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"), as at and for the years ended December 31, 2011 and 2010. This MD&A should be read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2011 and 2010. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all comparative figures for 2010 have been restated using IFRS. 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 20, 2012. 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 reserves and resources 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.

Transition to International Financial Reporting Standards

On January 1, 2011, the Company adopted IFRS for Canadian publicly accountable enterprises as required by the Accounting Standards Board of Canada. The Company has reported its results in accordance with IFRS starting in the first quarter 2011, with comparative IFRS information for the 2010 fiscal year. An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company for the year ended December 31, 2010 is provided in note 20 to the audited consolidated financial statements. The Company's accounting policies and future accounting standards under IFRS are disclosed in note 3 to the audited consolidated financial 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:

	Three Months Ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Cash flow used in operating activities	$ (386,095)	$ (920,330)	$ (2,493,206)	$ (2,944,562)
Change in non-cash working capital	(291,965)	310,306	(415,212)	368,156
Funds used in operations	$ (678,060)	$ (610,024)	$ (2,908,418)	$ (2,576,406)

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 oil 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, 2011 include:

- Successful drilling in the north, central and southern portions of the Coiron Amargo Block confirming the Company’s regional geological model of the Vaca Muerta shale formation and at CAS X-1, completion and testing of the Company’s first large scale hydraulic fracture stimulation treatment of the formation;
- Extension of the Company’s large acreage position in the Neuquen Basin and conversion of the northern 108 km^2 of the 404 km^2 Coiron Amargo Block to a 25 year exploitation concession;
- Successfully drilling the CorS X-1 deep gas exploration well on the Cortadera Block encountering thick Mulichinco, Quintuco and Vaca Muerta formations. A two stage hydraulic fracture stimulation of the Vaca Muerta formation and related testing commenced in the first quarter of 2012;
- Drilling the Yapai X-1001 exploration well on the Curamhuele Block recovering light gravity crude oil as well as natural gas without any measurable formation water from the Avile and Agrio formations;
- Preparations for the Company and regions first fracture stimulation of the Lower Agrio shale which has been identified as another potentially significant shale resource in the Neuquen Basin in addition to the Vaca Muerta shale; and
- Completed public offering in the first quarter of 2012 for gross proceeds of $67,500,000 further strengthening the Company’s balance sheet to continue exploration and appraisal of one of the leading unconventional resource plays outside of North America.

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.

Coiron Amargo Block (35% working interest)

In March 2011, the Company drilled and cased the CAS X-1 exploration well in the southern portion of the block and in May 2011 drilled the CAN X-4 well approximately 16 km away in the northern portion of the block. Oil and gas shows were evident in both wells during the drilling of the Sierras Blancas formation and the non-conventional Vaca Muerta formation.

In June and July 2011 the Company tested the CAS X-1 and CAN X-4 wells, respectively in the Sierras Blancas formation and placed them on production. Both the CAS X-1 and CAN X-4 wells were drilled at no cost to the Company as part of an earlier farm-out agreement. Following the completion and initial testing of the wells, under the earning provisions of the farm-out agreement, Madalena's working interest in the block decreased at the end of July 2011 from 52.5% to 35%.

Each of the initial four wells in the northern portion of the block was drilled into separate anomalies identified on 3D seismic. In March 2012 the Company commenced drilling the CAN 5 development well located within the CAN X-1 Sierras Blancas structure discovered in the second half of 2010. Once completed, the drilling rig is expected to move 5 km to the south-east to the CAN 7 development well location within the CAN X-3 Sierras Blancas structure. In the fourth quarter of 2011 and first quarter of 2012, a pipeline was constructed from the northern development area to the Loma Jarillosa Este gas processing facility on an adjacent block. Final tie-in to the facility was completed by the facility operator the week of April 15, 2012. Other new infrastructure including pumping and separator equipment along with a water disposal well is expected to improve operating netbacks from the area.

In the non-conventional Vaca Muerta formation, the Company has now drilled a total of seven vertical wells in the northern, central and southern portions of the block each of which appears similar on electric logs and has had indications of hydrocarbons. The total thickness of the Vaca Muerta formation has ranged from 350 to 475 feet thick. Of the seven wells, only the CAS X-1 well has been hydraulically fractured while the joint venture group completes its core and other technical analysis of the formation and monitors the performance of the CAS X-1 well.

In the first quarter of 2012, a large three stage hydraulic fracture stimulation of the Vaca Muerta formation was completed as programmed utilizing over 1 million pounds of high strength sintered bauxite. Flow testing of the Vaca Muerta continues and a survey has been completed indicating the production contribution from each frac stage interval. The fracture stimulation is the first independent frac of the Vaca Muerta shale to be undertaken on land adjacent to the Loma La Lata field.

In February 2012 the Company cased to total depth ("TD") the CAS X-4 exploration well as a potential oil discovery. Located approximately nine kilometers south east of the CAS X-1 discovery well, a full diameter core was taken through most of the interval which will be used to optimize future wells in the Vaca Muerta formation. A hydraulic fracture stimulation program for the formation will be prepared after extensive laboratory analysis of the core is completed. In March 2012, the CAS X-2 vertical exploration well in the center of the block was also cased to TD. In April 2012, the Sierra Blancas formation, located below the Vaca Muerta formation, was flow tested with rates between 100 and 200 bopd over a five day period. The well has been equipped for artificial lift and will be placed on pump. The CAS X-2 well confirms the existence of hydrocarbons in the Sierras Blancas formation in the central portion of the block in addition to previous discoveries in the north and south.

Future hydraulic fracture stimulation treatments of the Vaca Muerta formation are planned for 2012 following the completion of the extensive special core work now in progress on the core retrieved from the CAS X-4 well. In combination with electric log information from 12 wells on the block and information gathered from the Vaca Muerta fracture treatment and testing at CAS X-1, the Company, in conjunction with its joint venture partners, looks forward to an active and rapid delineation of the Vaca Muerta potential over the entire 100,000 acres of the block. Of the wells drilled to date, they represent only one well per 13 square miles and are not evenly spaced over the block. While it has not yet been established if vertical or horizontal development drilling is the most economic method of development, Madalena anticipates a move towards horizontal drilling as more horizontal wells are tested in the basin. With this in mind, Madalena is assessing among other things the most favorable direction, depths, lengths and stages in order to test a horizontal well on the block.

In March 2012 an application by the Coiron Amargo joint venture to convert the northern 108 km^2 of the 404 km^2 block to a 25 year exploitation concession was approved by the Province of Neuquén. In addition, the exploration period for the remainder of the block was extended to November 8, 2013. The extension of the block will require additional work commitments of US$ 33.5 million (Madalena share – US$ 11.7 million). The exploration block qualifies for an additional one year extension period at the end of the exploration period in the fourth quarter of 2013.

A total of 8 – 10 wells are expected to be drilled in 2012 targeting both conventional and unconventional resources. In addition, a 150 km2 3D seismic program is planned for the southwest corner of the block.

Cortadera Block (40% working interest)

In September 2011, the CorS X-1 exploration well was drilled with joint venture partner and operator Apache Energia Argentina S.R.L., (Apache), to a total depth ("TD") of 14,760 feet. The CorS X-1 well is a potential high impact exploration well targeting several thick tight sand and shale gas formations in an emerging potential shale gas corridor along the western edge of the basin. Based on electric logs in conjunction with select full diameter and side wall cores, the well encountered a gross thickness of 2,323 feet in the Vaca Muerta shale formation, 2,024 feet in the Quintuco formation overlying the Vaca Muerta formation and 676 feet in the Mulichinco formation. Additional rotary sidewall cores were obtained for analysis in the Agrio formation overlying the Mulichinco formation.

In March 2012 Apache completed a two stage hydraulic fracture stimulation of the Vaca Muerta formation in the CorS X-1 vertical exploration well drilled on the block in September 2011. A total of 610,000 pounds of high strength sintered bauxite was utilized in the stimulation treatment and testing of the Vaca Muerta formation is now underway. Further work to assess additional uphole formations (Quintuco, Mulichinco, and Agrio zones) is expected to be carried out following the Vaca Muerta test. Also in March 2012, a resolution was passed approving Apache's application to qualify the Cortadera exploration block for Gas Plus pricing. The Gas Plus program was launched at the end of 2008 to stimulate investments in and production of natural gas and oil through providing incentives for new production of natural gas or oil.

The Company has agreed a work program with provincial authorities to extend the initial exploration period of the Cortadera Block beyond the initial expiry date of October 26, 2011 and is optimistic that formal approval of the extension is forthcoming. A 3D seismic program is planned for later in the year following testing of the CorS X-1 well.

Curamhuele Block (90% working interest)

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.

In June 2011, the Company completed drilling the Yapai X-1001 well to a total measured depth ("MD") of 10,743 feet (10,478 true vertical depth or "TVD") penetrating the Lower Troncoso, Avile and Agrio formations. The Avile and Agrio formations were perforated and swab tested in three stages between 7,782 feet MD and 10,620 feet MD. Light gravity crude oil was recovered from each test as well as natural gas without any measurable formation water indicating a trapped hydrocarbon system.

The Yapai X-1001 well was cased to TD with 7" casing and could be re-entered at a later date and deepened to the Mulichinco and Vaca Muerta shale formation. In addition, 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 tie-in and or potential re-entry to test the prospective Vaca Muerta shale formation. Information gathered from the drilling and testing of the CorS X-1 well is also expected to assist the Company in developing plans for future exploration and potential development of the Vaca Muerta formation in the block.

The Company is also continuing preparations to complete a hydraulic fracture stimulation in the over pressured Lower Agrio shale formation. The thick Lower Agrio shales on the block are believed to be prospective for oil based on tests of light oil from three existing wells in the Agrio formation and on outcrop work. Various well equipment required to perform the fracture stimulation has been ordered and purchased. The planned operation is expected to commence in June 2012 and would be the first hydraulic fracture stimulation of the Lower Agrio shale in the Neuquén Basin.

In March 2012 the exploration period for the block was extended to November 8, 2013. The extension of the block will require additional work commitments of US$ 17.6 million (Madalena share – US$ 17.6 million). The exploration block qualifies for an additional one year extension period at the end of the exploration period in the fourth quarter of 2013.

Corporate

In March 2012, the Company issued 54,000,000 common shares at an issue price of $1.25 per share for gross proceeds to Madalena of $67,500,000. The Company is in a strong financial position to move forward with its 2012 drilling program and meet the commitments associated with its recent block extensions.

Madalena is also pleased to announce the promotion of Mr. Ruy Riavitz to Country Manager of Madalena's wholly owned subsidiary, Madalena Austral SA. Previously Operations Manager – Neuquen, Mr. Riavitz is a Chemical Engineer with 16 years of diversified experience in the oil and gas industry. Mr. Riavitz has extensive field operations and management experience having previously served as a reservoir engineer and operations supervisor with YPF as well as exploration and production manager with Hidensa, the state owned oil and gas company of Neuquén province – Argentina. Mr. Riavitz will be based in Madalena's new office in the City of Neuquén.

Financial and Operating Results

	Three Months Ended December 31,		Year Ended December 31,	
	2011	2010	2011	2010
Financial Information (1)				
Oil and gas revenue	$ 609,340	$ 244,235	$ 2,598,503	$ 244,235
Funds used in operations (2)	(678,060)	(610,024)	(2,908,418)	(2,576,406)
Funds used in operations per share (2)	-	-	(0.01)	(0.01)
Cash flow used in operating activities	(386,095)	(920,330)	(2,493,206)	(2,944,562)
Cash flow used in operating activities per share	-	-	(0.01)	(0.02)
Cash flow from discontinued operations	-	168,581	-	3,703,100
Cash flow from discontinued operations per share	-	-	-	0.02
Net loss from continuing operations	(1,585,520)	(2,027,510)	(16,136,543)	(4,298,063)
Net loss from continuing operations per share	(0.01)	(0.01)	(0.06)	(0.02)
Net loss	(1,585,520)	(1,719,762)	(16,136,543)	(3,886,065)
Net loss per share	(0.01)	(0.01)	(0.06)	(0.02)
Total assets	42,097,787	59,754,228	42,097,787	59,754,228
Working capital	14,442,910	37,005,522	14,442,910	37,005,522
Capital expenditures	4,082,646	6,668,193	20,034,093	7,245,335
Debt	-	-	-	-
Production				
Oil production (barrels per day) (3)	84	105	108	105

(1) All amounts per common share are basic and diluted amounts per common share.
(2) See "*Non-GAAP measurements*" above.
(3) 2010 production is the 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, 2011. See the paragraphs entitled "Results from Discontinued Operations" for information on Madalena's discontinued operations for the quarter and year ended December 31, 2011.

Oil and gas revenue

Oil and gas revenue for the year ended December 31, 2011 was $2,598,503 compared to $244,235 in 2010. Oil and gas revenue increased to $609,340 for the quarter ended December 31, 2011 compared to $244,235 for the corresponding period in 2010. The increase in oil and gas revenue in 2011 is due to the classification in the fourth quarter of 2010 of the northern portion of the Coiron Amargo Block as a development and production asset. The Company's share of oil production from the Coiron Amargo Block in the quarter and year ended December 31, 2011 was 7,770 barrels (84 barrels per day) and 39,511 barrels (108 barrels per day), respectively. The Company's share of oil production in the quarter and year ended December 31, 2010 was 9,625 barrels or 105 barrels per day when calculated over the entire fourth quarter. Oil production from the block is stored and periodically sold once a sufficient quantity is reached.

Royalties

Royalty expense totaled $521,037 for the year ended December 31, 2011 compared to $42,873 in 2010. Royalty expense increased to $142,591 for the quarter ended December 31, 2011 compared to $42,873 for the corresponding period in 2010. In 2011 production from the Coiron Amargo Block was subject to a 15% provincial royalty rate. With conversion of the northern portion of the block into a 25 year exploitation concession, production from that portion of the block will be subject to a 12% provincial royalty payable to the Province of Neuquén. Royalty expense also includes a 3% provincial turnover tax on sales.

Operating costs

Operating costs for the year ended December 31, 2011 totaled $1,337,223 compared to $94,117 in 2010. Operating costs increased to $352,463 for the quarter ended December 31, 2011 compared to $94,117 for the corresponding period in 2010. Operating costs increased as the Coiron Amargo Block was classified as a development and production asset in the fourth quarter of 2010.

Netbacks

	Three Months Ended December 31, 2011		Year Ended December 31, 2011	
	Amount	Per boe	Amount	Per boe
Oil and gas revenues	$ 609,340	$ 69.26	$ 2,598,503	$ 60.58
Royalties	(142,591)	(16.21)	(521,037)	(12.15)
Operating costs	(352,463)	(40.06)	(1,337,223)	(31.18)
Operating netback (1)	$ 114,286	$ 12.99	$ 740,243	$ 17.25

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

The Company realized an operating netback of $12.99/boe and $17.25/boe in the quarter and year ended December 31, 2011, respectively, compared to $23.90/boe for the corresponding periods in 2010. On a per boe basis, operating costs in the period were higher than future expected operating costs due to costs associated with new field operations. In the first nine months of 2010, all test production revenues, operating costs and royalties related to production from the Coiron Amargo Block in Argentina were capitalized to exploration and evaluation assets for accounting purposes.

General and administrative (“G&A”) expenses

G&A expenses totaled $3,479,141 for the year ended December 31, 2011 compared to $2,746,120 in 2010. G&A expenses increased as a result of higher compensation costs and office and administration costs in Argentina. G&A expenses increased to $837,055 for the quarter ended December 31, 2011 compared to $727,547 for the corresponding period in 2010 as a result of higher compensation costs, higher office and administration costs and increased regulatory reporting and activity in Argentina.

A breakdown of general and administrative expenses is as follows:

	Three months ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Compensation	$ 232,780	$ 162,014	$ 1,244,576	$ 942,663
Office and administration	259,792	172,101	1,131,528	622,413
Professional fees	306,680	334,487	897,773	986,866
Travel	37,803	58,945	205,264	194,178
	$ 837,055	$ 727,547	$ 3,479,141	$ 2,746,120

Share-based payments (“SBP”) expense

SBP expense in the year ended December 31, 2011 totaled $2,832,288 compared to $1,628,441 in 2010. SBP expense decreased to $776,062 for the quarter ended December 31, 2011 compared to $1,358,898 for the corresponding period in 2010 as a result of a fewer option grants in the fourth quarter of 2011 compared to the previous year.

SBP is capitalized to property and equipment or exploration and evaluation assets to the extent that the activities are directly related to the exploration for or development of petroleum and natural gas reserves. In the year ended December 31, 2011, the Company capitalized $98,892 of SBP to property and equipment, compared to a decrease of $15,672 in 2010. The Company capitalized $34,644 of SBP to property and equipment for the quarter ended December 31, 2011, compared to $11,726 for the corresponding period in 2010.

At December 31, 2011, the Company has approximately $1.45 million (2010 - $3.35 million) of unamortized SBP that will be charged to income over the remaining vesting period of the outstanding options.

Depletion and depreciation expense

Depletion and depreciation expense for the year ended December 31, 2011 totaled $453,231 compared to $65,843 in 2010. Depletion and depreciation expense increased due to depletion expense recorded on production from the Coiron Amargo Block in the period. Depletion and depreciation expense for the quarter ended December 31, 2011 totaled $118,479 compared to $45,333 for the corresponding period in 2010 due to production from the Corion Amargo block. Depletion expense for the quarter ended December 31, 2011 was $11.40 per barrel.

Impairment of exploration and evaluation assets

Impairment of exploration and evaluation assets totaled $11,006,637 for the year ended December 31, 2011 following the drilling and subsequent abandonment of the Curamhuele X-1001 exploration well in the second quarter of 2011.

Gain on farm-out arrangement

In July 2011, the Company completed its previously announced farm-out of the Coiron Amargo Block which reduced the Company’s interest in the block from 52.5% to 35% and resulted in a gain of $1,040,664.

Interest Income

Interest and other income for the year ended December 31, 2011 was $290,928 compared to $108,378 in 2010 due to higher cash balances during the period. Interest income for the quarter ended December 31, 2011 totaled $50,970 compared to $49,026 for the corresponding period in 2010.

Foreign exchange loss

The Company recorded a foreign exchange loss for the year ended December 31, 2011 of $82,622 compared to a loss of $15,132 in 2010. Foreign exchange losses decreased to $7,637 in the quarter ended December 31, 2011 compared to a loss of $7,971 for the corresponding period in 2010. In accordance with IFRS, foreign currency transactions are translated into the respective functional currencies of Madalena and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Finance costs

Finance costs consist of accretion of decommissioning obligations. Finance costs for the year ended December 31, 2011 totaled $56,534 compared to $27,373 in 2010. Finance costs decreased to $12,849 in the quarter ended December 31, 2011 compared to $13,255 for the corresponding period in 2010. Finance costs decreased as a result of a decrease in the Company's working interest in the Coiron Amargo and Cortadera blocks.

Income tax expense

Income tax expense for the year ended December 31, 2011 totaled $297,925 compared to $30,777 in 2010. Current income taxes relate to minimum taxes based on the book value of assets in Argentina.

Net loss and other comprehensive loss

The Company realized a net loss of $16,136,543 for the year ended December 31, 2011 compared to $3,886,065 in 2010. Net loss decreased to $1,585,520 for the quarter ended December 31, 2011 compared to $1,719,762 for the corresponding period in 2010. Net loss increased primarily due to an impairment loss of $11,006,637 on exploration and evaluation assets in the second quarter of 2011, higher general and administrative expenses and share-based payments expense partially offset by oil revenue in 2011 from the Coiron Amargo Block and higher interest income. Total comprehensive loss increased to $19,636,638 for the year ended December 31, 2011 compared to $5,548,167 in 2010 due to the increase in net loss above as well as an increase in the loss on translation of foreign operations. Exchange differences on translation of foreign operations increased to a loss of $3,500,095 for the year ended December 31, 2011 compared to a loss of $1,662,102 in 2010 as a result of increased investment in Argentina and a decrease in the value of the Argentina peso relative to the Canadian dollar.

Funds used in operations

Funds used in operations increased to $2,908,418 for the year ended December 31, 2011 compared to $2,576,406 in 2010. Funds used in operations increased to $678,060 for the quarter ended December 31, 2011 compared to $610,024 for the corresponding period in 2010. Funds used in operations increased as a result of higher general and administrative expenses and abandonment expenditures partially offset by oil revenue from the Coiron Amargo Block and higher interest income on cash balances.

Capital expenditures

	Three Months Ended December 31, 2011	2010	Year ended December 31, 2011	2010
Argentina:				
Geological and geophysical	$ 51,802	$ 35,973	$ 188,383	$ 214,039
Land	-	910,359	(6,305)	969,548
Drilling and completion	3,266,641	5,435,173	16,482,553	5,474,485
Well equipment and facilities	64	-	22,788	131,829
Other	764,139	593,292	3,340,237	736,169
	4,082,646	6,974,797	20,027,656	7,526,070
Tunisia:				
Geological and geophysical	-	(222,007)	-	(188,726)
Drilling and completion	-	(82,339)	-	(79,739)
Other	-	(4,421)	-	(17,880)
	-	(308,767)	-	(286,345)
Canada:				
Other	-	2,163	6,437	5,610
	-	2,163	6,437	5,610
Total Capital Expenditures	$ 4,082,646	$ 6,668,193	$ 20,034,093	$ 7,245,335

In the year ended December 31, 2011, the Company incurred capital expenditures on oil and gas properties and office furniture and fixtures totaling $20,034,093 compared to $7,245,335 in 2010. Capital expenditures decreased to $4,082,646 for the quarter ended December 31, 2011 compared to $6,668,193 for the corresponding period in 2010. Overall capital expenditures increased as the Company completed the Curamhuele X-1001 well and drilled the Yapai X-1001 well during the year, both located on the 90% owned Curamhuele Block. The Company abandoned the Curamhuele X-1001 exploration well and an impairment loss of $11.0 million (including $1.9 million of VAT) equal to the excess of the carrying value over the recoverable amount of the E&E impairment grouping was recorded in the second quarter of 2011.

RESULTS FROM DISCONTINUED OPERATIONS

The Company recorded a loss from discontinued operations of $nil for the year ended December 31, 2011 compared to income from discontinued operations of $411,998 in 2010. Loss from discontinued operations was $nil for the quarter ended December 31, 2011 compared to income from discontinued operations of $307,748 for the corresponding period in 2010. Income from discontinued operations in 2010 relates to the sale of the Company's interest in the Remada Sud Permit in Tunisia in March 2010 and Canadian oil and gas properties in 2009.

	Three months ended December 31 2011	2010	Year ended December 31 2011	2010
Canada:				
Oil and gas revenues	$ -	$ -	$ -	$ -
Royalties	-	8	-	42,330
Operating costs	-	(1,028)	-	(2,703)
Income from discontinued operations	-	(1,020)	-	39,627
Gain on sale of Tunisia property and equipment	-	308,768	-	372,371
Income from discontinued operations	$ -	$ 307,748	$ -	$ 411,998

The following table provides information on the gain on sale of property and equipment used in discontinued operations:

	Three months ended December 31		Year ended December 31	
	2011	2010	2011	2010
Cash proceeds	$ -	$ -	$ -	$ 4,084,400
Decomissioning provisions	-	-	-	98,447
Working capital adjustments	-	308,768	-	308,768
Net book value of exploration and evaluation assets	-	-	-	(4,119,244)
Gain on sale of exploration and evaluation assets	$ -	$ 308,768	$ -	$ 372,371

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2011 Madalena had working capital of $14,442,910 compared to $37,005,522 at December 31, 2010. Working capital decreased as a result of drilling the Curamhuele X-1001 and Yapai X-1001 exploration wells in the year and higher general and administrative costs partially offset by oil revenue in 2011 from the Coiron Amargo Block and higher interest income on cash balances.

The Company had negative funds from operations in the quarter and year ended December 31, 2011 totaling $678,060 (2010 – $610,024) and $2,908,418 (2010 – $2,576,406), respectively. Funds used in operations increased as a result of higher general and administrative expenses partially offset by oil revenue from the Coiron Amargo Block and higher interest income on cash balances.

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

During the quarter and year ended December 31, 2011, the Company incurred fees of $1,898 (2010 - $85,161) and $20,304 (2010 - $132,161), respectively, payable to a law firm in which a director of the Company is a partner.

SHARE INFORMATION

At December 31, 2011, the Company had 260,020,517 common shares and 13,977,034 stock options outstanding. On April 20, 2012, the Company had 314,307,185 common shares and 13,690,366 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 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.

Expiration of licences and leases

The Company's properties are held in the form of licences and leases and working interests in licences and leases. If the Company or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Company's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

In response to declining oil and gas production volumes in Argentina, the federal and various provincial governments in Argentina are calling for oil and gas companies operating in the country to increase investment. While the Company believes that it has met all of its investment commitments with respect to its participation in the Coiron Amargo, Cortadera and Curamhuele blocks, any future changes to the licencing regime in Neuquen Province, Argentina where the Company's acreage is located could have a material adverse effect on the Company.

The Company is currently in discussion with provincial authorities to extend the initial exploration period of the Cortadera Block beyond the initial expiry date of October 26, 2011. While the Company has agreed a work program with provincial authorities and is optimistic that formal approval of the extension is forthcoming, a delay or rejection of the extension terms may have a material adverse effect on the Company.

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, 2011, including operating costs, are approximately $295,000 through 2014.

Subsequent to year end the northern 108 km^2 of the 404 km^2 Coiron Amargo Block was converted to a 25 year exploitation concession by the Province of Neuquén. In addition, the exploration period for the remainder of the Coiron Amargo Block and the Curamhuele Block was extended to November 8, 2013. The extension of the Coiron Amargo and Curamhuele blocks will require additional work commitments of US$ 51.1 million (Madalena share – US$ 29.3 million). Both exploration blocks qualify for an additional one year extension period at the end of their exploration periods in the fourth quarter of 2013.

The initial exploration period on the Cortadera Block in the Province of Neuquén expired on October 26, 2011. The joint venture has agreed a work plan with provincial authorities which will require additional work commitments and is currently working with provincial authorities to formalize the extension of the initial exploration period.

OUTLOOK

Following the Company's equity offering March 2012, the Company is in a strong financial position to move forward with its 2012 drilling program and meet the commitments associated with its recent block extensions. On the Coiron Amago Block, Madalena anticipates drilling a number of Sierras Blancas development wells on existing discovered anomalies while continuing its technical work to identify the optimal appraisal and development program for the Vaca Muerta shale formation.

Further capital expenditures are also planned for the Company's two large exploration blocks in the western part of the Neuquen Basin to determine the potential associated with several thick shale and tight sand formations on the blocks.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 3 to the consolidated financial statements. Preparing financial statements in accordance with IFRS 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 months ended December 31, 2011.

Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position:

Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the statement of operations and is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves.

Carrying value of development and production and exploration and evaluation assets

The Company assesses at each reporting date whether there is an indication that an asset or cash generating unit ("CGU") may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and CGU's have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. A material adjustment to the carrying value of the Company's development and production and exploration and evaluation assets may be required as a result of changes to these estimates and assumptions.

Decommissioning obligations

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on profit and loss or financial position.

Share-based payments

The Company measures the cost of its share-based payments to directors, officers and employees by reference to the fair value of the equity instruments at the date at which they are granted. The assumptions used in determining fair value include: expected lives of options, risk-free rates of return and stock price volatility. These assumptions, by their nature, are subject to measurement uncertainty.

Deferred tax

Deferred tax is recorded, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations from multiple jurisdictions. Rates are also affected by legislative changes. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded in the financial statements.

Legal, environmental remediation and other contingent matters

In respect of these matters, the Company is required to determine both whether a loss is probable based on judgment and interpretation of laws and regulations and if such a loss can reasonably be estimated. When any such loss is determined, it is charged to net income (loss). Management continually monitors known and potential contingent matters and makes appropriate provisions by charges to net income (loss) when warranted by circumstances.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

Unless otherwise noted, the following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is in the process of evaluating the impact of adopting these standards.

IFRS 9 - Financial Instruments applies to the classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 - Consolidated Financial Statements was issued in May 2011 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statement.*

IFRS 11 - Joint Arrangements focuses on the rights and obligations of a joint arrangement, rather than its legal form (as is currently the case). To address reporting inconsistencies, the standard requires a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers.*

IFRS 12 - Disclosure of Interests in Other Entities applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

IFRS 13 - Fair Value Measurements defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements.

IAS 27 - Separate Financial Statements addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements.

IAS 28 - Investments in Associates and Joint Ventures has been amended to included joint ventures in its scope and to address the changes in IFRS 10 -13

IAS 1 - Presentation of Financial Statements has been amended to require components of other comprehensive income to be separately presented between those that may be reclassified to income and those that will not. The amendments are effective for annual periods beginning on or after July 1, 2012.

IAS 32 - Financial Instruments has been amended to provide clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after July 1, 2012.

QUARTERLY FINANCIAL INFORMATION

	Oil and Gas Revenue	Net Loss	Net Loss Per Share (1)
2011			
Fourth quarter	**$ 609,340**	**$ (1,585,520)**	**$ (0.01)**
Third quarter	619,178	(315,915)	-
Second quarter	807,497	(12,490,603)	(0.05)
First quarter	562,488	(1,744,505)	(0.01)
Total	$ 2,598,503	$ (16,136,543)	$ (0.07)
2010			
Fourth quarter	$ 244,235	$ (1,719,762)	$ (0.01)
Third quarter	-	(624,144)	-
Second quarter	-	(757,919)	-
First quarter	-	(784,240)	(0.01)
Total	$ 244,235	$ (3,886,065)	$ (0.02)
Canadian GAAP			
2009			
Fourth quarter	$ -	$ (2,721,709)	$ (0.02)
Third quarter	-	(692,859)	(0.01)
Second quarter	-	(2,075,920)	(0.02)
First quarter	-	(872,861)	(0.01)
Total	$ -	$ (6,363,349)	$ (0.06)

(1) Basic and diluted amounts per common share.

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STOCK EXCHANGE LISTING
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Trading Symbol: "MVN"