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.

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. 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.