Quarterly Report

For the Three and Six Months Ended June 30, 2011
(unaudited)

President's Message

Madalena was very active in the first half of 2011 participating in the drilling of 5 gross (2.9 net) wells on all three of its large exploration blocks in the Neuquen Basin, Argentina. The Company's participation in these wells, two of which were operated by Madalena, is a significant milestone in the growth and development of the Company and I'd like to thank all of our employees, consultants and partners for their considerable efforts.

On the Coiron Amargo Block, Madalena continues to have a 100% drilling success rate in the conventional Sierras Blancas formation on the first 5 wells drilled on the block. In March 2011, the Company drilled and cased the CAS X-1 exploration well in the southern portion of the block and in May 2011 drilled the CAN X-4 well approximately 16 km away. In June 2011, the CAS X-1 well tested oil from the Sierras Blancas formation at rates up to 200 barrels per day without the aid of a bottom hole pump. In July 2011, the CAN X-4 well tested from the Sierras Blancas formation over a 34 hour period at flow rates up to 780 boed consisting of 650 bopd of 39 degree API light crude oil and 780 mcfd of gas.

In the non-conventional Vaca Muerta formation, the Company has now drilled a total of five vertical wells in the northern and southern portions of the block each of which appear similar on electric logs and have had indications of hydrocarbons. The total thickness of the Vaca Muerta formation ranges from 350 to 475 feet. At the CAS X-1 well, flow and pressure data was collected from the lower portion of the formation in July 2011 with the well flowing at approximately 40 bopd of 32 degree API crude oil without any fracture stimulation treatment. Further testing of the well, including a hydraulic fracture stimulation program, is expected to occur in the third quarter. Reported test results from other vertical wells on adjacent blocks have, with fracture stimulation, demonstrated the potential for significant production from and large scale development of non-conventional resources in the area.

On the Curamhuele Block, a service rig is now onsite at the Yapai X-1001 location to complete and test the Lower Troncoso and Avile formations (thrust play). A successful test of the Lower Troncoso formation would provide the Company with a shallow appraisal and development prospect close to existing infrastructure. The deeper multiple stacked Avile sands are geologically more complex, with potential gross intervals varying from 50 to 260 feet. Below the Avile formations, the block also remains highly prospective in the Mulichinco tight sand, Vaca Muerta shale and Los Mollles source shale. Results from the testing program should be available in September with any early liquids production being trucked to a sales terminal and sold. Further work to test the deeper, non-conventional formations is being planned.

On the Cortadera Block the CorS x-1 deep gas exploration well targeting several thick tight sand and shale gas formations has reached TD and electric log results are expected within 7 days. Very few wells have been drilled in the region that have been specifically designed to target and test these non-conventional formations and the results from this well will provide important technical information as to the regions potential for a gas corridor on the western edge of the Neuquen basin.

With the completion of the current drilling programs, Madalena has met or exceeded the minimum work requirements specified on all three of its exploration blocks. The Company continues to maintain a strong working capital position, remains debt free and has significant flexibility to deploy capital amongst its three blocks as results from the various wells and testing programs are obtained. Plans are also underway to complete necessary tie-ins at Coiron Amargo to increase production and generate additional cash flow. We look forward to providing updates during the remainder of the year as we continue to execute our drilling and evaluation program.

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 and six months ended June 30, 2011 and 2010. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and six month periods ended June 30, 2011. The condensed consolidated interim 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 August 23, 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 reserves and resources described can be profitably produced in the future.

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

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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Cash flow used in operating activities	$ (1,029,889)	$ (827,999)	$ (1,628,928)	$ (1,537,014)
Change in non-cash working capital	345,268	154,015	24,245	101,162
Funds used in operations	$ (684,621)	$ (673,984)	$ (1,604,683)	$ (1,435,852)

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 six months ended June 30, 2011 include:

- Continued success drilling and completing the CAS X-1 and CAN X-4 wells on the Coiron Amargo Block;
- Testing of the Sierras Blancas formation in the CAS X-1 and CAN X-4 wells resulting in initial test production rates of 200 and 650 barrels of oil per day (bopd), respectively;
- Initial flow and pressure tests of the Vaca Muerta formation at CAS X-1 resulting in the well flowing approximately 40 bopd of 32 degree API crude oil without any fracture stimulation treatment;
- Drilling the Yapai X-1001 exploration well 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 with completion work currently underway; and
- Drilling with Apache of the first deep gas exploration well on the Cortadera Block targeting multiple zones including the thick Mulichinco, Quintuco and Vaca Muerta formations. The well has now reached TD with electric log results expected within 7 days.

OVERVIEW

Madalena is an independent, Canadian-based, international upstream oil and gas company whose main business activities include exploration, development and production of crude oil, natural gas liquids and natural gas. The Company currently has production and exploration operations in Argentina and is focused on international oil and gas opportunities in South America.

Coiron Amargo Block (35% working interest)

Since acquiring the block, the Company has had a 100% drilling success rate in the conventional Sierras Blancas formation drilling five wells into separate anomalies defined on 3D seismic. In March 2011, the Company drilled and cased the CAS X-1 exploration well in the southern portion of the block and in May 2011 drilled the CAN X-4 well approximately 16 km away in the northern portion of the block. Oil and gas shows were evident in both wells during the drilling of the Sierras Blancas formation and the non-conventional Vaca Muerta formation.

In June 2011, the CAS X-1 well initially tested oil up to 200 barrels per day from the Sierras Blancas formation following fracture stimulation treatment. In July 2011, the CAN X-4 well tested from the Sierras Blancas formation over a 34 hour period at flow rates up to 650 bopd of 39 degree API light crude oil and 780 mcfd of gas at flow pressures between 700 – 900 psi wellhead pressure. Production from the four producing Sierras

Blancas wells in the northern portion of the block is currently being restricted until a central facility can be developed to include gas sales. Government approval to tie-in the wells has been received and this work is expected to be completed in October 2011. Madalena further anticipates drilling a number of additional fault trend Sierras Blancas anomalies as well as a strong development drilling program on existing discovered anomalies.

In the non-conventional Vaca Muerta formation, the Company has now drilled a total of five vertical wells in the northern and southern portions of the block each of which appear similar on electric logs and have had indications of hydrocarbons. The total thickness of the Vaca Muerta formation has ranged from 350 to 475 feet thick. At the CAS X-1 well, flow and pressure data was collected from the lower portion of the formation in July 2011 with the well flowing at approximately 40 bopd of 32 degree API crude oil without any fracture stimulation treatment. Further testing of the well including a large hydraulic fracture stimulation program is expected to be completed in the third quarter.

Reported test results from other vertical wells on adjacent blocks have demonstrated the potential for significant production from and large scale development of non-conventional resources in the area. With a successful test of the Vaca Muerta shale, the Company would look to undertake a larger, multi-well drilling program on the block in 2011/2012 specifically for Vaca Muerta shale oil and utilize additional fracture stimulation capacity being brought into the Neuquen Basin.

Curamhuele Block (90% working interest)

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

In June 2011, the Company completed drilling the Yapai X-1001 well to a total measured depth ("MD") of 10,743 feet (10,478 true vertical depth or "TVD") penetrating the Lower Troncoso 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). These zones are highly productive in the nearby Filo Morado field[(1)]. A completion rig is now onsite in order to test the well in several of the Avile sands and the Lower Troncoso formation with results expected to be available in September 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 tie-in and or potential re-entry to test the prospective Vaca Muerta shale formation and an emerging potential shale gas corridor play along the western edge of the Neuquén Basin. In addition, the deeper Los Molles source shale is also believed to be prospective on the block.

Cortadera Block (40% working interest)

In May 2011, Apache commenced drilling the CorS x-1 earning well targeting the Quintuco, Mulichinco, Vaca Muerta shale and Tordillo formations. The CorS x-1 well has now reached TD at 14,760 feet MD with electric log results expected within 7 days. Under the terms of Madalena's farm-out agreement, Apache will earn a 50% working interest in the block by drilling, completing and testing, if required, the CorS x-1 exploration well. Madalena will retain a 40% working interest in the block. The CorS x-1 well is a potentially high impact exploration well targeting several thick tight sand and shale gas formations in an emerging potential shale gas corridor along the western edge of the basin.

---

[1] The production data associated with the Filo Morado field may constitute "analogous information". Such information was released in the Concession Production, Reserves and Resources Statistics Report effective December 31, 2009 from the Secretaria de Energia de la Nacion Argentina. 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.

Financial and Operating Results

	Three Months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Financial Information (1)				
Oil and gas revenue	$ 807,497	$ -	$ 1,369,985	$ -
Funds used in operations (2)	(684,621)	(673,984)	(1,604,683)	(1,435,852)
Funds used in operations per share (2)	-	-	(0.01)	(0.01)
Cash flow used in operating activities	(1,029,889)	(827,999)	(1,628,928)	(1,537,014)
Cash flow used in operating activities per share	-	-	(0.01)	(0.01)
Cash flow from discontinued operations	-	2,015	-	3,534,111
Cash flow from discontinued operations per share	-	-	-	0.02
Net loss from continuing operations	(12,490,603)	(786,604)	(14,235,108)	(1,634,447)
Net loss from continuing operations per share	(0.05)	-	(0.05)	(0.01)
Net loss	(12,490,603)	(757,919)	(14,235,108)	(1,542,159)
Net loss per share	(0.05)	-	(0.05)	(0.01)
Total assets	45,272,876	23,077,709	45,272,876	23,077,709
Working capital	23,627,323	11,405,936	23,627,323	11,405,936
Capital expenditures	8,380,325	61,399	12,939,934	301,270
Debt	-	-	-	-
Production				
Oil production (barrels per day)	105	-	123	-

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

RESULTS OF OPERATIONS

The following paragraphs provide information about the results of Madalena's on-going operations for the three and six months ended June 30, 2011. See the paragraphs entitled "Results from Discontinued Operations" for information on Madalena's discontinued operations for the three and six months ended June 30, 2011.

Oil and gas revenue

Oil and gas revenue in the three months ended June 30, 2011 was $807,497 compared to $nil in the second quarter of 2010. Oil and gas revenue increased to $1,369,985 in the first half of 2011 compared to $nil in the first half of 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 three and six month periods ended June 30, 2011 was 9,568 barrels (105 barrels per day) and 22,278 barrels (123 barrels per day), respectively. The Company's share of oil sales in the three and six months ended June 30, 2011 was 14,067 barrels and 24,502 barrels, respectively. Oil production from the block is stored and periodically sold once a sufficient quantity is reached.

Royalties

Royalty expense totaled $141,073 in the three months ended June 30, 2011. Royalty expense increased to $249,347 in the first half of 2010 compared to $nil in the first half of 2010. 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 three months ended June 30, 2011 totaled $376,272 compared to $nil in the second quarter of 2010. Operating costs increased to $616,352 in the first half of 2010 compared to $nil in the first half of 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 June 30, 2011		Six Months Ended June 30, 2011	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenues	$ 807,497	$ 57.40	$ 1,369,985	$ 55.91
Royalties	(141,073)	(10.03)	(249,347)	(10.18)
Operating costs	(377,985)	(26.87)	(618,065)	(25.22)
Operating netback (1)	$ 288,439	$ 20.50	$ 502,573	$ 20.51

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

The Company realized an operating netback of $20.50/boe and $20.51/boe in the three and six months ended June 30, 2011, respectively, compared to $20.52/boe in the first quarter of 2011 and $nil for the corresponding periods in 2010 as a result of no commercial production at that time. On a per boe basis, operating costs in the period were higher than future expected operating costs due to costs associated with new field operations 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 $805,650 for the three months ended June 30, 2011 compared to $702,265 in the second quarter of 2010. G&A expenses increased as a result of higher office and administration costs in Argentina. G&A expenses increased to $1,970,960 in the first half of 2011 compared to $1,483,632 in the first half of 2010 as a result of higher compensation costs, higher office and administration costs and increased regulatory reporting and activity in Argentina.

A breakdown of general and administrative expenses is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Corporate expenses:				
Compensation	$ 236,052	$ 246,487	$ 767,548	$ 629,261
Office and administration	316,210	176,678	630,895	333,720
Professional fees	223,496	222,696	470,226	410,413
Travel	29,892	56,404	102,291	110,238
	$ 805,650	$ 702,265	$ 1,970,960	$ 1,483,632

Share-based payments (“SBP”) expense

SBP expense in the three months ended June 30, 2011 totaled $737,609 compared to $101,821 in the second quarter of 2010. SBP expense increased to $1,450,965 in the first half of 2011 compared to $177,216 in the first half of 2010 as a result 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 three months ended June 30, 2011, the Company capitalized $21,050 of SBP to property and equipment, compared to a negative adjustment of $10,649 in the second quarter of 2010. The Company capitalized $41,769 of SBC in the first half of 2011 to property and equipment, compared to $9,997 in the first half of 2010.

At June 30, 2011, the Company has approximately $2.3 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 three months ended June 30, 2011 totaled $127,122 compared to $6,879 in the second quarter of 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 three months ended June 30, 2011 was $8.67 per barrel. Depletion and depreciation expense in the first half of 2011 totaled $223,423 compared to $13,674 in the first half of 2010 due to production from the Corion Amargo block.

Interest Income

Interest and other income for the three months ended June 30, 2011 was $81,767 compared to $17,492 in the second quarter of 2010 due to higher cash balances during the period. Interest income in the first half of 2011 totaled $177,306 compared to $45,865 in the first half of 2010 due to higher cash balances.

Foreign exchange loss (gain)

The Company recorded a foreign exchange loss for the three months ended June 30, 2011 of $22,981 compared to a gain of $10,789 in the second quarter of 2010. Foreign exchange losses increased to $49,327 in the first half of 2011 compared to a gain of $1,915 in the first half of 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 three months ended June 30, 2011 totaled $13,086 compared to $3,920 in the second quarter of 2010. Finance costs increased to $27,872 in the first half of 2011 compared to $7,705 in the first half of 2010. Finance costs increased as a result of accruing additional decommissioning obligations on wells drilled in Argentina in 2010 and the first half of 2011.

Income tax expense

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

Net loss and other comprehensive loss

The Company realized a net loss of $12,490,603 for the three months ended June 30, 2011 compared to $757,919 in the second quarter of 2010. Net loss increased to $14,235,108 in the first half of 2011 compared to $1,542,159 in the first half of 2010. Net loss increased primarily due to an impairment loss of $11,006,637 on exploration and evaluation assets in the second quarter of 2011, higher general and administrative expenses and share-based payments expense partially offset by oil revenue in 2011 from the Coiron Amargo Block and higher interest income. Total comprehensive loss increased to $16,138,822 in the first half of 2011 compared to $2,032,091 in the first half of 2010 due to the increase in net loss above as well as an increase in the loss on translation of foreign operations. Exchange differences on translation of foreign operations increased to a loss of $1,903,714 in the first half of 2011 compared to a loss of $489,932 in the first half of 2010 as a result of increased investment in Argentina and a decrease in the value of the Argentina peso relative to the Canadian dollar.

Funds used in operations

Funds used in operations increased to $684,621 for the three months ended June 30, 2011 compared to $673,984 in the second quarter of 2010. Funds used in operations increased to $1,604,683 in the first half of 2011 compared to $1,435,852 in the first half of 2010. Funds used in operations increased as a result of higher general and administrative expenses and abandonment expenditures partially offset by oil revenue from the Coiron Amargo Block and higher interest income on cash balances.

Capital expenditures

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Argentina:				
Geological and geophysical	$ 7,629	$ 61,898	$ 15,054	$ 155,383
Land	(6,305)	49,453	(6,305)	59,189
Drilling and completion	6,901,143	(17)	10,740,666	825,889
Well equipment and facilities	-	22,759	22,724	(693,716)
Other	1,474,442	(73,757)	2,164,089	(69,260)
	8,376,909	60,336	12,936,228	277,485
Tunisia:				
Geological and geophysical	-	-	-	33,281
Drilling and completion	-	-	-	2,600
Other	-	-	-	(13,459)
	-	-	-	22,422
Canada:				
Other	3,416	1,063	3,706	1,363
	3,416	1,063	3,706	1,363
Total Capital Expenditures	$ 8,380,325	$ 61,399	$ 12,939,934	$ 301,270

In the three months ended June 30, 2011, the Company incurred capital expenditures on petroleum and natural gas properties and office furniture and fixtures totaling $8,380,325 compared to $61,399 in the second quarter of 2010. Capital expenditures increased to $12,939,934 in the first half of 2011 compared to $301,270 in the first half of 2010. Capital expenditures increased as the Company completed drilling of the Curamhuele X-1001 and Yapai X-1001 exploration wells in April and June 2011, respectively. The Company abandoned the Curamhuele X-1001 exploration well and an impairment loss of $11.0 million (including $1.9 million of VAT) equal to the excess of the carrying value over the recoverable amount of the E&E impairment grouping has been recorded in the second quarter of 2011.

RESULTS FROM DISCONTINUED OPERATIONS

The Company recorded a loss from discontinued operations of $nil for the three months ended June 30, 2011 compared to income from discontinued operations of $28,685 in the second quarter of 2010. Loss from discontinued operations was $nil in the first half of 2011 compared to income from discontinued operations of $92,288 in the first half of 2010. Income from discontinued operations in 2010 relates to the sale of the Company's interest in the Remada Sud Permit in Tunisia in March 2010 and Canadian oil and gas properties in 2009.

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Canada:				
Petroleum and natural gas revenues	$ -	$ -	$ -	$ -
Royalties	-	31,384	-	31,384
Operating costs	-	(2,699)	-	(2,699)
Income from discontinued operations	-	28,685	-	28,685
Gain on sale of Tunisia property and equipment	-	-	-	63,603
Income from discontinued operations	$ -	$ 28,685	$ -	$ 92,288

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	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 June 30, 2011 Madalena had working capital of $23,627,323 compared to $37,005,522 at December 31, 2010. Working capital decreased as a result of drilling the Curamhuele X-1001 and Yapai X-1001 exploration wells in the 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 three and six month periods ended June 30, 2011 totaling $684,621 (2010 – $673,984) and $1,604,683 (2010 – $1,435,852), respectively. Funds used in operations increased as a result of higher general and administrative expenses partially offset by oil revenue from the Coiron Amargo Block and higher interest income on cash balances.

Historically, the Company has raised funds from equity financings to fund its exploration and development activities and operating cash flow requirements. The Company's ability to continue operations is dependent on successfully producing economic quantities of petroleum and natural gas from its exploration properties in Argentina, raising sufficient capital to complete planned exploration and development activities, properly managing its existing cash resources, identifying additional commercial oil and gas reserves, and generating profitable operations. The Company has no outstanding debt.

TRANSACTIONS WITH RELATED PARTIES

During the three and six month periods ended June 30, 2011, the Company incurred fees of $13,756 (2010 - $15,000) and $16,561 (2010 - $32,000), respectively, payable to a law firm in which a director of the Company is a partner.

SHARE INFORMATION

At June 30, 2011, the Company had 259,995,517 common shares and 12,955,368 stock options outstanding. On August 23, 2011, the Company had 259,995,517 common shares and 13,005,368 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 June 30, 2011, including operating costs, are approximately $383,000 through 2014.

In 2010, the Company 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 received a one year extension of the initial exploration period to November 9, 2011 to be followed by a new two year exploration period. The subsequent new two year exploration periods for the Coiron Amargo and Curamhuele blocks require additional gross work commitments the equivalent of US$3.1 million and US$2.0 million, respectively, and include the drilling of at least one well on each block. The Company intends to apply its recently completed drilling programs on the blocks towards these work commitments.

On the Cortadera block, the Company received a one year extension of the initial exploration period to October 26, 2011 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 and the Company intends to apply the current drilling program being conducted under the farm-out agreement towards this work commitment.

At the end of each exploration phase, fifty percent of the remaining area must be relinquished or converted into an exploitation or evaluation concession. Under existing legislation, an exploration phase can be extended by the Province when a company requires additional time to further evaluate the commercial potential of its exploration activities. The Company has met or exceeded the work requirements specified on all three of its exploration blocks and will seek an extension as required under current legislation for additional time to evaluate the commercial potential of its exploration activities. 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 the second half of 2011 will be dependent on a number of factors including the success of the Coiron Amargo and Cortadera farm-out wells, drilling results on the Curamhuele Block, agreement amongst the joint venture parties regarding future exploration and or appraisal drilling programs and rig availability. While the Company no longer has 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 June 30, 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 condensed consolidated interim 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 (1)
2011			
Second quarter	$ 807,497	$ (12,490,603)	$ (0.05)
First quarter	562,488	(1,744,505)	-
Total	$ 1,369,985	$ (14,235,108)	$ (0.05)
2010			
Fourth quarter	$ 244,235	$ (1,719,762)	$ (0.01)
Third quarter	-	(624,144)	-
Second quarter	-	(757,919)	-
First quarter	-	(784,240)	(0.01)
Total	$ 244,235	$ (3,886,065)	$ (0.02)
Canadian GAAP			
2009			
Fourth quarter	$ -	$ (2,721,709)	$ (0.02)
Third quarter	-	(692,859)	(0.01)
Second quarter	-	(2,075,920)	(0.02)
First quarter	-	(872,861)	(0.01)
Total	$ -	$ (6,363,349)	$ (0.06)

(1) Basic and diluted amounts per common share.

Condensed Consolidated Interim Financial Statements of

MADALENA VENTURES INC.

As at and for the three and six month periods ended June 30, 2011 (unaudited)

MADALENA VENTURES INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

As at	Note	June 30, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents		**$ 26,261,219**	$ 40,719,947
Trade and other receivables		**704,758**	1,033,938
Prepaid expenses		**350,474**	333,688
Inventory	3	**173,521**	231,751
		27,489,972	42,319,324
Non-current assets			
Property and equipment	4	**4,202,315**	4,578,983
Exploration and evaluation assets	5	**13,580,589**	12,855,921
		17,782,904	17,434,904
		$ 45,272,876	$ 59,754,228
Liabilities			
Current liabilities			
Trade and other payables		**$ 3,862,649**	$ 5,313,802
Decommissioning provisions	6	**556,744**	602,366
		4,419,393	5,916,168
Shareholders' equity			
Share capital	7	**77,797,572**	75,403,123
Contributed surplus		**8,692,401**	7,932,605
Accumulated other comprehensive loss		**(3,565,816)**	(1,662,102)
Deficit		**(42,070,674)**	(27,835,566)
		40,853,483	53,838,060
		$ 45,272,876	$ 59,754,228

Commitments (note 11)

See accompanying notes to the condensed consolidated interim financial statements

MADALENA VENTURES INC.

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

		Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
	Note		(Note 14)		(Note 14)
Revenue					
Oil and gas		**$ 807,497**	$ -	**$ 1,369,985**	-
Royalties		**(141,073)**	-	**(249,347)**	-
		666,424	-	**1,120,638**	-
Expenses					
Operating		**377,985**	-	**618,065**	-
General and administrative		**805,650**	702,265	**1,970,960**	1,483,632
Share-based payments	7	**737,609**	101,821	**1,450,965**	177,216
Depletion and depreciation	4	**127,122**	6,879	**223,423**	13,674
Impairment of exploration and evaluation assets	5	**11,006,637**	-	**11,006,637**	-
		13,055,003	810,965	**15,270,050**	1,674,522
Operating loss		**(12,388,579)**	(810,965)	**(14,149,412)**	(1,674,522)
Other income (expenses)					
Interest and other income		**81,767**	17,492	**177,306**	45,865
Foreign exchange gain (loss)		**(22,981)**	10,789	**(49,327)**	1,915
Finance cost		**(13,086)**	(3,920)	**(27,872)**	(7,705)
		45,700	24,361	**100,107**	40,075
Loss from continuing operations before tax		**(12,342,879)**	(786,604)	**(14,049,305)**	(1,634,447)
Current income tax expense		**(147,724)**	-	**(185,803)**	-
Loss from continuing operations		**(12,490,603)**	(786,604)	**(14,235,108)**	(1,634,447)
Income from discontinued operations	8	**-**	28,685	**-**	92,288
Net loss for the period		**(12,490,603)**	(757,919)	**(14,235,108)**	(1,542,159)
Exchange differences on translation of foreign operations		**(1,051,052)**	35,476	**(1,903,714)**	(489,932)
Total comprehensive loss for the period		**$ (13,541,655)**	$ (722,443)	**$ (16,138,822)**	$ (2,032,091)
Weighted average number of shares:					
Basic and diluted	7	**259,995,517**	178,563,139	**259,391,105**	178,491,046
Loss from continuing operations per share:					
Basic and diluted		**$ (0.05)**	$ -	**$ (0.05)**	$ (0.01)
Loss from discontinued operations per share:					
Basic and diluted		**$ -**	$ -	**$ -**	-
Net loss per share:					
Basic and diluted		**$ (0.05)**	$ -	**$ (0.05)**	$ (0.01)

See accompanying notes to the condensed consolidated interim financial statements

MADALENA VENTURES INC.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

	Note	Three months ended June 30, 2011	Three months ended June 30, 2010 (Note 14)	Six months ended June 30, 2011	Six months ended June 30, 2010 (Note 14)
Cash provided by (used in):					
Operating activities					
Loss from continuing operations		**$ (12,490,603)**	$ (786,604)	**$ (14,235,108)**	$ (1,634,447)
Items not involving cash:					
Share-based payments		**737,609**	101,821	**1,450,965**	177,216
Depletion and depreciation		**127,122**	6,879	**223,423**	13,674
Impairment of exploration and evaluation assets	5	**11,006,637**	-	**11,006,637**	-
Accretion on provisions		**13,086**	3,920	**27,872**	7,705
Abandonment expenditures	6	**(78,472)**	-	**(78,472)**	-
Change in non-cash working capital items	9	**(345,268)**	(154,015)	**(24,245)**	(101,162)
		(1,029,889)	(827,999)	**(1,628,928)**	(1,537,014)
Discontinued operations	8				
Income from discontinued operations		**-**	28,685	**-**	92,288
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	9	**-**	(26,670)	**-**	(556,552)
		-	2,015	**-**	3,534,111
Financing activities					
Issue of common shares		**-**	175,149	**1,661,511**	183,536
Change in non-cash working capital items	9	**-**	-	**(3,880)**	(124,014)
		-	175,149	**1,657,631**	59,522
Investing activities					
Additions to exploration and evaluation assets		**(8,309,149)**	(60,336)	**(12,821,510)**	(277,485)
Additions to property and equipment		**(71,176)**	(1,063)	**(118,424)**	(1,363)
Change in non-cash working capital items	9	**166,232**	(76,950)	**(856,618)**	(523,174)
		(8,214,093)	(138,349)	**(13,796,552)**	(802,022)
Change in cash and cash equivalents		**(9,243,982)**	(789,184)	**(13,767,849)**	1,254,597
Cash and cash equivalents, beginning of the period		**35,908,886**	12,158,714	**40,719,947**	10,131,040
Impact of foreign exchange on cash balances		**(403,685)**	(7,693)	**(690,879)**	(23,800)
Cash and cash equivalents, end of the period		**$ 26,261,219**	$ 11,361,837	**$ 26,261,219**	$ 11,361,837

See accompanying notes to the condensed consolidated interim financial statements

MADALENA VENTURES INC.

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

	Note	Share Capital Number	Share Capital Amount	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at January 1, 2010	14	**178,410,702**	**$ 38,345,561**	**$ 2,380,678**	**$ 7,092,401**	**$ -**	**$ (23,949,501)**	**$ 23,869,139**
Loss for the period		-	-	-	-	-	(1,542,159)	(1,542,159)
Public offering		-	-	-	-	-	-	-
Exercise of stock options		66,666	13,480	-	(6,480)	-	-	7,000
Exercise of warrants	7b	25,000	7,832	(1,582)	-	-	-	6,250
Exercise of agents' warrants	7b	1,135,241	262,468	(92,182)	-	-	-	170,286
Share-based payments	7c	-	-	-	187,213	-	-	187,213
Comprehensive loss for the period		-	-	-	-	(489,932)	-	(489,932)
Balance at June 30, 2010		**179,637,609**	**$ 38,629,341**	**$ 2,286,914**	**$ 7,273,134**	**$ (489,932)**	**$ (25,491,660)**	**$ 22,207,797**
Loss for the period		-	-	-	-	-	(2,343,906)	(2,343,906)
Public offering	7a	40,775,000	26,503,750	-	-	-	-	26,503,750
Exercise of stock options	7c	1,366,667	1,021,553	-	(771,553)	-	-	250,000
Exercise of warrants	7b	33,308,500	10,435,553	(2,108,428)	-	-	-	8,327,125
Exercise of agents' warrants	7b	2,198,109	508,203	(178,486)	-	-	-	329,717
Share issue costs	7a	-	(1,695,277)	-	-	-	-	(1,695,277)
Share-based payments	7c	-	-	-	1,431,024	-	-	1,431,024
Comprehensive loss for the period		-	-	-	-	(1,172,170)	-	(1,172,170)
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		-	-	-	-	-	(14,235,108)	(14,235,108)
Exercise of stock options	7c	2,709,632	2,394,449	-	(732,938)	-	-	1,661,511
Share-based payments	7c	-	-	-	1,492,734	-	-	1,492,734
Comprehensive loss for the period		-	-	-	-	(1,903,714)	-	(1,903,714)
Balance at June 30, 2011		**259,995,517**	**$ 77,797,572**	**$ -**	**$ 8,692,401**	**$ (3,565,816)**	**$ (42,070,674)**	**$ 40,853,483**

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 by the Board of Directors on August 23, 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 condensed consolidated interim financial statements as at June 30, 2011, including 2010 comparative periods, comprise a period of the Company's first annual consolidated financial statements to be issued under IFRS at December 31, 2011. As a result, these condensed consolidated interim financial statements have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 34 "Interim Financial Reporting". The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported consolidated financial position, financial performance and cash flows of the Company is provided in Note 14. That note includes reconciliations as at June 30, 2010 and for the three and six month periods ended June 30, 2010. For reconciliations to IFRS at the date of transition, being January 1, 2010, and December 31, 2010, refer to Note 15 of the condensed consolidated interim financial statements for the three months ended March 31, 2011.

For a summary of the Company's detailed accounting policies, refer to Note 3 of the condensed consolidated interim financial statements for the three months ended March 31, 2011.

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 6.

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 7.

3. Inventory

Inventory at June 30, 2011 of $173,521 (December 31, 2010 - $231,751) consists of crude oil that has been produced but not yet sold.

4. 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	146,381	6,434	152,815
Effect of movement in exchange rates	(335,918)	(174)	(336,092)
At June 30, 2011	4,433,355	179,262	4,612,617
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	198,213	11,030	209,243
Effect of movement in exchange rates	(13,418)	(2,434)	(15,852)
At June 30, 2011	273,477	136,825	410,302
Net Book Value			
At January 1, 2010	-	62,703	62,703
At December 31, 2010	4,534,210	44,773	4,578,983
At June 30, 2011	4,159,878	42,437	4,202,315

The amounts capitalized as development and production (“D&P”) assets in Argentina at June 30, 2011 include $524,315 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 June 30, 2011 included $11.1 million (2010 – $nil) for estimated future development costs associated with proved and probable reserves in Argentina.

5. Exploration and evaluation assets

	Exploration and Evaluation Assets $
Cost	
At January 1, 2010	15,191,083
Additions	7,688,748
Disposals	(3,886,800)
Assets transferred to property and equipment	(4,779,324)
Effect of movement in exchange rates	(1,357,786)
At December 31, 2010	12,855,921
Additions	12,872,657
Effect of movement in exchange rates	(1,247,977)
At June 30, 2011	24,480,601
Depletion, depreciation and impairment losses	
At January 1, 2010 and December 31, 2010	-
Impairment losses	11,006,637
Effect of movement in exchange rates	(106,625)
At June 30, 2011	10,900,012
Net Book Value	
At January 1, 2010	15,191,083
At December 31, 2010	12,855,921
At June 30, 2011	13,580,589

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 exploration well and an impairment loss of $11,006,637 equal to the excess of the carrying value over the recoverable amount of the E&E impairment grouping has been recorded in the second quarter of 2011.

The amounts capitalized as Argentina E&E assets at June 30, 2011 before impairment losses include $3,443,245 of VAT (December 31, 2010 - $1,523,166). Included in impairment losses is $1,891,738 of VAT incurred during drilling of the Curamhuele X-1001 exploration well. During the six months ended June 30, 2011, share-based payments directly related to exploration and evaluation activities totaling $41,769 (2010 - $9,997) were 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 and equipment.

6. 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 June 30, 2011, the Company estimates the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning obligations to be approximately $2.2 million (December 31, 2010 - $1.1 million). 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 11.87% (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:

	June 30, 2011	December 31, 2010
Balance, beginning of period	$ 602,366	$ 256,640
Additions	212,053	274,230
Revisions in interest rates	(167,012)	80,099
Revisions in estimates	-	100,916
Accretion	27,872	27,373
Costs incurred	(78,472)	-
Disposition	-	(96,146)
Effect of movement in exchange rates	(40,063)	(40,746)
Balance, end of period	$ 556,744	$ 602,366

7. Share capital

a) Common shares

Authorized

The authorized share capital of the Company consists of an unlimited number of common shares without nominal or par value.

Issued and outstanding 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.

b) Warrants

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.

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	June 30, 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	1,100,000	0.86	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	12,955,368	$ 0.57	16,565,000	$ 0.57
Exercisable - end of period	4,807,041	$ 0.49	7,731,667	$ 0.65

The following table summarizes the options outstanding and exercisable as at June 30, 2011:

	Outstanding		Exercisable
Exercise Price ($)	Number of options	Weighted average remaining life (years)	Number of options
0.105	432,034	2.42	265,369
0.125	200,000	2.92	100,000
0.210	3,833,334	3.59	1,266,669
0.320	325,000	3.77	25,000
0.405	30,000	1.58	30,000
0.600	800,000	0.97	800,000
0.730	500,000	4.85	166,666
0.790	5,860,000	4.48	1,953,337
0.800	375,000	4.41	-
0.960	600,000	4.63	200,000
	12,955,368	3.90	4,807,041

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 six month periods ended June 30, 2011 and 2010 and the assumptions used in their determination, are as follows:

Period ended	June 30, 2011	June 30, 2010
Weighted average fair value	$ 0.68	$ 0.14
Weighted average share price	$ 0.86	$ 0.21
Weighted average exercise price	$ 0.86	$ 0.21
Weighted average risk-free interest rate	2.39%	2.19%
Weighted average expected volatility	125%	128%
Expected life of option (years)	4.05	4.56
Dividend yield (%)	nil	nil

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

The Company recognized share-based payment expense related to stock options of $1,450,965 for the six month period ended June 30, 2011 (June 30, 2010 – $177,216).

d) Per share information

	June 30, 2011	June 30, 2010
Weighted average shares outstanding	259,391,105	178,491,046
Dilutive effect of options, warrants and agents' warrants	-	-
Diluted weighted average shares outstanding	259,391,105	178,491,046

At June 30, 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.

8. 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 provides a summary of the income (loss) from discontinued operations for the three and six month periods ended June 30, 2011 and 2010.

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Canada:				
Petroleum and natural gas revenues	$ -	$ -	$ -	$ -
Royalties	-	31,384	-	31,384
Operating costs	-	(2,699)	-	(2,699)
Income from discontinued operations	-	28,685	-	28,685
Gain on sale of Tunisia property and equipment	-	-	-	63,603
Income from discontinued operations	$ -	$ 28,685	$ -	$ 92,288

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	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

9. 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 six months ended June 30, 2011 and 2010 is presented in the following tables:

Six months ended June 30, 2011

	Canada	Tunisia (discontinued)	Argentina	Total
Total assets	$ 25,558,613	$ -	$ 19,714,263	$ 45,272,876
Total liabilities	(135,126)	-	(4,284,267)	(4,419,393)
Revenue	-	-	1,369,985	1,369,985
Loss for the period	(2,481,625)	-	(11,753,483)	(14,235,108)
Depletion and depreciation	5,156	-	218,267	223,423
Other income (expenses)	177,719	-	(77,612)	100,107
Capital expenditures	3,706	-	12,936,228	12,939,934

Six months ended June 30, 2010

	Canada	Tunisia (discontinued)	Argentina	Total
Total assets	$ 11,115,852	$ -	$ 11,961,857	$ 23,077,709
Total liabilities	(265,053)	-	(604,859)	(869,912)
Revenue	-	-	-	-
Income (loss) for the period	(1,257,541)	92,288	(376,906)	(1,542,159)
Depletion and depreciation	6,100	-	7,574	13,674
Other income (expenses)	42,579	-	(2,504)	40,075
Capital expenditures	1,363	22,422	277,485	301,270

10. Supplemental cash flow information

Change in non-cash working capital items:	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Trade and other receivables	$ (180,683)	$ (259,122)	$ 282,912	$ (323,655)
Prepaid expenses	38,734	(78,144)	(42,679)	(92,587)
Inventory	129,304	79,631	21,857	(888,660)
Trade and other payables	(166,391)	-	(1,146,833)	-
Change in non-cash working capital	$ (179,036)	$ (257,635)	$ (884,743)	$ (1,304,902)
Attributable to:				
Operating activities	$ (345,268)	$ (154,016)	$ (24,245)	$ (101,162)
Discontinued operations	-	(26,670)	-	(556,552)
Financing activities	-	-	(3,880)	(124,014)
Investing activities	166,232	(76,949)	(856,618)	(523,174)
	$ (179,036)	$ (257,635)	$ (884,743)	$ (1,304,902)

11. Commitments

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

Year	Amount
2011	$ 88,000
2012	125,000
2013	117,000
2014	53,000

In 2010, the Company 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 received a one year extension of the initial exploration period to November 9, 2011 to be followed by a new two year exploration period. The subsequent new two year exploration periods for the Coiron Amargo and Curamhuele blocks require additional gross work commitments the equivalent of US$3.1 million and US$2.0 million, respectively, and include the drilling of at least one well on each block. The Company intends to apply its recently completed drilling programs on the blocks towards these work commitments.

On the Cortadera block, the Company received a one year extension of the initial exploration period to October 26, 2011 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 and the Company intends to apply the current drilling program being conducted under the farm-out agreement towards this work commitment.

At the end of each exploration phase, fifty percent of the remaining area must be relinquished or converted into an exploitation or evaluation concession. Under existing legislation, an exploration phase can be extended by the Province when a company requires additional time to further evaluate the commercial potential of its exploration activities. The Company has met or exceeded the work requirements specified on all three of its exploration blocks and will seek an extension as required under current legislation for additional time to evaluate the commercial potential of its exploration activities. 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.

12. 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 subsidiaries of major international oil and gas companies. 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 six month period ended June 30, 2011 and year ended 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 at June 30, 2011, the Company has a working capital surplus of $23,627,323 which given planned capital expenditures, administrative overhead requirements and commitments, is sufficient to meet all financial obligations throughout the upcoming 12 months.

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 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 June 30, 2011:

	Balance denominated in		Total CAD
	USD	ARS	equivalent
Cash and cash equivalents	54,636	3,578,024	$ 857,394
Trade and other receivables	-	2,995,556	673,701
Prepaid expenses	-	1,448,230	325,707
Inventory	179,908	-	173,521
Trade and other payables	2,929,670	4,309,276	$ 3,794,823

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.

13. 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 six month period ended June 30, 2011, the Company incurred fees of $16,561 (2010 - $32,000) 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Salaries and other short-term benefits	$ 116,017	$ 185,828	$ 582,325	$ 527,863
Share-based payments	597,701	77,886	1,267,474	150,748
Total remuneration	$ 713,718	$ 263,714	$ 1,849,799	$ 678,611

14. Transition to IFRS

As stated in Note 2, these are the Company's second 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 to the interim consolidated financial statements for the three months ended March 31, 2011 have been applied in the preparation of these financial statements for the three and six months ended June 30, 2011, as well as in the preparation of the comparative information presented for the three and six months ended June 30, 2010, 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 were 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 were 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 and for the 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 June 30, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 11,361,837	$ -	$ 11,361,837
Trade and other receivables		503,438	(4,385)	499,053
Prepaid expenses		244,143	(1,772)	242,371
Inventory		-	-	-
		12,109,418	(6,157)	12,103,261
Non-current assets				
Property and equipment	a	13,412,922	(13,361,534)	51,388
Exploration and evaluation assets	a	-	10,923,060	10,923,060
		13,412,922	(2,438,474)	10,974,448
		$ 25,522,340	$ (2,444,631)	$ 23,077,709
Liabilities				
Current liabilities				
Trade and other payables		701,277	(3,952)	$ 697,325
Decommissioning provisions	b	314,925	(142,338)	172,587
		1,016,202	(146,290)	869,912
Shareholders' equity				
Share capital		38,629,356	(15)	38,629,341
Warrants		2,286,914	-	2,286,914
Contributed surplus	c	7,201,099	72,035	7,273,134
Accumulated other comprehensive loss	d	-	(489,932)	(489,932)
Deficit		(23,611,231)	(1,880,429)	(25,491,660)
		24,506,138	(2,298,341)	22,207,797
		$ 25,522,340	(2,444,631)	$ 23,077,709

Reconciliation of Loss and Comprehensive Loss		Three months ended June 30, 2010			Six months ended June 30, 2010		
	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenue							
Oil and gas		$ -	$ -	$ -	$ -	$ -	$ -
Royalties		-	-	-	-	-	-
		-	-	-	-	-	-
Expenses							
Operating		-	-	-	-	-	-
General and administrative		697,358	4,907	702,265	1,479,742	3,890	1,483,632
Share-based payments	c	75,096	26,725	101,821	151,086	26,130	177,216
Depletion and depreciation	e	7,234	(355)	6,879	14,514	(840)	13,674
		779,688	31,277	810,965	1,645,342	29,180	1,674,522
Operating income (loss)		(779,688)	(31,277)	(810,965)	(1,645,342)	(29,180)	(1,674,522)
Other income (expenses)							
Interest and other income		17,492	-	17,492	45,865	-	45,865
Foreign exchange gain (loss)	d	4,877	5,912	10,789	(71,522)	73,437	1,915
Finance cost	b	(5,244)	1,324	(3,920)	(10,555)	2,850	(7,705)
		17,125	7,236	24,361	(36,212)	76,287	40,075
Income (loss) from continuing operations		(762,563)	(24,041)	(786,604)	(1,681,554)	47,107	(1,634,447)
Income (loss) from discontinued operations		28,685	-	28,685	60,717	31,571	92,288
Net loss for the period		(733,878)	(24,041)	(757,919)	(1,620,837)	78,678	(1,542,159)
Exchange differences on translation of foreign operations	d	-	35,476	35,476	-	(489,932)	(489,932)
Total comprehensive income (loss) for the period		$ (733,878)	11,435	$ (722,443)	$ (1,620,837)	(411,254)	$ (2,032,091)

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 $98,698 at transition to IFRS.

As at June 30, 2010, IFRS transition differences resulted in a decrease in decommissioning liabilities of $142,338. 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 June 30, 2010, IFRS transition differences resulted in an increase in SBP expense of $26,130. 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
i. 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 three and six month periods ended June 30, 2010, IFRS transition differences resulted in an exchange gain on translation of foreign operations of $35,476 and an exchange loss of $489,932, respectively. 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 three and six month periods ended June 30, 2010, IFRS transition differences related to foreign currency translation resulted in a decrease in depletion expense of $355 and $840, respectively. 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 June 30, 2010	Six Months Ended June 30, 2010
Operating activities:		
Funds used in operations	$ 6,414	$ 75,189
Change in non-cash working capital	(9,139)	(71,196)
Cash flow provided by (used in) operations	(2,725)	3,993
Cash flow provided by discontinued operations	10,441	10,441
Cash flow provided by (used in) investing activities	20,915	17,957
Impact of foreign exchange on cash balances	(28,631)	(32,391)
Net effect on cash flow	$ -	$ -

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

DIRECTORS

Raymond G. Smith
Chairman, Madalena Ventures Inc.
President and Chief Executive Officer,
Bellatrix Exploration Ltd.

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

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

Michael J. Lock
President,
Upsilon Holdings Ltd.

Keith MacDonald
President,
Bamako Investment Management Ltd.

Anthony J. Potter
Vice President, Finance and Chief Financial Officer,
Madalena Ventures Inc.

Jay Reid
Partner,
Burnet, Duckworth and Palmer LLP

Ving Y. Woo
Vice-President, Engineering and Chief Operating Officer,
Bellatrix Exploration Ltd.

OFFICERS

Dwayne H. Warkentin
President and Chief Executive Officer

Anthony J. Potter
Vice President, Finance and Chief Financial Officer

HEAD OFFICE LOCATION

Suite 200, 441 – 5th Avenue S.W.
Calgary, Alberta, Canada
T2P 2V1

LEGAL COUNSEL

Burnet, Duckworth and Palmer LLP
Calgary, Alberta

BANKERS

TD Canada Trust

AUDITORS

KPMG LLP
Calgary, Alberta

INDEPENDENT ENGINEERS

Insite Petroleum Consultants Ltd.

REGISTRAR AND TRANSFER AGENT

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

Alliance Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: “MVN”