These financial statements include amounts recorded for depletion, depreciation and accretion, asset retirement obligations and future income taxes in addition to assumptions used in the ceiling test calculation and unproved properties recoverability assessment, which are based on estimates of proven reserves, future production rates, oil and natural gas prices, future costs, and other relevant assumptions. Accruals for revenues and expenses are based on estimates if actual results are not available and stock-based compensation amounts are calculated using certain assumptions as more fully described in Note 7. Actual results could differ from the assumptions and estimates used in determining each of these amounts. In addition, the effect on the financial statements of changes in such estimates in future periods could be significant.

Financial instruments

The Company recognizes a financial asset or liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. After initial recognition, financial assets and liabilities held for trading are measured at fair value with the unrealized gains and losses recorded in income, loans and receivables are carried at amortized cost, while all other financial liabilities are subsequently measured at amortized cost using the effective interest method. Transaction costs on financial instruments are included in the fair value assessment of each financial asset and financial liability.

3. Inventory

Inventory at December 31, 2010 (2009 - $nil) consists of crude oil that has been produced but not yet sold.

4. Property and equipment

As at December 31, 2010	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 20,845,248	$ (127,700)	$ 20,717,548
Furniture and fixtures	173,021	(134,050)	38,971
	$ 21,018,269	$ (261,750)	$ 20,756,519

As at December 31, 2009	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 13,081,079	$ -	$ 13,081,079
Furniture and fixtures	167,063	(104,360)	62,703
	$ 13,248,142	$ (104,360)	$ 13,143,782

At December 31, 2010, petroleum and natural gas properties include $14.9 million (2009 - $13.1 million) relating to unproven properties that have been excluded from the depletion calculation. In 2010, the Company capitalized $0.9 million of Value Added Tax (“VAT”) (2009 - $0.5 million) payable on goods and services supplied to the Company. VAT is not recoverable from the Government of Argentina, however the Company is allowed to retain VAT on any sales that it collects to the extent of the VAT recorded and paid on previous expenditures.

Revenues and operating expenses related to unproved properties are recorded as pre-production costs in the full cost pool. During the year ended December 31, 2010, net operating revenue of $19,540 was credited to Argentina pre-production costs. During the year ended December 31, 2009, there was $250,042 of net operating costs charged to Argentina pre-production costs. In the fourth quarter of 2010, costs attributed to the Coiron Amargo block in Argentina were transferred from pre-production costs to costs subject to depletion.

Stock-based compensation totaling $72,866 directly related to exploration and development activities was capitalized in the year ended December 31, 2010 (2009 - $35,395).

The benchmark prices used in the ceiling test evaluation of the Company's crude oil and natural gas reserves at December 31, 2010 were:

Year	WTI Crude Oil (US$/Barrel)	Corporate Crude Oil (US$/Barrel)	Corporate Natural Gas (US$/Mcf)
2011	88.00	57.60	2.75
2012	90.00	58.75	2.81
2013	92.00	59.93	2.86
2014	94.00	61.13	2.92
2015	96.00	62.35	2.98
2016	97.92	63.60	3.04

5. Discontinued operations

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 reclassified the property and equipment and asset retirement obligations associated with the Tunisia property as at December 31, 2009 as separate assets and liabilities on the balance sheet. The Company recorded a write-down and reduced the carrying value of the Tunisia cost center at December 31, 2009 by $2,110,666. Prior to sale, net operating revenue of $33,723 (2009 – $198,160) was credited to Tunisia pre-production costs.

On August 27, 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. The Company has reclassified its comparative figures to record the net loss from discontinued operations as a separate item on the income statement.

The following table provides a summary of the loss from discontinued operations for the years ended December 31, 2010 and 2009.

Loss from discontinued operations for the year ended December 31	2010	2009
Canada:		
Petroleum and natural gas revenues	$ -	$ 244,786
Royalties	42,330	(31,322)
Operating costs	(2,703)	(85,485)
Depletion	-	(1,576,147)
Gain on sale of Canadian property and equipment	-	27,708
Income (loss) from discontinued operations	39,627	(1,420,460)
Writedown of Tunisia pre-production costs	-	(2,110,666)
Gain on sale of Tunisia property and equipment	341,893	-
Income (loss) from discontinued operations	$ 381,520	$ (3,531,126)

The following table summarizes the gain on sale of property and equipment used in discontinued operations.

Gain on sale for the year ended December 31	2010	2009
Cash proceeds	$ 4,084,400	$ 554,000
Asset retirement obligations	50,968	100,656
Working capital adjustments	202,860	14,056
Net book value of property and equipment	(3,996,335)	(641,004)
Gain on sale of property and equipment	$ 341,893	$ 27,708

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 December 31, 2010, the estimated total undiscounted amount of cash flows required to settle the Company's asset retirement obligations are approximately US$1.8 million (2009 – US$1.1 million). These costs are expected to be incurred over the next 15 years. An average credit adjusted risk-free interest rate of 9.9% and an inflation rate of 9.5% was used to calculate the fair value of the asset retirement obligations in Argentina.

A reconciliation of the total asset retirement obligations is provided below:

	2010	2009
Balance, beginning of year	$ 304,370	$ 356,378
Obligations accrued	193,000	78,865
Accretion expense	43,141	23,321
Costs incurred	-	(2,570)
Change in estimate	41,918	-
Related to discontinued operations	-	(151,624)
Balance, end of year	$ 582,429	$ 304,370

7. Share capital

a) Common shares

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 share activity:

	Common shares	
	Number	Amount
Balance - December 31, 2008	111,743,702	$ 31,491,768
Public offering	66,667,000	7,890,040
Share issue costs	-	(1,036,247)
Balance - December 31, 2009	178,410,702	38,345,561
Public offering	40,775,000	26,503,750
Share issue costs	-	(1,695,277)
Exercise of stock options	1,433,333	1,032,615
Exercise of warrants	33,333,500	10,443,385
Exercise of agents' warrants	3,333,350	770,671
Balance - December 31, 2010	257,285,885	75,400,705

In November 2010, the Company issued 40,775,000 common shares at a price of $0.65 per common share for gross proceeds of $26,503,750.

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 entitled 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 entitled the holder thereof to purchase one common share at a price of $0.15 per share until December 30, 2010. In 2010, all of the warrants and agents' warrants were exercised.

b) Warrants

	Warrants		Average Exercise Price
	Number	Amount	
Balance - December 31, 2008	-	-	$ -
Public offering	33,333,500	2,110,010	0.25
Agents' warrants	3,333,350	270,668	0.15
Balance - December 31, 2009	36,666,850	2,380,678	$ 0.24
Exercise of warrants	(33,333,500)	(2,110,010)	0.25
Exercise of agents' warrants	(3,333,350)	(270,668)	0.15
Balance - December 31, 2010	-	-	$ -

The fair value of the warrants at the issue date was estimated using the Black Scholes option pricing model with the following assumptions: Risk free interest rate – 1.46%; expected life – 12 months; expected volatility – 147%; expected dividend yield – nil.

c) 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 closing price of the Company's stock for the day 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, officers, employees, and consultants may vest immediately or 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:

	2010			2009		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding - beginning of year	10,405,000	$	0.55	11,155,000	$	0.57
Granted	11,160,000		0.54	300,000		0.13
Exercised	(1,433,333)		0.18	-		-
Expired / cancelled	(3,566,667)		0.59	(1,050,000)		(0.61)
Outstanding - end of year	16,565,000	$	0.57	10,405,000	$	0.55
Exercisable - end of year	7,731,667	$	0.65	9,168,333	$	0.59

The following table presents the estimated remaining life of outstanding stock options and the number of shares that may be issued at December 31, 2010:

	Outstanding		Exercisable
Exercise Price ($)	Number of options	Weighted average remaining life (years)	Number of options
0.105	575,000	2.91	408,333
0.125	300,000	3.41	100,000
0.210	3,850,000	4.08	-
0.320	325,000	4.26	-
0.405	30,000	2.08	20,000
0.600	800,000	1.47	800,000
0.660	4,300,000	0.15	4,300,000
0.700	100,000	1.80	100,000
0.790	5,860,000	4.98	1,953,334
0.800	375,000	4.90	-
0.850	50,000	0.43	50,000
	16,565,000	2.73	7,731,667

Stock-based compensation

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 with the following weighted average assumptions at December 31, 2010: risk free interest rate of 2.07% (2009 – 0.92%), expected life of 4.1 years (2009 – 3.0 years), expected volatility of 113% (2009 – 171%) and 0% dividend yield (2009 – 0%). The grant date weighted average fair value of stock options granted in the year ended December 31, 2010 was $0.43 per option (granted in 2009 - $0.11 per option). 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.

d) Per share information

	December 31, 2010	December 31, 2009
Basic common shares outstanding	257,285,885	178,410,702
Dilutive effect of:		
Share options outstanding	16,565,000	10,405,000
Shares issuable for warrants	-	33,333,500
Shares issuable for agents' warrants	-	3,333,350
Total possible common shares outstanding	273,850,885	225,482,552
Weighted average shares outstanding	190,421,925	112,109,001
Dilutive effect of options, warrants and agents' warrants	-	-
Diluted weighted average shares outstanding	190,421,925	112,109,001

At December 31, 2010 and 2009, all share options, warrants and agents’ warrants were excluded from the calculation of diluted weighted average shares outstanding as they were anti-dilutive.

8. Contributed surplus

	December 31, 2010	December 31, 2009
Balance - beginning of the year	$ 7,005,506	$ 6,709,251
Stock-based compensation expensed	1,533,515	260,860
Stock-based compensation capitalized	72,866	35,395
Transferred to share capital on exercise of stock options	(775,615)	-
Balance - end of the year	$ 7,836,272	$ 7,005,506

9. Segmented information

Financial information pertaining to continuing and discontinued geographic segments is presented in the following tables:

	2010		
	Revenue	Income (Loss)	Identifiable Assets
Canadian corporate	$ 108,378	$ (3,381,312)	$ 39,871,466
Argentina	241,381	(999,333)	23,232,596
Tunisia	-	341,893	-
Total	$ 349,759	$ (4,038,752)	$ 63,104,062

	2009		
	Revenue	Loss	Identifiable Assets
Canadian corporate	$ 254,181	$ (3,097,921)	$ 9,545,014
Argentina	-	(1,082,597)	13,655,546
Tunisia	17	(2,182,831)	4,497,341
Total	$ 254,198	$ (6,363,349)	$ 27,697,901

10. Income taxes

The amount of income taxes computed by applying the combined Canadian federal and provincial income tax rates to income before taxes differs from the amount recorded in the financial statements. The differences are summarized as follows:

	2010	2009
Net loss before income taxes	$ (4,038,752)	$ (6,363,349)
Combined federal and provincial income tax rate	28%	29%
Computed "expected" income tax recovery	(1,130,851)	(1,845,371)
Effect of foreign tax rates	(123,076)	522,644
Stock-based compensation	429,384	75,649
Change in valuation allowance	725,382	1,054,780
Canadian tax rate adjustments	52,237	110,682
Non-taxable differences on foreign operations	51,770	32,039
Other	(4,846)	49,577
	$ -	$ -

The components of the Company's future tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009
Future Income Tax Assets (Liabilities)		
Canada:		
Foreign exchange	$ (354,376)	$ (371,858)
Property and equipment	272,814	180,421
Non-capital loss carryforwards	2,995,080	2,821,502
Share issue costs	453,893	237,344
Valuation allowance	(3,367,411)	(2,867,409)
	$ -	$ -
Argentina:		
Loss carryforwards	$ 771,274	$ 474,935
Valuation allowance	(771,274)	(474,935)
	$ -	$ -
Barbados:		
Loss carryforwards	$ 53,659	$ 61,526
Valuation allowance	(53,659)	(61,526)
	$ -	$ -

At December 31, 2010 the Company had the following non-capital loss carry forwards:

	Expiry Dates	Amount
Canada	2026 - 2030	$ 11,980,300
Argentina	2013 - 2015	2,203,600
Barbados	2017 - 2019	2,146,300
Total		$ 16,330,200

11. Supplemental cash flow information

	2010	**2009**
Accounts receivable	$ (884,270)	$ (50,244)
Prepaid expenses	(199,932)	(29,995)
Inventory	(190,532)	-
Accounts payable and accrued liabilities	3,850,673	894,670
Change in non-cash working capital	$ 2,575,939	$ 814,431
Attributable to:		
Operating activities	$ (299,646)	$ (270,891)
Discontinued operations	(707,286)	148,454
Financing activities	(120,134)	124,014
Investing activities	3,703,005	812,854
	$ 2,575,939	$ 814,431

12. Commitments

The Company's commitment for office space and rental accommodation is as follows:

Year	Amount
2011	$ 150,000
2012	117,000
2013	117,000
2014	53,000

On acquisition of its Argentina exploration properties the Company and its joint venture partners agreed to work programs with the Province of Neuquen in Argentina. The work programs required that a total of US$10,500,000 be spent by November 2010 of which Madalena's share was US$8,722,222. The Company has met its share of the amount to be spent to satisfy the total dollar value of the initial work programs.

The Company has received an extension of the exploration period on all three of its exploration blocks in Argentina. On the Coiron Amargo and Curamhuele blocks, the Company has received extension periods totaling three years on each block commencing from the end of their initial three year exploration periods on November 9, 2010. The first extension period is a one year continuation to the existing exploration period to be followed by a new two year exploration period. The subsequent new two year exploration periods for the Coiron Amargo and Curamhuele blocks will require additional gross work commitments the equivalent of US$3.1 million and US$2.0 million, respectively, which will include the drilling of at least one well on each block. Ongoing drilling programs on the blocks will be credited towards the new work commitments.

On the Cortadera block, the Company received an extension of the exploration period commencing on October 26, 2010. The first extension period is a one year continuation to the existing exploration period to be followed by a new two year exploration period. The extension requires an additional gross work commitment the equivalent of US$6.0 million which may be fulfilled through conducting additional seismic or the drilling of a well. In 2010, the Company entered into a farm-out agreement with another company to carry the Company's exploration commitment on the block.

There will be no requirement to relinquish non-commercial or non-prospective acreage on any of the blocks until the end of the one year continuation. All three exploration blocks qualify for an additional one year extension period at the end of their second exploration periods in the fourth quarter of 2013.

13. 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.

<u>Capital management</u>

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. Changes to the relative weighting of the capital structure is driven by our 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

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, 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 Company's capital management is currently focused on completion of existing exploration commitments and providing for the Company's share of any 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 Canadian and international banks, and therefore the Company does not believe these financial instruments are subject to material 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 includes amounts due from the sale of crude oil and from its Argentina operators which are subject to normal industry credit risk. The majority of the Company's oil production is sold to the Argentina subsidiary of a major international oil and gas company. The carrying amounts of cash and cash equivalents and 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 year ended December 31, 2010 and 2009.

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 December 31, 2010, the Company has a working capital surplus of $37,033,741 (2009 - $8,871,993) which given planned capital expenditures, administrative overhead requirements and commitments, is sufficient to meet all financial obligations 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. Currently all of the Company's oil and gas revenue is from an oil property in Argentina. Oil prices in Argentina are subject to domestic market discounts which result in prices significantly below benchmark prices.

Interest rate risk

The Company is exposed to interest rate fluctuations on its investments of excess cash in short-term money market investments held with 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 Argentina 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 earnings of the market risk factors discussed above and is calculated based on the noted change in the market factor applied to the balance at the end of the year.

Market risk	Change in market factor	Increase (decrease) in loss before tax
Foreign exchange - effect of strengthening CAD $		
USD denominated financial assets and liabilities	5%	(144,300)
ARS denominated financial assets and liabilities	5%	56,600

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 due to their short-term nature. The Company has no bank indebtedness.

Cash and cash equivalents are categorized as held-for-trading 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.

The following table provides information on the foreign currency denominated financial instruments held by the Company at December 31, 2010:

	Balance denominated in		Total CAD
	USD	ARS	equivalent
Cash and cash equivalents	228,970	6,559,517	$ 1,817,104
Accounts receivable	679,375	1,259,726	980,938
Prepaid expenses	-	1,239,209	300,260
Inventory	261,381	-	259,970
Accounts payable and accrued liabilities	4,074,023	4,379,806	$ 5,113,250

14. Related party transactions

In 2010, the Company incurred fees of $132,161 (2009 - $156,931) payable to a law firm in which a director of the Company is a partner.

DIRECTORS
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Chairman, Madalena Ventures Inc.
President and Chief Executive Officer,
Bellatrix Exploration Ltd.

Dwayne H. Warkentin
President and Chief Executive Officer,
Madalena Ventures Inc.

Barry B. Larson
Vice President Operations and Chief Operating Officer,
Parex Resources Inc.

Michael J. Lock
President,
Upsilon Holdings Ltd.

Keith MacDonald,
President,
Bamako Investment Management Ltd.

Anthony J. Potter
Vice President, Finance and Chief Financial Officer,
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Jay Reid
Partner,
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Ving Y. Woo
Vice-President, Engineering and Chief Operating Officer,
Bellatrix Exploration Ltd.

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President and Chief Executive Officer

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Insite Petroleum Consultants 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"