Quarterly Report

For the Three Months Ended March 31, 2011
(unaudited)

President's Message

As previously communicated, our focus for the first and much of the second quarter this year would be on exploration drilling and I'm pleased to be able to report on our progress during the period. While final test results on new wells drilled on the Coiron Amargo and Curamhuele blocks are not yet available, initial drilling results are cause for optimism.

On the Coiron Amargo Block, two new wells drilled in the period, CAS X-1 in the southern portion of the block and CAN X-4 in the northern portion, have been cased as potential new oil discoveries. Based on electric logs, both wells have potential hydrocarbon columns in the conventional Sierras Blancas formation and in thick shales in the Vaca Muerta formation above. The CAS X-1 well, located approximately 16 km away from the wells drilled in the northern portion of the block, was the Company's first well in the southern portion of the block and in a potential 4 way dip closure identified on 3D seismic. Above the Sierra Blancas formation, nine sidewall cores were taken in the Vaca Muerta formation at various intervals over the entire 425 foot formation.

Extensive study and discussions are now underway with various technical personnel, local operators and service companies to utilize the information gathered to unlock the shale oil potential within the Vaca Muerta formation. In May 2011, YPF SA announced a major oil discovery in the Vaca Muerta formation in an adjacent block southwest of Coiron Amargo with five initial vertical wells flowing between 200 and 560 barrels of oil equivalent per day on 30 day tests. YPF estimated technically recoverable resources of 150 million boe[1] in an area roughly 80% the size to the Coiron Amargo block. YPF plans, for the remainder of 2011, include drilling 14 new wells and fracture stimulation of 17 existing wells. Initial tests of the CAS X-1 well includes perforation and testing of the Vaca Muerta in June which will provide the Company with information needed to complete a larger fracture stimulation of the formation in the third quarter of 2011.

On the Curamhuele Block, Madalena recently completed drilling and is in the process of casing the Yapai X-1001 exploration well (thrust play) as a potential discovery well. The well was drilled to a total measured depth of 10,743 feet (10,478 true vertical depth) penetrating the Lower Troncoso and Avile formations. Based on electric logs, the well encountered a potential gross hydrocarbon column of 23 feet in the Lower Troncoso formation and as programmed also encountered multiple stacked Avile formations exhibiting gross intervals of 50 to 260 feet. Plans are currently underway to test the well in several of the Avile sands and the Lower Troncoso formation in the third quarter of 2011. If tests are successful, the Company would look to rapidly appraise the discovery and generate cash flow from this 90% working interest block located close to existing infrastructure.

While the Company was disappointed with the results from the Curamhuele X-1001 exploration well (truncation play), opportunity also still exists on the block for new discoveries in the Mulichinco tight sands and Vaca Muerta shale believed to be between 200 and 400 meters thick over the block. The thick shales on the western edge of the Neuquen basin have attracted significant attention over the past year and similar to the eastern shale oil play, we will look to apply new techniques and information gathered from several deep exploration wells currently underway in the region to further our exploration activity on the block. Two previous wells drilled on the block, Curamhuele X-1 and Yapai X-1, have been drilled into the Mulichinco formation and could be re-entered to test the Vaca Muerta shale formation.

[1] The data associated with the Loma La Lata field may constitute "analogous information". Such information was released by YPF Sociedad Anónima in Form 6-K filed with the Securities and Exchange Commission on May 11, 2011. The data relates to production in geographical proximity to prospective lands held by Madalena. Management believes the information is relevant as it helps to define the reservoir characteristics in which the Company may have an interest. The Company is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor or in accordance with the COGE Handbook and therefore, the reader is cautioned that the data relied upon by Madalena may be in error and/or may not be analogous to Madalena's land holdings.

On the Cortadera Block, the Company anticipates that the CorS x-1 earning well currently being drilled by Apache at no cost to Madalena will reach TD in late July, early August 2011. The primary objective in Cortadera is the thick Vaca Muerta shale gas potential situated south of Curamhuele.

We look forward over the coming months reporting the results of the various drilling and testing programs to you as well as our broader plans regarding the next stage in the development of each block.

Dwayne Warkentin
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is provided by management of Madalena Ventures Inc. ("Madalena" or the "Company"), as at and for the three months ended March 31, 2011 and 2010. This MD&A should be read in conjunction with the Company's condensed consolidated unaudited financial statements for the three month period ended March 31, 2011. The interim consolidated unaudited 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 June 14, 2011. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Unless otherwise stated, all calculations converting natural gas to barrels of oil equivalent ("boe") have been made using a conversion ratio of six thousand cubic feet (six "Mcf") of natural gas to one barrel of oil. The use of boe may be misleading, particularly if used in isolation, as the conversion ratio of six Mcf of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Forward-looking Statements

This MD&A may include forward-looking statements including opinions, assumptions, estimates and management's assessment of future plans and operations, expected depletion, depreciation and accretion expenses, expectations as to the taxability of the Company and planned capital expenditures and the timing and funding thereof. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intent," "may," "project," "plan", "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Forward-looking statements are subject to a wide range of risks and uncertainties, and although the Company believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be realized. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, but not limited to, risks associated with petroleum and natural gas exploration, development, exploitation, production, marketing and transportation, the volatility of petroleum and natural gas prices, currency fluctuations, the ability to implement corporate strategies, the state of domestic capital markets, the ability to obtain financing, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, changes in petroleum and natural gas acquisition and drilling programs, delays resulting from inability to obtain required regulatory approvals, delays resulting from inability to obtain drilling rigs and other services, labour supply risks, environmental risks, competition from other producers, imprecision of reserve estimates, changes in general economic conditions, ability to execute farm-in and farm-out opportunities, and other factors, all of which are more fully described from time to time in the reports and filings made by the Company with securities regulatory authorities.

Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

The forward looking statements contained in this MD&A are expressly qualified by this cautionary statement. Readers are cautioned not to place undue reliance on forward-looking statements, as no assurances can be given as to future results, levels of activity or achievements. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking statements.

Non-GAAP Measurements

This MD&A contains the terms "funds from operations" and "funds from operations per share" which are not defined under Generally Accepted Accounting Principles ("GAAP"), and may not be comparable to similar measures reported by other companies. Management considers these measures to be useful supplementary information when analyzing operational and financial performance.

Funds from operations is a useful measure of how the Company generates funds to cover operating and capital spending. Funds from operations is defined as cash flow from operating activities before changes in non-cash working capital items. Funds from operations and cash flow from operating activities per share are calculated using the same weighted average shares outstanding as net loss per common share. The following table reconciles cash flow used in operating activities to funds used in operations:

	Three months ended March 31,			
		2011		2010
Cash flow used in operating activities	$	(599,039)	$	(709,015)
Change in non-cash working capital		(321,023)		(52,853)
Funds used in operations	$	(920,062)	$	(761,868)

Operating netback is a useful measure for comparing prices received, royalties paid, and operating costs incurred, with industry peers. Netback and operating netback are defined as total petroleum and natural gas revenue less royalties and operating expenses. Additional information on operating netbacks is provided in "Netbacks".

HIGHLIGHTS

Highlights in the three months ended March 31, 2011 include:

- Successful drilling of the CAS X-1 well and CAN X-4 well (second quarter) on the Coiron Amargo Block;
- Fracture stimulation of the Sierras Blancas formation in the CAS X-1 well with initial production increasing to 200 barrels per day; perforation and pressure tests of Vaca Muerta formation to be completed next;
- Completed drilling the Yapai X-1001 exploration well (second quarter) on the Curamhuele Block with 23 feet of potential gross hydrocarbon column in the shallow Lower Troncoso formation and 7 stacked Avile formation intervals ranging in thickness from 50 to 260 feet;
- Receipt of formal approval of farm-out of Cortadera Block to Apache Energia Argentina S.R.L.; and
- Commenced drilling with Apache the first deep gas exploration well on the Cortadera Block (second quarter) targeting multiple zones including the Mulichinco tight gas and thick Vaca Muerta shale gas formations.

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

In March 2011, the Company drilled and cased the CAS X-1 exploration well in the southern portion of the block. Both oil and gas shows were evident during the drilling of the Vaca Muerta and Sierras Blancas formations. Based on electric logs, the Vaca Muerta formation was similar to the Vaca Muerta formation encountered approximately 16 km away in the wells drilled in the northern portion of the block. Nine sidewall cores were taken at various intervals over the entire 425 foot formation which the joint venture will use to create an initial testing program specifically for the Vaca Muerta formation.

After the completion of several remedial cement jobs, the well initially tested oil up to 150 barrels per day from the Sierras Blancas formation unstimulated. A fracture stimulation treatment of the formation has now been performed with initial production increasing to 200 barrels per day under improved flow conditions. Testing operations will now move up-hole to include perforation and pressure tests of the Vaca Muerta formation which will provide the Company with information needed to complete a larger fracture stimulation of the formation in the third quarter of 2011.

In May 2011, the Company drilled and cased the CAN X-4 exploratory well as a potential oil discovery. The CAN X-4 exploration well was drilled to total depth (“TD”) of 11,027 feet on a defined 3D anomaly between the CAN X-1 and CAN X-2 wells. Both oil and gas shows were evident during the drilling of the Vaca Muerta and Sierras Blancas formations. The entire Vaca Muerta formation interval encountered was 456 feet and in the Sierras Blancas formation, the well encountered a potential gross hydrocarbon column of 92 feet. Testing of the CAN X-4 well is expected to begin immediately after testing operations at CAS X-1 are complete.

Production from the three producing wells in the northern portion of the block is currently being restricted until a central facility can be developed to include gas sales. Once testing of the CAN X-4 well is complete, the Company anticipates drilling up to four additional wells on the block in the second half of the year as well as construction of the central gathering facility. Due to the successful fracture stimulation of the CAN X-1 and CAS X-1 wells, further fracture stimulation treatment on the other Sierras Blancas production wells is contemplated.

Further testing of the Vaca Muerta formation in the block is also being evaluated. Reported test results from other vertical wells on adjacent blocks have demonstrated the potential for production and development of non-conventional resources in the area.

Curamhuele Block

In April 2011, the Company completed drilling the Curamhuele X-1001 exploration well (truncation play) to a total depth of 8,430 feet without encountering commercial quantities of hydrocarbons and subsequently abandoned the well.

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 and Avile formations. Based on electric logs, the well encountered a potential gross hydrocarbon column of 23 feet in the Lower Troncoso formation at 4,640 feet MD (4,394 feet TVD) and as programmed the well also encountered multiple stacked Avile formations with potential gross intervals varying from 50 to 260 feet from 6,800 feet MD (6,530 feet TVD) to 10,620 feet MD (10,360 feet TVD). The Company is in the process of casing the well to total depth with 7” casing and plans to test the well in several of the Avile sands and the Lower Troncoso formation in the third quarter of 2011. Two previous wells drilled on the block, Curamhuele X-1 and Yapai X-1, have been drilled into the Mulichinco formation and will be reviewed for potential re-entry to test the third play on the block, the Vaca Muerta shale formation.

Cortadera Block

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

Financial and Operating Results

	Three Months ended March 31,	
	2011	2010
Financial Information		
Oil and gas revenue	$ 562,488	$ -
Funds used in operations (1)	(920,062)	(761,868)
Funds used in operations per share (1)	-	-
Cash flow used in operating activities	(599,039)	(709,015)
Cash flow used in operating activities per share	-	-
Cash flow from discontinued operations	-	3,532,096
Cash flow from discontinued operations per share	-	-
Net loss from continuing operations	(1,744,505)	(847,843)
Net loss from continuing operations per share	(0.01)	-
Net loss	(1,744,505)	(784,240)
Net loss per share	(0.01)	-
Total assets	58,296,849	23,432,730
Working capital	33,032,487	11,955,361
Capital expenditures	4,559,609	239,871
Debt	-	-
Production		
Oil production (barrels per day)	138	-

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

RESULTS OF OPERATIONS

The following paragraphs provide information about the results of Madalena's on-going operations for the quarter ended March 31, 2011. See the paragraphs entitled "Results from Discontinued Operations" for information on Madalena's discontinued operations for the quarter ended March 31, 2011.

Oil and gas revenue

Oil and gas revenue in the quarter ended March 31, 2011 was $562,488 compared to $nil 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 Coiron Amargo Block as a development and production asset. The Company's share of oil production from the Coiron Amargo Block in the quarter ended March 31, 2011 was 12,710 barrels or 138 barrels per day. The Company's share of oil sales in the quarter ended March 31, 2011 was 10,435 barrels or 113 barrels per day. Oil production from the block is currently stored and periodically sold once a sufficient quantity is reached.

Royalties

Royalty expense totaled $108,274 in the quarter ended March 31, 2011. Production from the Coiron Amargo Block is currently subject to a 15% provincial royalty rate until the block is converted from an exploration concession to an exploitation concession. On conversion of the block to an exploitation concession, a 12% provincial royalty is payable to the Province of Neuquén. Royalty expense also includes a 3% provincial turnover tax on sales.

Operating costs

Operating costs in the quarter ended March 31, 2011 totaled $240,080 compared to $nil 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 March 31, 2011		Three Months Ended March 31, 2010	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenues	$ 562,488	$ 53.91	$ -	$ -
Royalties	(108,274)	(10.38)	-	-
Operating costs	(240,080)	(23.01)	-	-
Operating netback (1)	$ 214,134	$ 20.52	$ -	$ -

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

The Company realized an operating netback of $20.52/boe in the quarter ended March 31, 2011 compared to $23.90/boe in the fourth quarter of 2010 and $nil for the corresponding period in 2010 as a result of no commercial production at that time. On a boe basis, operating costs in the period were higher than future expected operating costs due to costs associated with new field operations such as the use of rental equipment and expected operating efficiencies associated with increased production. 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 $1,165,310 for the quarter ended March 31, 2011 compared to $781,367 for the corresponding period in 2010. G&A expenses increased as a result of higher compensation costs, higher office and administration costs in Argentina and higher professional fees associated with increased regulatory reporting and activity in Argentina.

A breakdown of general and administrative expenses is as follows:

	Three months ended March 31, 2011	Three months ended March 31, 2010
Corporate expenses:		
Compensation	$ 531,496	$ 382,774
Office and administration	314,685	157,042
Professional fees	246,730	187,717
Travel	72,399	53,834
	$ 1,165,310	$ 781,367

Share-based payments ("SBP") expense

SBP expense in the quarter ended March 31, 2011 totaled $713,356 compared to $75,395 in 2010. SBP expense increased in the year due to new option grants in 2010 and 2011 a third of which vested immediately compared to the prior year when a number of employee options had become fully vested.

SBP is capitalized to property and equipment to the extent that the activities are directly related to the exploration for or development of petroleum and natural gas reserves. In the quarter ended March 31, 2011, the Company capitalized $20,719 of SBP to property and equipment, compared to $20,646 for the corresponding period in 2010.

At March 31, 2011, the Company has approximately $2.8 million (December 31, 2010 - $3.3 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 quarter ended March 31, 2011 totaled $96,301 compared to $6,795 for the corresponding period in 2010. Depletion and depreciation expense increased due to depletion expense recorded on production from the Coiron Amargo Block in the period. Depletion expense for the quarter ended March 31, 2011 was $8.67 per barrel.

Interest Income

Interest and other income for the quarter ended March 31, 2011 was $95,539 compared to $28,373 for the corresponding period in 2010 due to higher cash balances during the period.

Foreign exchange loss (gain)

The Company recorded a foreign exchange loss for the quarter ended March 31, 2011 of $26,346 compared to $8,874 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 and loss.

Finance costs

Finance costs consist of accretion of decommissioning obligations. Finance costs for the quarter ended March 31, 2011 totaled $14,786 compared to $3,785 for the corresponding period in 2010 as a result of accruing additional decommissioning obligations on wells drilled in Argentina in 2010 and the first quarter of 2011.

Income tax expense

Current income taxes relate to a minimum tax based on the book value of assets in Argentina.

Net loss from continuing operations

The Company realized a net loss from continuing operations of $1,744,505 for the quarter ended March 31, 2011, compared to a net loss from continuing operations of $847,843 for the corresponding period in 2010. Net loss from continuing operations increased due to 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 on cash balances.

Net loss and other comprehensive loss

The Company realized a net loss of $1,744,505 for the quarter ended March 31, 2011, compared to a net loss of $784,240 for the corresponding period in 2010. Net loss increased primarily due to 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.

Funds used in operations

Funds used in operations increased to $920,062 for the quarter ended March 31, 2011, compared to funds used in operations of $761,868 for the corresponding period in 2010. 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.

Capital expenditures

	Three months ended March 31,	
	2011	2010
Argentina:		
Geological and geophysical	$ 7,425	$ 93,486
Land	-	9,736
Drilling and completion	3,839,523	109,431
Well equipment and facilities	22,724	-
Other	689,647	4,496
	4,559,319	217,149
Tunisia:		
Geological and geophysical	-	33,280
Drilling and completion	-	2,600
Other	-	(13,458)
	-	22,422
Canada:		
Other	290	-
	290	-
Total Capital Expenditures	$ 4,559,609	$ 239,571

In the quarter ended March 31, 2011, the Company incurred capital expenditures on petroleum and natural gas properties and office furniture and fixtures totaling $4,559,609 compared to $239,571 for the corresponding period in 2010. Capital expenditures increased as the Company recommenced drilling in February 2011 of the Curamhuele X-1001 exploration well. As at March 31, 2011, the cumulative cost to drill the Curamhuele X-1001 exploration well, excluding value added taxes, is approximately $9.25 million. In the second quarter of 2011, the Company completed drilling and subsequently abandoned the Curamhuele X-1001 well and an impairment loss equal to the excess of the carrying value over the recoverable amount of the E&E impairment grouping will be recorded in the second quarter of 2011.

RESULTS FROM DISCONTINUED OPERATIONS

The Company recorded income from discontinued operations of $nil for the quarter ended March 31, 2011 compared to income from discontinued operations of $63,603 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.

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

	Three months ended March 31	
	2011	2010
Cash proceeds	$ -	$ 4,084,400
Decomissioning provisions	-	98,447
Net book value of exploration and evaluation assets	-	(4,119,244)
Gain on sale of exploration and evaluation assets	$ -	$ 63,603

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2011 Madalena had working capital of $33,032,487 compared to $37,005,522 at December 31, 2010. Working capital decreased as a result of drilling the Curamhuele X-1001 exploration well in the period and 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 ended March 31, 2011 of $920,062 compared to negative funds from operations of $761,868 for the corresponding period in 2010. 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

In the quarter ended March 31, 2011, the Company incurred fees of $2,805 (2010 - $16,741) payable to a law firm in which a director of the Company is a partner.

SHARE INFORMATION

At March 31, 2011, the Company had 259,995,517 common shares and 12,455,368 stock options outstanding. On June 14, 2011, the Company had 259,995,517 common shares and 12,955,368 stock options outstanding.

BUSINESS RISKS AND UNCERTAINTIES

The Company operates in the petroleum and natural gas industry which is subject to numerous risks that can affect the amount of cash flow from operating activities and the ability to grow. These risks include but are not limited to:

- Global economic uncertainty;
- Risks associated with operating in foreign jurisdictions;
- Competition with more established companies and the availability of services;
- Volatility in commodity pricing, exchange and interest rates;
- Government and regulatory risk with respect to royalty and income tax regimes;
- Operation risks that may affect the quality and recoverability of reserves;
- Geological risks associated with accessing and recovering new quantities of reserves;
- Ability to capitalize on farm-in and farm-out opportunities as they arise;
- Production risks associated with the ability to extract commercial quantities of petroleum and natural gas;
- Transportation risk with respect to the ability to transport petroleum and natural gas to market;
- Third party credit risk and the resulting ability to collect amounts owed;
- Capital markets risk and the ability to finance future growth;
- Uncertainty as to the nature of evolving environmental legislation that is likely to result in stricter standards and enforcement; and
- Environmental risk with respect to the ability to remedy spills, releases or emissions of various substances produced in association with petroleum and natural gas operations.

The Company will seek to minimize these business risks by:

- Employing management, technical staff and consultants with extensive industry experience;
- Maintaining a low cost structure;
- Maintaining prudent financial practices;
- Controlling timing and magnitude of operating and capital costs;
- Working with established industry partners; and
- Maintaining insurance in accordance with industry standards to address the risk of liability for pollution, blow-outs, property damage, personal injury and other hazards.

Foreign operations

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

Market uncertainty

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Substantial capital requirements

In order to completely exploit its existing properties and create future growth, the Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. In addition, uncertain levels of near term industry activity and uncertain global markets may impair the Company's ability to access capital. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

For addition detail regarding the Company's risks and uncertainties, refer to the Company's most recent AIF on SEDAR at www.sedar.com.

CONTRACTUAL OBLIGATIONS

The Company has lease commitments for office space and rental accommodations in Canada and Argentina. The total estimated remaining lease payments at March 31, 2011, including operating costs, are approximately $401,000.

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

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

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

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

OUTLOOK

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 3 to the March 31, 2011 unaudited condensed consolidated interim 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 March 31, 2011.

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. All amounts are unaudited. Note 3 to Madalena's interim condensed consolidated financial statements as at and for the three months ended March 31, 2011 outlines the Company's IFRS accounting policies and Note 15 provides details of the Company's IFRS 1 elections and reconciliations between Canadian GAAP and IFRS.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

The following describes new accounting pronouncements that have been issued but are not yet effective:

IFRS 9, Financial Instruments

IFRS 9 was issued in November 2009 and reflects the first phase of the IASB's work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 applies to the classification and measurement of financial assets and liabilities as defined in IAS 39 and is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 9 is not expected to have a significant impact on the consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 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* and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 11 Joint Arrangements

IFRS 11 was issued in May 2011 and 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* and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 was issued in May 2011 and is a new and comprehensive standard and applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 13 Fair Value Measurements

IFRS 13 was issued in May 2011 and defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

QUARTERLY FINANCIAL INFORMATION

	Oil and Gas Revenue	Net Loss	Net Loss Per Share
2011			
First quarter	$ 562,488	$ (1,744,505)	$ (0.01)
Total	$ 562,488	$ (1,744,505)	$ (0.01)
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)

Condensed Consolidated Interim Financial Statements of

MADALENA VENTURES INC.

As at and for the three month period ended March 31, 2011 (unaudited)

MADALENA VENTURES INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

As at	Note	March 31, 2011	December 31, 2010 (Note 15)	January 1, 2010 (Note 15)
Assets				
Current assets				
Cash and cash equivalents		**$ 35,908,886**	$ 40,719,947	$ 10,131,040
Trade and other receivables		**544,148**	1,033,938	187,193
Prepaid expenses		**402,916**	333,688	154,972
Inventory	4	**351,233**	231,751	-
		37,207,183	42,319,324	10,473,205
Non-current assets				
Property and equipment	5	**4,348,737**	4,578,983	62,703
Exploration and evaluation assets	6	**16,740,929**	12,855,921	15,191,083
		21,089,666	17,434,904	15,253,786
		$ 58,296,849	$ 59,754,228	$ 25,726,991
Liabilities				
Current liabilities				
Trade and other payables		**$ 4,174,696**	$ 5,313,802	$ 1,601,212
Decommissioning provisions	7	**485,674**	602,366	256,640
		4,660,370	5,916,168	1,857,852
Shareholders' equity				
Share capital	8	**77,797,572**	75,403,123	38,345,561
Warrants	8	**-**	-	2,380,678
Contributed surplus		**7,933,742**	7,932,605	7,092,401
Accumulated other comprehensive loss		**(2,514,764)**	(1,662,102)	-
Deficit		**(29,580,071)**	(27,835,566)	(23,949,501)
		53,636,479	53,838,060	23,869,139
		$ 58,296,849	$ 59,754,228	$ 25,726,991

Commitments (note 12)

See accompanying notes to the condensed consolidated interim financial statements

MADALENA VENTURES INC.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss (unaudited)

For the three months ended March 31,	Note	2011	2010
			(Note 15)
Revenue			
Oil and gas		**$ 562,488**	$ -
Royalties		**(108,274)**	-
		454,214	-
Expenses			
Operating		**240,080**	-
General and administrative		**1,165,310**	781,367
Share-based payments	8	**713,356**	75,395
Depletion and depreciation	5	**96,301**	6,795
		2,215,047	863,557
Operating loss		**(1,760,833)**	(863,557)
Other income (expenses)			
Interest and other income		**95,539**	28,373
Foreign exchange loss		**(26,346)**	(8,874)
Finance cost		**(14,786)**	(3,785)
		54,407	15,714
Loss from continuing operations before tax		**(1,706,426)**	(847,843)
Income tax expense		**(38,079)**	-
Loss from continuing operations		**(1,744,505)**	(847,843)
Income from discontinued operations	9	**-**	63,603
Net loss for the period		**(1,744,505)**	(784,240)
Exchange differences on translation of foreign operations		**(852,662)**	(525,408)
Total comprehensive loss for the period		**$ (2,597,167)**	$ (1,309,648)
Weighted average number of shares:			
Basic and diluted	8	**258,779,974**	178,418,154
Loss from continuing operations per share:			
Basic and diluted		**$ (0.01)**	$ -
Loss from discontinued operations per share:			
Basic and diluted		**$ -**	$ -
Net loss per share:			
Basic and diluted		**$ (0.01)**	$ -

See accompanying notes to the condensed consolidated interim financial statements

MADALENA VENTURES INC.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

For the three months ended March 31,	Note		2011		2010
					(Note 15)
Cash provided by (used in):					
Operating activities					
Loss from continuing operations		**$**	**(1,744,505)**	$	(847,843)
Items not involving cash:					
Share-based payments			**713,356**		75,395
Depletion and depreciation			**96,301**		6,795
Accretion on provisions			**14,786**		3,785
			(920,062)		(761,868)
Change in non-cash working capital items	11		**321,023**		52,853
			(599,039)		(709,015)
Discontinued operations	9				
Income from discontinued operations			**-**		63,603
Items not involving cash:					
Gain on sale of exploration and evaluation assets			**-**		(63,603)
Additions to discontinued exploration and evaluation assets			**-**		(22,422)
Proceeds on sale of exploration and evaluation assets			**-**		4,084,400
Change in non-cash working capital	11		**-**		(529,882)
			-		3,532,096
Financing activities					
Issue of common shares			**1,661,511**		8,387
Change in non-cash working capital items	11		**(3,880)**		(124,014)
			1,657,631		(115,627)
Investing activities					
Additions to exploration and evaluation assets			**(4,512,361)**		(217,149)
Additions to property and equipment			**(47,248)**		(300)
Change in non-cash working capital items	11		**(1,022,850)**		(446,224)
			(5,582,459)		(663,673)
Change in cash and cash equivalents			**(4,523,867)**		2,043,781
Cash and cash equivalents, beginning of the period			**40,719,947**		10,131,040
Impact of foreign exchange on cash balances			**(287,194)**		(16,107)
Cash and cash equivalents, end of the period		**$**	**35,908,886**	$	12,158,714

See accompanying notes to the condensed consolidated interim financial statements

MADALENA VENTURES INC.

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

		Share Capital													
	Note	Number		Amount		Warrants		Contributed Surplus		Accumulated Other Comprehensive Income		Deficit		Total Equity
Balance at January 1, 2010	15	**178,410,702**	**$**	**38,345,561**	**$**	**2,380,678**	**$**	**7,092,401**	**$**	**-**	**$**	**(23,949,501)**	**$**	**23,869,139**
Loss for the period		-		-		-		-		-		(784,240)		(784,240)
Exercise of warrants	8b	25,000		7,832		(1,582)		-		-		-		6,250
Exercise of agents' warrants	8b	14,250		3,294		(1,157)		-		-		-		2,137
Share-based payments	8c	-		-		-		96,041		-		-		96,041
Comprehensive loss for the period		-		-		-		-		(525,408)		-		(525,408)
Balance at March 31, 2010		**178,449,952**	**$**	**38,356,687**	**$**	**2,377,939**	**$**	**7,188,442**	**$**	**(525,408)**	**$**	**(24,733,741)**	**$**	**22,663,919**
Loss for the period		-		-		-		-		-		(3,101,825)		(3,101,825)
Public offering	8a	40,775,000		26,503,750		-		-		-		-		26,503,750
Exercise of stock options	8c	1,433,333		1,035,033		-		(778,033)		-		-		257,000
Exercise of warrants	8b	33,308,500		10,435,553		(2,108,428)		-		-		-		8,327,125
Exercise of agents' warrants	8b	3,319,100		767,377		(269,511)		-		-		-		497,866
Share issue costs	8a	-		(1,695,277)		-		-		-		-		(1,695,277)
Share-based payments	8c	-		-		-		1,522,196		-		-		1,522,196
Comprehensive loss for the period		-		-		-		-		(1,136,694)		-		(1,136,694)
Balance at December 31, 2010		**257,285,885**	**$**	**75,403,123**	**$**	**-**	**$**	**7,932,605**	**$**	**(1,662,102)**	**$**	**(27,835,566)**	**$**	**53,838,060**
Loss for the period		-		-		-		-		-		(1,744,505)		(1,744,505)
Exercise of stock options	8c	2,709,632		2,394,449		-		(732,938)		-		-		1,661,511
Share-based payments	8c	-		-		-		734,075		-		-		734,075
Comprehensive loss for the period		-		-		-		-		(852,662)		-		(852,662)
Balance at March 31, 2011		**259,995,517**	**$**	**77,797,572**	**$**	**-**	**$**	**7,933,742**	**$**	**(2,514,764)**	**$**	**(29,580,071)**	**$**	**53,636,479**

See accompanying notes to the condensed consolidated interim financial statements

1. Corporate Information

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 financial statements were authorized for issuance on June 14, 2011.

2. Basis of Preparation

Future operations

These condensed consolidated interim 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.

Statement of compliance

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”), specifically IAS 34 ‘Interim Financial Reporting’ (“IAS 34”) as issued by International Accounting Standards Board (“IASB”) using accounting policies the Company expects to adopt in its annual consolidated financial statements as at and for the year ending December 31, 2011.

These are the Company’s first IFRS condensed consolidated interim financial statements prepared in accordance with IFRS and IFRS 1 ‘First-Time Adoption of IFRS’ (“IFRS 1”) has been applied. As these are the Company’s first financial statements prepared using IFRS, certain disclosures have been included in these financial statements that are required to be included in the annual financial statements prepared in accordance with IFRS but were not included in the Company’s most recent annual financial statements prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) before adoption to IFRS (“Previous GAAP”). As a result, disclosures included in these condensed consolidated interim financial statements exceed the minimum requirements under IAS 34. However, these statements do not include all of the information required under IFRS for full annual financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company’s 2010 annual consolidated financial statements and in consideration of the IFRS transition disclosures included in Note 15 to these financial statements and the additional annual disclosures included herein. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the adjustments recognized on transition to IFRS.

Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis and, with the exception of cash flow information, have been prepared using the accrual basis of accounting. The comparative figures presented in the consolidated financial statements are in accordance with IFRS and have not been audited. The Company’s presentation currency is Canadian dollars ($).

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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. 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.

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 cash-generating units 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 provisions

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. For more information on the Company's decommissioning provisions, see note 7.

Share-based payments

The Company measures the cost of its share-based payments to directors, officers, employees and certain consultants 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. Changes to assumptions may have a material impact on the amounts presented. For more information on the Company's share-based payments, see note 8.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They have also been applied in preparing an opening IFRS Statement of Financial Position as at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1. The impact of the transition from Previous GAAP to IFRS is explained in Note 15.

Basis of consolidation

Subsidiaries

These condensed consolidated interim financial statements incorporate the financial statements of the Company and entities controlled by the Company (its 'subsidiaries'). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Company's subsidiaries are as follows:

	% of Ownership	Jurisdiction
Madalena Austral S.A.	100%	Argentina
Madalena Ventures International Holding Company Inc.	100%	Barbados
Madalena Ventures International Inc.	100%	Barbados

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Jointly controlled operations and jointly controlled assets

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

Foreign currency

Items included in the financial statements of each of the Company's consolidated subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Madalena's functional and presentation currency. The Argentine peso is the functional currency of Madalena Austral S.A. and the United States dollar is the functional currency of both Madalena Ventures International Holding Company Inc. and Madalena Ventures International Inc.

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 and loss.

The results and financial position of all the Company's consolidated subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;

ii. income and expenses for each year are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
iii. all resulting exchange differences are recognized in a separate component of equity called 'accumulated other comprehensive income'.

When a foreign operation is disposed of, a proportionate share of the cumulative exchange differences previously recognized in equity is recognized in the income statement, as part of the gain or loss on sale where applicable.

Financial instruments

i. Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Fair value through profit or loss

A financial asset or liability is classified in this category if it is held for trading. Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value, such financial assets are subsequently measured at amortized cost less impairment. Loans and receivables are comprised of cash and cash equivalents and trade and other receivables.

Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit and loss.

Available-for-sale financial assets

Non-derivative financial assets not included in the above categories are classified as available-for- sale. They are carried at fair value with changes in fair value recognized as other comprehensive income and classified as a component of equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the income statement. When financial assets classified as available for sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit and loss.

ii. Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Fair value through profit or loss

This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities

This category includes promissory notes, amounts due to related parties and trade and other payables and accrued liabilities, all of which are recognized at amortized cost.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Inventories

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 cost of production.

Property, plant and equipment and intangible exploration and evaluation assets

i. Recognition and Measurement:

Exploration and evaluation ('E&E') expenditures

Costs incurred before acquiring the legal right to explore are recognized in the statement of operations as incurred.

E&E expenditures, including costs of licence acquisition, technical services and studies, exploratory drilling and testing and directly attributable overhead are capitalized as E&E assets according to the nature of the assets acquired. Interest and borrowing costs incurred on E&E assets are not capitalized.

E&E costs are not depleted and are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability, which is assessed at least annually. Technical feasibility and commercial viability is considered to be demonstrable when proved plus probable reserves have been assigned and there is a reasonable assessment of the economics associated with the future production of those reserves, required government and regulatory approvals have been obtained or are likely to be obtained, and management has made the decision to proceed with development and production of those reserves by incurring the future capital costs attributed to them. When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, E&E assets will be tested for impairment and reclassified from exploration assets to development and production assets, a separate category within property, plant and equipment.

Development and production ('D&P') expenditures

D&P assets include costs incurred in developing commercial reserves and bringing them into production, together with the E&E expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets as outlined above, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Items of property, plant and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of an item of property, plant and equipment, including D&P assets, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including D&P assets, are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognized in profit and loss.

ii. Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of property, plant and equipment and workovers of property, plant and equipment are recognized only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognized in profit and loss when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of an item of property, plant and equipment are recognized in profit and loss as incurred.

iii. Depletion and depreciation:

The net book values of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

Office furniture and equipment are recorded at cost and are depreciated 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. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

i. Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment, except for E&E assets, inventories and deferred tax assets, which are reviewed when circumstances indicate impairment may exist and at least annually, as discussed in more detail below.

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount and when they are reclassified to D&P assets. For the purpose of impairment testing, E&E assets are grouped by concession or field with other E&E and D&P assets belonging to the same concession or field. The impairment loss will be calculated as the excess of the carrying value over recoverable amount of the E&E impairment grouping and any resulting impairment loss is recognized in profit or loss. Recoverable amount is generally determined by reference to the value in use or fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

D&P assets will be tested for impairment whenever events and circumstances arising during the development and production phase indicate that the carrying amount of a D&P asset may exceed its recoverable amount. For the purpose of impairment testing, D&P assets will be grouped into the smallest group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets (the "cash generating unit" or "CGU"). The aggregate carrying value will be compared against the expected recoverable amount of the CGU, generally by reference to the present value of the future net cash flows expected to be derived from the production of proved and probable reserves. CGU's are generally defined by field except where a number of field interests can

be grouped because the cash flows generated by the fields are interdependent. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

ii. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

Share-based payments

The Company's stock option plan allows directors, officers, employees and certain consultants to receive remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments of the Company ('equity-settled transactions'). The fair value of options granted is measured at the date of grant using the Black-Scholes option pricing model. Each tranche's fair value is recognized as a share-based payment expense on a graded-vesting basis over the period during which the options vest, with a corresponding increase in contributed surplus within equity. No expense is recognized for awards that ultimately do not vest. The number of stock options expected to vest is reviewed at least annually, with any impact being recognized immediately. Upon exercise of the stock options, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase in share capital.

Provisions

i. General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Provisions are not recognized for future operating losses.

ii. Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Decommissioning obligation costs are capitalized in the relevant asset category to which they relate.

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement of the decommissioning obligation, the obligation is adjusted at the end of each reporting period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas changes in the estimated future cash flows are added to or deducted from the related asset in the current period. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Revenue recognition

Petroleum and natural gas revenues

Petroleum and natural gas revenues are recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the purchaser, and payment is reasonably assured.

Interest income

Interest income is recognized in profit or loss, using the effective interest rate method, as it accrues.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the statement of financial position method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. Deferred tax is also not recorded on differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. 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 statement of financial position 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 carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

Per share amounts

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares.

Accounting standards issued but not yet applied

IFRS 9, Financial Instruments

IFRS 9 was issued in November 2009 and reflects the first phase of the IASB's work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 applies to the classification and measurement of financial assets and liabilities as defined in IAS 39 and is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 9 is not expected to have a significant impact on the consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 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* and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 11 Joint Arrangements

IFRS 11 was issued in May 2011 and 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* and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 was issued in May 2011 and is a new and comprehensive standard and applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 13 Fair Value Measurements

IFRS 13 was issued in May 2011 and defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

4. Inventory

Inventory at March 31, 2011 of $351,233 (December 31, 2010 - $231,751) consists of crude oil that has been produced but not yet sold.

5. Property and equipment

	Development and Production Assets	Furniture and Fixtures	Total
	$	$	$
Cost			
At January 1, 2010	-	167,062	167,062
Additions	-	5,963	5,963
Assets transferred from exploration and evaluation	4,779,324	-	4,779,324
Effect of movement in exchange rates	(156,432)	(23)	(156,455)
At December 31, 2010	4,622,892	173,002	4,795,894
Additions	44,230	3,018	47,248
Effect of movement in exchange rates	(164,897)	(61)	(164,958)
At March 31, 2011	4,502,225	175,959	4,678,184
Depletion, depreciation and impairment losses			
At January 1, 2010	-	104,359	104,359
Depletion and depreciation charge in period	91,684	27,516	119,200
Effect of movement in exchange rates	(3,002)	(3,646)	(6,648)
At December 31, 2010	88,682	128,229	216,911
Depletion and depreciation charge in period	113,050	5,861	118,911
Effect of movement in exchange rates	(5,190)	(1,185)	(6,375)
At March 31, 2011	196,542	132,905	329,447
Net Book Value			
At January 1, 2010	-	62,703	62,703
At December 31, 2010	4,534,210	44,773	4,578,983
At March 31, 2011	4,305,683	43,054	4,348,737

The amounts capitalized as D&P assets in Argentina at March 31, 2011 include $519,702 of Value Added Tax (“VAT”) (December 31, 2010 - $538,829). VAT is payable on goods and services supplied to the Company and is not recoverable from the Government of Argentina, however the Company is allowed to retain VAT on any sales that it collects to the extent of the VAT recorded and paid on previous expenditures.

The depletion expense calculation for the three months ended March 31, 2011 included $11.1 million (2010 – $nil) for estimated future development costs associated with proved and probable reserves in Argentina.

6. Exploration and evaluation assets

Reconciliations of the movements in E&E are as follows:

	Three months ended March 31 2011	Year ended December 31 2010
Carrying amount - beginning of period	$ 12,855,921	$ 15,191,083
Additions	4,421,230	7,688,748
Impairment loss	-	(3,886,800)
Assets transferred to property, plant and equipment	-	(4,779,324)
Effect of movement in exchange rates	(536,222)	(1,357,786)
Carrying amount - end of period	$ 16,740,929	$ 12,855,921

E&E assets consist of the Company's intangible exploration projects in Argentina which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. E&E assets are not depreciated or depleted. In the second quarter of 2011, the Company completed drilling and subsequently abandoned the Curamhuele X-1001 well and an impairment loss equal to the excess of the carrying value over the recoverable amount of the E&E impairment grouping will be recorded in the second quarter of 2011.

The amounts capitalized as Argentina E&E assets at March 31, 2011 include $2,004,014 of VAT (December 31, 2010 - $1,523,166). During the three months ended March 31, 2011, share-based payments directly related to exploration and evaluation activities totaling $20,719 (2010 - $20,646) was capitalized.

In the fourth quarter of 2010, the Coiron Amargo block in Argentina was deemed by management to be technically feasible and commercially viable and costs attributed to the block were transferred from E&E assets to D&P assets, a separate category within property, plant and equipment.

7. Decommissioning provisions

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At March 31, 2011, the Company estimates the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning obligations to be approximately $1.9 million (2010 - $1.1 million) in Argentina. The costs are expected to be incurred in the period between 2023 and 2025. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability. A non-credit risk adjusted rate for Argentina of 11.56% (December 31, 2010 – 10.40%) was used to calculate the fair value of the decommissioning obligations. A reconciliation of the decommissioning obligations is provided below:

	March 31, 2011	December 31, 2010
Balance, beginning of period	$ 602,366	$ 256,640
Additions	44,288	274,230
Revisions in interest rates	(154,117)	80,099
Revisions in estimates	-	100,916
Accretion	14,786	27,373
Reversed on disposition	-	(96,146)
Effect of movement in exchange rates	(21,649)	(40,746)
Balance, end of period	$ 485,674	$ 602,366

8. 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 common share activity

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

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) Share-based payments

Employee stock option plan

Under the Company's stock option plan, directors, officers, employees and certain consultants are eligible to receive options to acquire common stock of the Company. The exercise price of the granted options is no less than the closing trading price per share on the last day preceding the date of the grant. 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. There are no cash settlement alternatives for employees under the Company's stock option plan.

Movements in the number of stock options outstanding and their related weighted average exercise prices are summarized as follows:

As at and for the period ended	March 31, 2011			December 31, 2010		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding - beginning of period	16,565,000	$	0.57	10,405,000	$	0.55
Granted	600,000		0.96	11,160,000		0.54
Exercised	(2,709,632)		0.61	(1,433,333)		0.18
Forfeited	-		-	(1,133,333)		0.23
Expired / cancelled	(2,000,000)		0.66	(2,433,334)		0.76
Outstanding - end of period	12,455,368	$	0.56	16,565,000	$	0.57
Exercisable - end of period	4,515,375	$	0.52	7,731,667	$	0.65

The following table summarizes the options outstanding and exercisable as at March 31, 2011:

	Outstanding		Exercisable
Exercise Price ($)	Number of options	Weighted average remaining life (years)	Number of options
0.105	432,034	2.67	265,369
0.125	200,000	3.16	-
0.210	3,833,334	3.84	1,266,669
0.320	325,000	4.02	-
0.405	30,000	1.83	30,000
0.600	800,000	1.22	800,000
0.790	5,860,000	4.73	1,953,337
0.800	375,000	4.65	-
0.960	600,000	4.88	200,000
	12,455,368	4.11	4,515,375

The fair value of options is measured at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of the options is expensed over the period during which the options vest, with a corresponding increase in contributed surplus.

The fair value of options granted during the period ended March 31, 2011 and the assumptions used in their determination, are as follows:

Period ended	March 31, 2011
Weighted average fair value	0.78
Weighted average share price	0.96
Weighted average exercise price	0.96
Weighted average risk-free interest rate	2.51%
Weighted average expected volatility	121%
Expected life of option (years)	4.5
Dividend yield (%)	nil

Expected volatility is estimated by considering historic daily share price volatility.

The Company recognized share-based payment expense related to stock options of $713,356 for the period ended March 31, 2011 (March 31, 2010 – $75,395).

d) Per share information

	March 31, 2011	March 31, 2010
Basic common shares outstanding	259,995,517	178,449,952
Dilutive effect of:		
Share options outstanding	12,455,368	15,005,000
Shares issuable for warrants	-	33,308,500
Shares issuable for agents' warrants	-	3,319,100
Total possible common shares outstanding	272,450,885	230,082,552
Weighted average shares outstanding	258,779,974	178,418,154
Dilutive effect of options, warrants and agents' warrants	-	-
Diluted weighted average shares outstanding	258,779,974	178,418,154

At March 31, 2011 and 2010, all share options, warrants and agents' warrants were excluded from the calculation of diluted weighted average shares outstanding as they were anti-dilutive.

9. Discontinued operations

In March 2010, the Company sold its interest in the Remada Sud Permit in Tunisia for cash consideration of US$4 million. Prior to the sale, in the first quarter of 2010 net operating revenue of $18,660 was credited to Tunisia exploration and evaluation costs.

The following table summarizes the gain on sale of exploration and evaluation assets used in discontinued operations.

	Three months ended March 31	
	2011	2010
Cash proceeds	$ -	$ 4,084,400
Decomissioning provisions	-	98,447
Net book value of exploration and evaluation assets	-	(4,119,244)
Gain on sale of exploration and evaluation assets	$ -	$ 63,603

10. Segmented information

The Company's segmented information is reported by geographical area. Following the sale of its Tunisian assets in March 2010, the Company has two remaining segments, Canada (representing corporate functions) and Argentina. The segments are based on the information that is internally provided to the Chief Executive Officer, who is the Company's chief operating decision maker. No operating segments have been aggregated to form the reportable segments.

Financial information pertaining to continuing and discontinued reportable segments as at and for the three months ending March 31, 2011 and 2010 is presented in the following tables:

As at and for the period ended March 31, 2011

	Canada	Tunisia (discontinued)	Argentina	Total
Total assets	$ 33,400,790	$ -	$ 24,896,059	$ 58,296,849
Total liabilities	(314,323)	-	(4,346,047)	(4,660,370)
Revenue	-	-	562,488	562,488
Loss for the period	(1,414,882)	-	(329,623)	(1,744,505)
Depletion and depreciation	2,700	-	93,601	96,301
Other income (expenses)	95,530	-	(41,123)	54,407
Capital expenditures	3,018	-	4,556,591	4,559,609

As at and for the period ended March 31, 2010

	Canada	Tunisia (discontinued)	Argentina	Total
Total assets	$ 12,271,903	$ -	$ 11,160,827	$ 23,432,730
Total liabilities	(430,569)	-	(338,242)	(768,811)
Revenue	-	-	-	-
Income (loss) for the period	(705,395)	63,603	(142,448)	(784,240)
Depletion and depreciation	3,000	-	3,795	6,795
Other income (expenses)	22,811	-	(7,097)	15,714
Capital expenditures	300	22,422	217,149	239,871

11. Supplemental cash flow information

Change in non-cash working capital items:	Three months ended March 31, 2011	2010
Trade and other receivables	$ 463,595	(64,532)
Prepaid expenses	(81,413)	(14,443)
Inventory	(107,447)	-
Trade and other payables	(980,442)	(968,292)
Change in non-cash working capital	$ (705,707)	$ (1,047,267)
Attributable to:		
Operating activities	$ 321,023	$ 52,853
Discontinued operations	-	(529,882)
Financing activities	(3,880)	(124,014)
Investing activities	(1,022,850)	(446,224)
	(705,707)	$ (1,047,267)

Discontinued Operations:	Three months ended March 31, 2011	2010
Cash Flow attributable to:		
Operating activities	-	1,680
Financing activities	-	-
Investing activities	-	(531,562)
	-	(529,882)

12. Commitments

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

Year	Amount
2011	$ 114,000
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 trade and other receivables.

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 trade and other receivables are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Company's trade and other receivables include 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 trade and other receivables represent the Company's maximum credit exposure. The Company does not record an allowance for doubtful accounts and has not written off any trade and other receivables in the periods ended March 31, 2011 and December 31, 2010.

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 March 31, 2011, the Company has a working capital surplus of $33,032,487 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

Substantially all 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.

The following table provides information on the foreign currency denominated working capital balances of the Company at March 31, 2011:

	Balance denominated in		Total CAD
	USD	ARS	equivalent
Cash and cash equivalents	67,719	11,341,389	$ 2,716,143
Trade and other receivables	-	2,042,828	477,409
Prepaid expenses	-	1,594,241	372,574
Inventory	362,245	-	351,233
Trade and other payables	2,457,071	6,607,400	$ 3,926,525

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, trade and other receivables and trade and other payables, the carrying values of which approximate their fair values due to their short-term nature. The Company has no bank indebtedness.

14. Related party transactions

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the quarter ended March 31, 2011, the Company incurred fees of $2,805 (2010 - $16,741) payable to a law firm in which a director of the Company is a partner.

The personnel expenses of key management personnel, including directors, were as follows:

	Three months ended March 31,	
	2011	2010
Salaries and other short-term benefits	$ 466,308	$ 342,035
Share-based payments	669,773	72,862
Total remuneration	$ 1,136,081	$ 414,897

15. Transition to IFRS

As stated in Note 2, these are the Company's first IFRS condensed consolidated interim financial statements for the period covered by the first annual consolidated financial statements prepared in accordance with IFRS. The impact that the transition from Previous GAAP to IFRS has had on the Company's financial position, financial performance and cash flow is set out in this note.

The significant accounting policies described in Note 3 have been applied in the preparation of these financial statements for the quarter ended March 31, 2011, as well as in the preparation of the comparative information presented for the year ended December 31, 2010, the quarter ended March 31, 2010, and in the opening IFRS balance sheet at January 1, 2010 (the "transition date"), except where certain IFRS 1 exemptions have been applied as described below.

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1")

IFRS 1 contains specific transitional guidance for first-time adopters of IFRS and is applied when an entity prepares its first financial statements under IFRS. In general, IFRS 1 requires a first-time adopter to apply all IFRSs retrospectively; however under IFRS 1 there are optional exemptions from some requirements of other IFRSs.

The IFRS 1 exemptions that Madalena applied to its opening IFRS balance sheet as at January 1, 2010 are as follows:

Optional Exemption	**Result of application**
Business combinations	The Company did not retrospectively apply IFRS 3 *Business Combinations* to its accounting for business combinations prior to the transition date.
Share-based payment transactions	The Company did not apply IFRS 2 *Share-Based Payments* to its fully vested stock options outstanding as at the transition date.
Deemed cost – Full cost book value as deemed cost for oil and gas properties	The Company measured exploration and evaluation assets on transition date at the amount determined under Previous GAAP.
Decommissioning provision included in the cost of property, plant and equipment	Madalena measured asset retirement obligations ("ARO") in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and recognized directly into retained earnings the difference between that amount and the carrying amount of ARO under Previous GAAP.
Cumulative translation differences	The Company set cumulative translation differences for its foreign operations to zero at transition.

IFRS 1 also requires that an entity's estimates under IFRS at the date of transition be consistent with estimates made under its previous GAAP for the same date, unless there is objective evidence that those estimates were made in error. The Company's IFRS estimates at January 1, 2010 are consistent with the estimates made under Previous GAAP for that same date.

Reconciliations from Previous GAAP to IFRS

An explanation of how the transition from Previous GAAP to IFRS has affected the Company's consolidated statements of financial position, statements of operations and comprehensive loss as at the date of transition and comparative periods is set out in the following reconciliations and in the notes that accompany the reconciliations. Certain amounts on the statements of financial position and statements of operations and comprehensive loss have been reclassified to conform to the presentation adopted under IFRS.

Reconciliation of Assets, Liabilities and Equity		As at January 1, 2010			As at March 31, 2010			As at December 31, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets										
Current assets										
Cash and cash equivalents		$ 10,131,040	$ -	$ 10,131,040	$ 12,158,714	$ -	$ 12,158,714	$ 40,719,947	$ -	$ 40,719,947
Trade and other receivables		187,193	-	187,193	244,872	-	244,872	1,033,938	-	1,033,938
Prepaid expenses		154,972	-	154,972	165,461	-	165,461	333,688	-	333,688
Inventory		-	-	-	-	-	-	259,970	(28,219)	231,751
		10,473,205	-	10,473,205	12,569,047	-	12,569,047	42,347,543	(28,219)	42,319,324
Non-current assets										
Property and equipment	a	17,224,696	(17,161,993)	62,703	13,315,765	(13,258,447)	57,318	20,756,519	(16,177,536)	4,578,983
Exploration and evaluation assets	a	-	15,191,083	15,191,083	-	10,806,365	10,806,365	-	12,855,921	12,855,921
		17,224,696	(1,970,910)	15,253,786	13,315,765	(2,452,082)	10,863,683	20,756,519	(3,321,615)	17,434,904
		$ 27,697,901	$ (1,970,910)	$ 25,726,991	$ 25,884,812	$ (2,452,082)	$ 23,432,730	$ 63,104,062	(3,349,834)	$ 59,754,228
Liabilities										
Current liabilities										
Trade and other payables		$ 1,601,212	$ -	$ 1,601,212	$ 613,686	$ -	$ 613,686	$ 5,313,802	$ -	$ 5,313,802
Decommissioning provisions	b	355,338	(98,698)	256,640	309,681	(154,556)	155,125	582,429	19,937	602,366
		1,956,550	(98,698)	1,857,852	923,367	(154,556)	768,811	5,896,231	19,937	5,916,168
Shareholders' equity										
Share capital		38,345,561	-	38,345,561	38,356,687	-	38,356,687	75,400,705	2,418	75,403,123
Warrants		2,380,678	-	2,380,678	2,377,939	-	2,377,939	-	-	-
Contributed surplus	c	7,005,506	86,895	7,092,401	7,104,172	84,270	7,188,442	7,836,272	96,333	7,932,605
Accumulated other comprehensive loss	d	-	-	-	-	(525,408)	(525,408)	-	(1,662,102)	(1,662,102)
Deficit		(21,990,394)	(1,959,107)	(23,949,501)	(22,877,353)	(1,856,388)	(24,733,741)	(26,029,146)	(1,806,420)	(27,835,566)
		25,741,351	(1,872,212)	23,869,139	24,961,445	(2,297,526)	22,663,919	57,207,831	(3,369,771)	53,838,060
		$ 27,697,901	(1,970,910)	$ 25,726,991	$ 25,884,812	(2,452,082)	$ 23,432,730	$ 63,104,062	$ (3,349,834)	$ 59,754,228

Reconciliation of Loss and Comprehensive Loss		Three months ended March 31, 2010			Year Ended December 31, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenue							
Oil and gas		-	-	-	$ 241,381	2,854	$ 244,235
Royalties		-	-	-	(42,686)	(187)	(42,873)
		-	-	-	198,695	2,667	201,362
Expenses							
Operating		-	-	-	93,887	230	94,117
General and administrative		782,384	(1,017)	781,367	2,792,647	(15,750)	2,776,897
Share-based payments	c	75,990	(595)	75,395	1,533,515	94,926	1,628,441
Depletion and depreciation	e	7,280	(485)	6,795	83,091	(17,248)	65,843
		865,654	(2,097)	863,557	4,503,140	62,158	4,565,298
Operating income (loss)		(865,654)	2,097	(863,557)	(4,304,445)	(59,491)	(4,363,936)
Other income (expenses)							
Interest and other income		28,373	-	28,373	108,378	-	108,378
Foreign exchange gain (loss)	d	(76,399)	67,525	(8,874)	(181,065)	165,933	(15,132)
Finance cost	b	(5,311)	1,526	(3,785)	(43,140)	15,767	(27,373)
		(53,337)	69,051	15,714	(115,827)	181,700	65,873
Income (loss) from continuing operations		(918,991)	71,148	(847,843)	(4,420,272)	122,209	(4,298,063)
Income (loss) from discontinued operations		32,032	31,571	63,603	381,520	30,478	411,998
Net loss for the period		(886,959)	102,719	(784,240)	(4,038,752)	152,687	(3,886,065)
Exchange differences on translation of foreign operations	d	-	(525,408)	(525,408)	-	(1,662,102)	(1,662,102)
Total comprehensive income (loss) for the period		$ (886,959)	(422,689)	$ (1,309,648)	$ (4,038,752)	(1,509,415)	$ (5,548,167)

Notes to the Reconciliations:

a) Oil and gas assets

Under Previous GAAP, the Company followed the full cost method of accounting for oil and gas properties whereby all costs associated with the exploration for and the development of oil and gas reserves were capitalized in country-based cost centers. Under IFRS, pre-exploration costs are recognized in the statement of operations as incurred. Costs incurred after the legal right to explore has been obtained and before technical feasibility and commercial viability have been determined are capitalized as E&E assets. Once an exploration area has been deemed to be technically feasible and commercially viable, E&E costs are reclassified to development and production ("D&P") assets, a separate category of property and equipment.

At transition to IFRS, in accordance with IFRS 1 full cost exemption, Madalena measured its E&E assets at the amount determined under Previous GAAP. As Madalena had no oil and gas assets in the D&P phase at January 1, 2010, the full Previous GAAP PP&E balance related to oil and gas properties was allocated to E&E. As a result of the change in functional currency of its foreign operations (see note d below), Madalena recorded a decrease in the net book value of its E&E assets.

As at	January 1, 2010
E&E assets, amount determined under Previous GAAP	$17,161,993
Impact of change in functional currency	(1,970,910)
E&E assets, net book value	$15,191,083

b) Decommissioning provisions

Under Previous GAAP, decommissioning obligations were discounted using a credit-adjusted risk-free rate. IFRS does not specify what type of rate to employ, but it does require that an entity risk-adjust either its rate or its estimated cash flows, but not both. The Company risk-adjusts its cash flows and uses a risk-free rate to discount its decommissioning obligations under IFRS.

Under Previous GAAP, upward revisions in the amount of undiscounted estimated cash flows were discounted using the current discount rate. Downward revisions in the amount of undiscounted estimated cash flows were discounted using the discount rate that existed when the original liability was recognized. Under IFRS, current discount rates are always used and must be reviewed each reporting period and changes reflected in the liabilities. This has resulted in increased volatility in Madalena's decommissioning provision and related accretion in 2010.

From a financial statement presentation perspective, under IFRS the periodic unwinding of discounted decommissioning liabilities is recognized in profit and loss as a finance cost, as opposed to accretion expense as it was under Previous GAAP.

On transition to IFRS, Madalena elected to utilize the IFRS1 exemption related to decommissioning provisions and measured the obligation as at January 1, 2010 in accordance with IAS 37. The Company recognized directly into retained earnings the difference between that amount and the carrying amount of ARO under Previous GAAP. As a result of the change in discount rates and change in functional currency of its foreign operations (see note d below), Madalena recorded a decrease in the decommissioning provision liability of $91,914 at transition to IFRS.

As a result of the change in discount rates and change in functional currency of its foreign operations (see note d below), decommissioning liabilities as at January1, 2010 decreased an additional $6,784.

As at March 31, 2010, IFRS transition differences resulted in a decrease in decommissioning liabilities of $154,556. As at December 31, 2010, IFRS transition differences resulted in an increase in decommissioning liabilities of $19,937.

A reconciliation of the Company's decommissioning obligation as at December 31, 2010 from Previous GAAP to IFRS is as follows:

	Canadian GAAP	Effect of Transition to IFRS	IFRS
Balance, January 1, 2010	$ 355,338	$ (98,698)	$ 256,640
Additions	193,000	81,230	274,230
Revisions in interest rates	-	80,099	80,099
Revisions in estimates	41,918	58,998	100,916
Accretion	43,141	(15,768)	27,373
Reversed on disposition	(50,968)	(45,178)	(96,146)
Effect of movement in foreign exchange rates	-	(40,746)	(40,746)
Balance, December 31, 2010	$ 582,429	$ 19,937	$ 602,366

c) Share-based payments

Under Previous GAAP, the Company's equity-settled share-based payments ("SBP") were measured at fair value at grant date, with the fair value being charged to income over the vesting period and a corresponding increase recorded in contributed surplus. Forfeitures were accounted for as they occurred. Under IFRS, the Company is required to utilize the concept of graded vesting in its expense recognition, which results in the majority of the SBP expense being recognized up-front. IFRS also requires that the Company estimate its forfeitures up front and revise the estimate as new information becomes available.

Under Previous GAAP, the fair value of stock options issued to non-employees was re-measured at each reporting date and changes to the fair value were amortized over the remaining vesting period of the options. Under IFRS, the Company treats options issued to its consultants in the same manner as options issued to its employees.

Upon transition to IFRS, Madalena elected to utilize the IFRS 1 Share-based payment transactions exemption. As a result, the Company only applied IFRS 2 to its stock options that were not fully vested at January 1, 2010. The impact at the transition date of the changes in expense recognition method, forfeiture estimates and treatment of options issued to non-employees was an increase in SBP expense (retained earnings) of $86,895.

For the period ended March 31, 2010, IFRS transition differences resulted in a decrease in SBP expense of $595. For the year ended December 31, 2010, IFRS transition differences resulted in an increase in SBP expense of $94,926.

d) Functional currency and foreign currency translation

Under Previous GAAP, the basis of measurement for foreign operations is dependent upon whether an operation is classified as integrated or self-sustaining. The measurement currency of integrated subsidiaries is the same currency as the parent and the measurement currency of a self-sustaining subsidiary is the foreign currency. Under IFRS, the concepts of integrated and self-sustaining subsidiaries are not included. Instead, the functional currency of each individual entity must be determined.

IAS 21 requires management to give priority to certain primary factors in determining functional currency before considering secondary factors; whereas under Previous GAAP the factors for determining whether an operation is integrated or self-sustaining are not weighted. The weighting under IFRS often results in an entity reaching a different conclusion on functional currency for its foreign operations even though the IFRS factors are similar to those under Previous GAAP.

Under Previous GAAP, Madalena concluded that the functional currency of its foreign operations was the Canadian dollar. As a result of differences in the guidance for functional currency determination, the Company concluded that under IFRS the functional currency of its foreign subsidiaries is their respective local currencies:

Entity	Functional Currency under IFRS
Madalena Ventures Inc.	Canadian dollars (CAD)
Madalena Ventures International Holding Company Inc.	United States dollars (USD)
Madalena Ventures International Inc.	United States dollars (USD)
Madalena Austral SA	Argentine pesos (ARS)

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 transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss.

Under IFRS Madalena continues to present its consolidated financial statements in CAD. The Company translates the results and financial position of each of its subsidiaries from their functional currencies into CAD as follows:

i assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
ii. income and expenses for each year are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
iii. all resulting exchange differences are recognized in a separate component of equity called ‘accumulated other comprehensive income’.

The resulting gains and losses are recognized in other comprehensive income (“OCI”) and shown as accumulated other comprehensive income (“AOCI”) on the statement of financial position. Madalena did not recognize such gains and losses under Previous GAAP because the measurement and presentation currencies of Madalena’s entities were all CAD. As a consequence of this change, gains and losses related to the translation of the financial statements of these subsidiaries are recorded through other comprehensive income and do not impact net income until a disposal or partial disposal of a foreign operation occurs.

On transition to IFRS, Madalena elected to utilize the IFRS 1 cumulative translation differences exemption, which exempted the Company from calculating the translation difference related to foreign operations retrospectively. At January 1, 2010, Madalena’s cumulative translation differences of $1,964,125 arising from the retrospective application of the change in the functional currencies of Madalena’s foreign operations were reclassified to retained earnings.

For the period ended March 31, 2010, IFRS transition differences resulted in an exchange loss on translation of foreign operations of $525,408. For the year ended December 31, 2010, IFRS transition differences resulted in an exchange loss on translation of foreign operations of $1,662,102.

e) Depletion

Upon transition to IFRS, the Company adopted a policy of depleting the componentized net book values of producing assets using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Depletion under Previous GAAP was calculated with reference to proved reserves whereby costs accumulated in each country cost center together with an estimate of future costs to develop proved reserves were depleted using the unit of production method.

There was no impact of this difference on adoption of IFRS at January 1, 2010 as the Company had no producing assets. In the fourth quarter of 2010, the Coiron Amargo block in Argentina was deemed by management to be technically feasible and commercially viable and costs attributed to the block were transferred from E&E assets to D&P assets, a separate category within property, plant and equipment. Depletion was calculated on the Coiron Amargo asset beginning in the fourth quarter of 2010.

For the period ended March 31, 2010, IFRS transition differences related to foreign currency translation resulted in a decrease in depletion expense of $485. For the year ended December 31, 2010, IFRS transition differences resulted in a decrease in depletion expense of $17,247.

Adjustments to the Statements of Cash Flow

The effect of the transition to IFRS on the Company's cash flows primarily relates to the change in functional currency of the Company's foreign operations. The effect of the transition on the Company's cash flows is summarized as follows:

	Three Months Ended March 31, 2010	Year Ended December 31, 2010
Operating activities:		
Funds used in operations	68,775	164,295
Change in noncash working capital	(62,057)	(68,510)
Cash flow provided by operations	6,718	95,785
Cash flow provided by discontinued operations	-	9,720
Cash flow provided by (used in) investing activities	(2,958)	41,763
Impact of foreign exchange on cash balances	(3,760)	(147,268)
Net effect on cash flow	-	-

The transition to IFRS had no effect on cash flows from financing activities.

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