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MADALENA VENTURES INC. FINANCIAL AND OPERATING RESULTS

August 26, 2008. Madalena Ventures Inc. ("Madalena" or the "Company") (TSX Venture: MVN) today announced it's financial and operating results for the three and six months ended June 30, 2008.

HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Financial				
Petroleum and natural gas revenues	$ 255,466	$ 341,338	$ 450,775	$ 486,746
Interest income	70,188	177,874	161,816	367,930
Funds from operations(1)	(273,758)	94,745	(579,548)	(39,031)
Funds from operations per common share - basic and diluted(1)	(0.002)	0.001	(0.005)	-
Cash flow from operating activities	(344,502)	56,257	(466,904)	34,630
Cash flow from operating activities - basic and diluted	(0.003)	0.001	(0.004)	-
Net loss for the period	(528,911)	(836,521)	(717,678)	(1,946,293)
Net loss per common share - basic and diluted	(0.005)	(0.008)	(0.007)	(0.018)
Capital expenditures	$ 424,618	$ 2,487,592	$ 2,483,185	$ 3,188,780
Operations				
Daily production				
Oil (bbls/d)	11	28	10	14
Natural gas (Mcf/d)	96	155	105	158
Natural gas liquids (bbls/d)	4	8	4	7
Oil equivalent (boe/d)	31	62	31	48
Average sales price				
Oil ($/bbl)	$ 121.26	$ 71.42	$ 109.48	$ 71.42
Natural gas ($/Mcf)	11.32	8.31	9.80	8.17
Natural gas liquids ($/bbl)	106.20	58.81	90.83	54.96
Oil equivalent ($/boe)	$ 91.65	$ 60.88	$ 78.82	$ 56.30
Operating netback per boe	$ 43.26	$ 43.14	$ 37.62	$ 36.18

1) Funds from operations, funds from operations per common share, and operating netback are Non-GAAP measurements – see the discussion under Non-GAAP Measurements above.

Highlights of the quarter include:

- The initial TT-2 well in Tunisia reached target depth, yielding positive test results.
- Several prospective drilling locations identified, drilling and seismic programs continue in Argentina.
- $2.45 million private placement completed.

President’s Message

Madalena made significant progress during the second quarter 2008 in the evaluation of its international prospects in Tunisia and Argentina.

In Tunisia, the Company’s first international exploration well commenced drilling on March 31, 2008. On April 16, 2008, the well reached total depth of 1500 meters (4,900 feet) and well logs were run. During the drilling operations a 60 meter (197 feet) core was cut through the potential reservoir, encountering a 50 meter (164 feet) hydrocarbon column. Analysis of the well logs, indicate multi-zone hydrocarbon potential in the Ordovician Bir Ben Tartar, the Ordovician Jaffara and the Silurian Tannezuft formations. Testing was conducted on the TT2 well during the second quarter 2008, and on July 24 2008, Madalena was pleased to report that the upper two tested intervals had attained combined flow rates of 300 barrels per day (bbls/d) of 45 API oil. The company is currently completing its testing operations of the Ordovician formation and anticipates additional testing operations on the uphole Silurian Tannuzuft formation will commence in August 2008. Upon completion of all testing operations, the well will be temporarily suspended pending further appraisal of the discovery and submission of a development plan to ETAP, the Tunisian National Oil Company. Madalena has earned a 15% working interest in approximately 600,000 acres (243,000 hectares) by the drilling of the TT 2 well. Madalena retains the option to drill a second earning well to earn a 15% working interest in an additional 600,000 acres. Technical discussions are currently underway with partners to determine the optimal location for an offshore exploration well to be drilled on the Hammamet Block during 2009. Madalena has the option to participate in this offshore well for 30% to earn a 15% interest in the entire 1.1 million acre (446,000 hectares) block.

Madalena was also very active in evaluating its Argentina assets during Q2, 2008. The Company moved equipment onto the Curamhuele Block during Q2 to test two existing shut-in wellbores located on the block. The Yapai X-1 wellbore tested a significant flow rate of 7 million cubic feet per day (mmcf/d) of gas, an average of 240 bbls/d of hydrocarbon liquids, and 42 bbls/d of water at a flowing pressure of 2,350 pounds per square inch from the Mulichinco formation. The hydrocarbons recovered from the Yapai X-1 were of high quality, measuring between 44 API to 53 API for oil and condensates. The Curamhuele X-1 wellbore tested 170 barrels of oil from the Lower Agrio formation over five flow periods of between four to six hours conducted during a five day period. The wellbore also has a significant column of additional potential hydrocarbon pay within the Lower Agrio as well as the Mulichinco formation which has not been perforated or tested in the Curamhuele X-1 wellbore. The company is pleased to report that the results of the testing represent significant potential value to the shareholders. Madalena is also pleased to report that the structural traps encountered in both these well bores do not represent the primary prospects for the Curamhuele block, but provide the company with a significant additional target to supplement its near term exploration drilling plans on the block. Madalena has a majority 70% working interest in the Curamhuele Block, representing potentially significant upside to shareholders. The Company is analyzing the testing data from the Curamhuele wells to evaluate the potential development, tie-in and marketing options available, and is in the process of shooting a 3D seismic program to further delineate the prospectivity of the Curamhuele Block. Madalena also owns a 70% majority working interest in the Cortadera and Coiron Amargo Blocks in the Neuquen Basin of Argentina where 3D seismic programs and preparation of drilling locations are currently underway with results anticipated during Q4 2008.

We are entering into an exciting period for Madalena shareholders as we begin to actively drill and develop the opportunities that have been assembled from the ground floor over the past two years. We look forward to providing our shareholders with updates as we implement our exploration and development program during the remainder of 2008 and 2009.

Ken Broadhurst

President and Chief Executive Officer

Madalena's 2008 second quarter financial statements and related MD&A are available on the Company's website at www.madalena-ventures.com as well as on the SEDAR website at www.sedar.com.

About Madalena

Madalena Ventures Inc. is an international oil and gas exploration and development company headquartered in Calgary, Alberta, Canada. Madalena's objective is to create value for its shareholders through the discovery, and development of oil and gas reserves. Madalena is focused on opportunities in Argentina and Tunisia and has production operations in Alberta. Madalena is listed on the TSX Venture exchange under the symbol "MVN". Visit www.madalena-ventures.com for more information.

Forward Looking Statements

Certain information set forth in this press release, including a discussion of future plans and operations, contains forward looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond management's control, including but not limited to, the impact of general economic conditions, industry conditions, fluctuation of commodity prices, fluctuation of foreign exchange rates, environmental risks industry competition, availability of qualified personnel and management, stock market volatility, timely and cost effective access to sufficient capital from internal and external sources, as well as risks inherent in operating in foreign jurisdictions, including varying judicial or administrative guidance on interpreting rules and regulations and a higher degree of discretion on the part of governmental authorities. Actual results, performance or achievement could differ materially from those expressed in or implied by these forward-looking statements.

The TSX Venture exchange does not accept responsibility for the adequacy or accuracy of this release.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") is provided by management of Madalena Ventures Inc. ("Madalena" or the "Company"), for the three and six months ended June 30, 2008 and 2007. This MD&A should be read in conjunction with the Company's MD&A and audited financial statements for the year ended December 31, 2007 and the unaudited interim consolidated financial statements for the period ended March 31, 2008. 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 25, 2008. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

In this MD&A, 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, unless otherwise stated. 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 contains forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements are based on current expectations, estimates, and projections that involve numerous risks and uncertainties, many of which are beyond the Company's and management's control. These risks and uncertainties could cause actual results to differ materially from those anticipated by the Company and described in this MD&A. These risks and uncertainties include, but are not limited to, the impact of general economic conditions, industry conditions, fluctuation of commodity prices, fluctuation of foreign exchange rates, imperfection of reserve estimates, environmental risks, industry competition, availability of qualified personnel and management, stock market volatility, and timely and cost-effective access to sufficient capital from internal and external sources. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change except as required by law.

Non-GAAP Measurements

This MD&A contains the terms "funds from operations", "funds from operations per share", "netback" and "operating netback", 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. Funds from operations, is a useful measure of how the Company generates funds to cover capital spending. Operating netback is a useful measure for comparing prices received, royalties paid and operating costs incurred with competitors.

Funds from operations, is defined as cash flow from operating activities before changes in non-cash working capital items. Funds from operations per share, is calculated using the same weighted average shares outstanding as net loss per common share. The following table reconciles funds from operations to cash flow from operating activities:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Funds from operations	$ (273,758)	$ 94,745	$ (579,548)	$ (39,031)
Change in non-cash working capital	(70,744)	(38,488)	112,644	73,661
Cash flow from operating activities	$ (344,502)	$ 56,257	$ (466,904)	$ 34,630

Netback and operating netback is defined as total petroleum and natural gas revenue less royalties, operating expenses and transportation expenses.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed in the Company's annual and interim filings, or other reports filed or submitted under various securities legislation, are recorded, processed, summarized, and reported within the time limits specified by the relevant securities legislation, and include controls and procedures designed to ensure that information is accumulated and communicated to management to allow timely decisions regarding required disclosures. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company are responsible for designing DC&P, or causing them to be designed under their supervision, to provide reasonable assurance that material information related to the Company is made known to them.

The CEO and CFO have evaluated the effectiveness of the Company's DC&P as of June 30, 2008 and have concluded that the DC&P provide a reasonable level of assurance that material information related to the Company is recorded, processed, summarized, and reported in a timely fashion and that material information is made known to them by others within the organization except as described in *"Internal Controls over Financial Reporting"* below.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting ("ICFR") is a process designed by, or under the supervision of, the CEO and CFO, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP, and includes those policies and procedures that:

(a) pertain to the maintenance of records that accurately and fairly reflects, in reasonable detail, the Company's transactions;

(b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the Board of Directors; and

(c) provide reasonable assurance regarding prevention or timely detection of unauthorized transactions that could have a material affect on the Company's annual or interim financial statements.

In designing the ICFR, management has identified the following inherent weaknesses:

- A lack of segregation of incompatible duties within the accounting and reporting function.
- A lack of sufficient financial reporting personnel with enough technical accounting knowledge in all areas to address all complex and non-routine accounting transactions that may arise.
- A lack of sufficient information system controls with respect to access and documentation of spreadsheet information.

Management believes that the size of the Company and cost of correcting these inherent weaknesses does not justify the additional assurance remediation will provide, and therefore, does not plan to remediate these weaknesses. Management also believes that the Board of Directors and management possess significant knowledge of all events occurring in the Company which mitigates the possibility that a material error will occur.

There were no changes in the Company's ICFR during the first six months of 2008 that have materially affected, or are reasonable likely to materially affect the Company's ICFR.

HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Financial				
Petroleum and natural gas revenues	$ 255,466	$ 341,338	$ 450,775	$ 486,746
Interest income	70,188	177,874	161,816	367,930
Funds from operations(1)	(273,758)	94,745	(579,548)	(39,031)
Funds from operations per common share - basic and diluted(1)	(0.002)	0.001	(0.005)	-
Cash flow from operating activities	(344,502)	56,257	(466,904)	34,630
Cash flow from operating activities - basic and diluted	(0.003)	0.001	(0.004)	-
Net loss for the period	(528,911)	(836,521)	(717,678)	(1,946,293)
Net loss per common share - basic and diluted	(0.005)	(0.008)	(0.007)	(0.018)
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Daily production				
Oil (bbls/d)	11	28	10	14
Natural gas (Mcf/d)	96	155	105	158
Natural gas liquids (bbls/d)	4	8	4	7
Oil equivalent (boe/d)	31	62	31	48
Average sales price				
Oil ($/bbl)	$ 121.26	$ 71.42	$ 109.48	$ 71.42
Natural gas ($/Mcf)	11.32	8.31	9.80	8.17
Natural gas liquids ($/bbl)	106.20	58.81	90.83	54.96
Oil equivalent ($/boe)	$ 91.65	$ 60.88	$ 78.82	$ 56.30
Operating netback per boe (1)	$ 43.26	$ 43.14	$ 37.62	$ 36.18

1) See “*Non-GAAP measurements*” above.

Highlights of the quarter include:

- The initial TT-2 well in Tunisia reached target depth, yielding positive test results.
- Several prospective drilling locations identified, drilling and seismic programs continue in Argentina.
- $2.45 million private placement completed.

OVERVIEW

In the first half of 2008 Madalena completed its evaluation of seismic data, selected a drilling site, and started drilling on the TT-2 well on the Remada Sud concession in southern Tunisia. The TT-2 well reached its target depth in the second quarter of 2008. Subsequent preliminary testing of the well has yielded positive results in the target zone in addition to potential for hydrocarbons in two other zones. The operator is currently mobilizing equipment to further evaluate the post-hydraulic fracture potential of the well and determine stabilized flow rates. The up-hole potential of the well will also be evaluated once the evaluation of the initial zone is completed.

The Argentina branch became fully operational in the first half of 2008 and the Company continues to push towards drilling its first test wells in the Neuquen basin. In the second quarter, the Company commenced evaluation of two existing well bores on one of its three blocks and identified several prospective drilling locations on a second block. The Company is currently in discussion with contractors to secure a rig for the commencement of the drilling program by the end of 2008. The Company also continued environmental studies, geological site visits and seismic acquisition negotiations in connection with the planned seismic programs on two of the Company’s blocks.

On April 4, 2008 the Company closed a non-brokered private placement to issue 4,375,003 common shares at $0.56 per share for total proceeds of $2,450,000.

RESULTS OF OPERATIONS

Production

For the three months ended June 30, 2008, Madalena averaged production of 31 boe/d compared to 62 boe/d in the second quarter of 2007. The decrease in production is due to natural declines in new wells brought on production in the first and second quarters of 2007. Oil production decreased from 28 bbls/d in the second quarter of 2007 to 11 bbls/d in the second quarter of 2008 and natural gas production decreased from 155 Mcf/day in the second quarter of 2007 to 95 Mcf/day in the second quarter of 2008. Natural gas liquids also experienced production declines from 8 bbls/d in the first quarter of 2007 to 4 bbls/d in the first quarter of 2008.

Natural declines also resulted in a decrease in average production to 31boe/d for the six months ended June 30, 2008, compared to 48 boe/d for the first six months of 2007. Oil production decreased from an average of 14 bbls/d in the six months ended June 30, 2007 to 10 bbls/d in the first half of 2008. Natural gas averaged 105 Mcf/d in the first six months of 2008 compared to 158 Mcf/d for the same period in 2007. Natural gas liquids averaged 4 bbls/d in the first six months of 2008 compared to 7 bbls/d for the same period in 2007. A portion of the declining production can also be attributed to shut in wells during the six months ended June 30, 2008 for repairs and maintenance.

Petroleum and natural gas revenue

Revenue for the three months ended June 30, 2008 totaled $255,466 compared to $341,338 in the second quarter of 2007. The decrease in revenue is due to production declines noted above, partially offset by increased realized commodity prices consistent with market trends for oil and natural gas. In the second quarter of 2008, Madalena received an average of $121.26/bbl for oil, $11.32/Mcf for natural gas and $106.20/bbl for natural gas liquids, compared to $71.42/bbl for oil, $8.31/Mcf for natural gas and $58.81/bbl for natural gas liquids in the first quarter of 2007.

Revenue for the six months ended June 30, 2008 totaled $450,775 compared to $486,746 for the first six months of 2007. The decrease in revenue is due to production declines, partially offset by increased realized commodity prices, consistent with market trends for oil and natural gas. In the first six months of 2008, Madalena received an average of $109.48/bbl for oil, $9.80/Mcf for natural gas and $90.83/bbl for natural gas liquids, compared to $71.42/bbl for oil, 8.17/Mcf for natural gas and $54.96/bbl for natural gas liquids in the first six months of 2007.

Interest Income

Interest income for the three months ended June 30, 2008 totaled $70,188 compared to $177,874 for the second quarter of 2007. Interest income for the six months ended June 30, 2008 totaled $161,816 compared to $367,930 for the same period in 2007. The decrease in interest income in 2008 is due to the use of excess cash in exploration and development activities, particularly in Tunisia and Argentina.

Royalties

For the three months ended June 30, 2008, crown royalties totaled $76,218 ($27.34/boe or 29.8% of revenue) compared to $19,630 ($3.50/boe or 5.8% of revenue) for the second quarter of 2007. For the six months ended June 30, 2008, crown royalties totaled $119,431 ($20.88/boe or 26.5% of revenue) compared to $41,000 ($4.77/boe or 8.4% of revenue) for the same period in 2007. Crown royalties increased in magnitude and on a per boe basis as a result of the elimination of the crown royalty holidays associated with the Company's primary gas producing wells. Further, additional crown royalty expense was incurred in the second quarter of 2008 related to adjustments made by the joint venture operator for crown royalties actually incurred in prior months as the operator determined that a well was incorrectly subject to a royalty holiday.

For the three months ended June 30, 2008, gross overriding royalties ("GORR") totaled $16,847 ($6.04/boe or 6.6% of revenue) compared to $12,578 ($2.24/boe or 3.7% of revenue) for the second quarter of 2007. For the six months ended June 30, 2008, GORR totaled $23,382 ($4.09/boe or 5.2% of revenue) compared to $13,206 ($1.54/boe or 2.7% of revenue) for the same period in 2007. GORR increased in magnitude and on a per boe basis in 2008 as a result of new production attracting these types of royalties.

Operating expenses

Total operating expenses, including minimal transportation costs, totaled $41,811 ($15.00/boe) for the three months ended June 30, 2008 compared to $67,257 ($12.00/boe) for the second quarter of 2007. Total operating expenses, including minimal transportation costs, totaled $92,801 ($16.23/boe) for the six months ended June 30, 2008 compared to $121,474($13.91/boe) for the first half of 2007. The decrease in the magnitude of operating expenses is due to wells being shut-in for short intervals during the period for repairs and maintenance. In addition, production declines have reduced operating maintenance on existing wells. Operating expenses per boe have increased even though total operating expenses have declined. Operating expenses per boe have increased because fixed expenses, which do not decline as production declines, were a higher percentage of the per boe calculation.

Operating Netbacks

	Three months ended June 30,			
	2008		2007	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenue	$ 255,466	$ 91.65	$ 341,338	$ 60.88
Royalties	93,065	33.39	32,208	5.74
Operating expenses, including transportation costs	41,811	15.00	67,257	12.00
Operating netback	$ 120,590	$ 43.26	$ 241,873	$ 43.14

	Six months ended June 30,			
	2008		2007	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenue	$ 450,775	$ 78.82	$ 486,746	$ 56.61
Royalties	142,812	24.97	54,208	6.30
Operating expenses, including transportation costs	92,801	16.23	121,474	14.13
Operating netback	$ 215,162	$ 37.62	$ 311,064	$ 36.18

O perating netbacks are a non-GAAP measure - see "*Non-GAAP measurements*" above.

The Company realized an operating netback of $43.26/boe for the three months ended June 30, 2008 compared to $43.14/boe in the second quarter of 2007. For the six months ended June 30, 2008, the Company realized an operating netback of $37.62/boe compared to $36.18/boe for the same period in 2007. Netbacks have remained relatively flat as higher average sales prices have been largely offset by higher royalty rates and increasing operating expenses on a per boe basis.

General and administrative ("G&A") expenses

G&A expenses totaled $464,606 for the three months ended June 30, 2008 compared to $325,002 for the second quarter of 2007. G&A expenses for the six months ended June 30, 2008 totaled $939,094 compared to $718,025 for the same period in 2007. The increase in G&A expenses in 2008 is due to the increased activity in Argentina, including increased travel costs for our Calgary-based executives and local Argentina office expenses.

For the three months ended June 30, 2008, the Company capitalized approximately $87,900 of G&A expenses directly related to exploration and development activities, compared to $47,900 in the second quarter of 2007. The Company capitalized approximately $136,000 of G&A expenses directly related to exploration and development activities in the six months ended June 30, 2008, compared to $79,300 in the same period in 2007. The rate at which the Company is capitalizing G&A has increased in 2008 as a result of the increase in exploration activity in Argentina and Tunisia.

Stock-based compensation ("SBC") expense

SBC expense in the three months ended June 30, 2008 totaled $154,845 compared to $447,561 in the second quarter of 2007. SBC expense in 2007 reflects a large number of stock option grants with immediate vesting, resulting in the stock option fair value being recognized as an expense entirely in the period of the option grant. No such options were issued in the second quarter of 2008 and SBC expense in 2008 reflects only those stock options that are not fully vested.

SBC expense for the six months ended June 30, 2008 totaled $316,536 compared to $1,270,952 for the same period in 2007. In addition to the impact of granting options with immediate vesting noted above, SBC expense in 2007 reflects a one time charge of $679,000 related to the revaluation of options that were transferred between directors.

For the three months ended June 30, 2008, the Company capitalized approximately $30,100 of SBC expense directly related to exploration and development activities, compared to $8,700 in the second quarter of 2007. The Company capitalized approximately $69,600 of SBC expenses directly related to exploration and development activities in the six months ended June 30, 2008, compared to $12,300 in the same period in 2007. The increase in capitalized SBC expense in 2008 is due to additional stock options granted in the second half of 2007 to consultants directly involved in exploration activities.

At June 30, 2008, the Company has approximately $545,000 of unamortized SBC that will be charged to income over the remaining vesting period of the outstanding options.

Depletion, depreciation and accretion expense

Depletion and depreciation ("D&D") expense for the three months ended June 30, 2008 totaled $93,100 compared to $482,100 (including a ceiling test write down of $278,000) in the second quarter of 2007. D&D expense for the six months ended June 30, 2008 totaled $191,200 compared to $633,100 in the same period in 2007. The decrease in depletion and depreciation in 2008 is due to a lower carrying value on the Company's Canadian oil and gas properties resulting from ceiling test write downs in the second and fourth quarters of 2007. Only the Canadian oil and gas properties are subject to depletion as activity in Argentina and Tunisia is considered to be in the development stage. There were no impairments to carrying value associated with the Canadian, Argentina or Tunisia oil and gas properties at June 30, 2008.

Accretion expense associated with the Company's asset retirement obligation totaled $1,452 for the three months ended June 30, 2008 compared to $1,605 for the second quarter of 2007. Accretion expense for the six months ended June 30, 2008 totaled $2,905 compared to $3,210 for the same period in 2007. There were no significant changes to the assumptions used to calculate the asset retirement obligation or related accretion in 2008 compared to 2007.

Foreign exchange gains (losses)

Beginning in 2008, the Company established operations in Tunisia and Argentina and is now subject to foreign exchange rate fluctuations for account balances denominated in US dollars and Argentine Pesos. Foreign currency fluctuations resulted in a foreign exchange loss of $5,685 in the second quarter of 2008 and a foreign exchange gain of $355,080 in the six months ended June 30, 2008. Currently, the Company does not hedge its exposure to foreign currency fluctuations.

Net loss and other comprehensive loss

The Company realized a net loss of $528,911 for the three months ended June 30, 2008, compared to a net loss of $836,521 in the second quarter of 2007. The net loss for the six months ended June 30, 2008 totaled $717,678, compared to a net loss of $1,946,293 for the same period in 2007. The net loss in 2007 was largely due to one time charges related to the write down of the Company's Canadian oil and gas properties and stock compensation expense noted previously. Increased commodity prices and the foreign exchange gain recorded by the Company in the first six months of 2008 also reduced the net loss by partially offsetting production declines and increased royalty and G&A expense.

Income taxes

Future income tax assets and liabilities arise due to the difference between the tax basis of assets and their respective accounting carrying cost. The Company has Canadian tax losses and other cumulative tax deductions in excess of net book values, but to date, has not recognized the income tax benefit of these future tax assets as their recoverability is uncertain at this time.

Capital expenditures

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Canada oil and gas properties				
Drilling and completions	$ (2,975)	$ 117,332	$ 30,069	$ 658,384
Well equipment and production facilities	561	152,767	3,362	280,697
Land	-	-	-	49
Total Canada oil and gas properties	(2,414)	270,099	33,431	939,130
Argentina pre-production costs	427,032	(80,597)	366,976	(65,107)
Tunisia pre-production costs	-	2,297,580	2,082,638	2,313,455
	424,618	2,487,082	2,483,045	3,187,478
Office furniture and equipment		510	140	1,302
Total capital expenditures	$ 424,618	$ 2,487,592	$ 2,483,185	$ 3,188,780

Madalena spent $424,618 on petroleum and natural gas properties and office furniture and fixtures in the second quarter of 2008 compared to $2,487,592 in the second quarter of 2007. For the six months ended June 30, 2008 the Company incurred $2,483,185 on capital expenditures compared to $3,188,780 in the first six months of 2007. In Canada, the Edson and Brazeau area drilling programs were completed at the end of 2007 resulting in less capital expenditures in 2008. In Argentina, the Company incurred additional costs as the seismic and exploration work on the Argentine properties continued. In 2007 the Company recovered certain exploration costs in Argentina from one of its operating partners resulting in a negative expenditure. In Tunisia the Company incurred costs in 2008 to drill an exploration well compared to costs incurred in 2007 for seismic exploration activities.

LIQUIDITY AND CAPITAL RESOURCES

Madalena is in the initial exploration stage on its international oil and gas prospects. The Company earns interest income on its excess cash and has revenue related to its Canadian oil and gas properties, but the cash generated from these activities is not always sufficient to cover operating costs and other overhead. The Company had negative funds from operations in the three months ended June 30, 2008 totaling $273,758 compared to positive funds from operations of $94,745 in the second quarter of 2007. The Company had negative funds from operation of $579,548 in the six months ended June 30, 2008, compared to negative funds from operations of $39,031 for the same period in 2007 (funds from operations is a non-GAAP measurement – see the paragraph on non-GAAP measurements above for a comparison to cash flow from operations).

At June 30, 2008 Madalena had working capital of $12,978,586 (including $12,916,049 in cash and cash equivalents) compared to $13,236,239 (including $13,082,472 in cash and cash equivalents) at December 31, 2007. The decrease in working capital at June 30, 2008 is due to funding on-going exploration and development activities, primarily in Argentina and Tunisia, offset by working capital received from the private placement.

Historically, the Company raised funds from equity financings to fund exploration and development activities and overhead expenses. The Company's ability to continue operations will be dependant on identifying commercial oil and gas reserves, generating profitable operations and raising sufficient capital to complete planned exploration and development activities.

On April 4, 2008, the Company closed a non-brokered private placement for the issuance 4,375,003 common shares at $0.56 per share for total proceeds of $2,450,000. These funds will be used to meet the Company's capital expenditure commitments.

TRANSACTIONS WITH RELATED PARTIES

There were no transactions with related parties for the three or six months ended June 30, 2008. During the three and six months ended June 30, 2007 two directors of the Company were also directors of a company that was a joint interest owner and operator of Madalena's Canadian oil and gas properties. This company is no longer the operator, or joint interest owner of any of Madalena's oil and gas properties. At June 30, 2007 the Company had accounts payable of $185,953 due to this related party.

During the three and six months ended June 30, 2007 the Company used the services of a law firm in which one of the directors was a partner. During the three and six months ended June 30, 2007 the Company incurred $19,200 and $74,700 respectively of legal services at market rates from the law firm.

SHARE INFORMATION

At June 30, 2008 and August 25, 2008, the Company has 111,743,702 common shares and 10,130,000 stock options outstanding. In the second quarter of 2008 the Company completed a private placement resulting in the issuance of 4,375,003 common shares and all previously outstanding warrants to purchase common shares expired unexercised.

BUSINESS RISKS

The Company's ability to increase reserves will depend on its ability to select and acquire suitable prospects and to secure the capital to develop those prospects in a timely fashion. The oil and gas industry is inherently risky and there is no assurance that oil and gas reserves will be discovered or economically produced. Inherent operational risks include, but are not limited to, securing markets for production, complex regulatory and environmental requirements, uncertainties related to reservoir performance, and competition. Inherent financial risks include, but are not limited to, access to capital and fluctuations in commodity prices, interest rates and foreign currency exchange rates.

The Company is focused on the international oil and gas exploration market. Conducting oil and gas exploration and development activities in foreign jurisdictions creates additional inherent risks which include, but are not limited to, currency instability, potential civil disturbances, currency and funds movement controls, price controls, political instability, changes in foreign ownership restrictions, and potential expropriation of property.

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

NEW ALBERTA ROYALTY REGIME

In October of 2007 the Government of Alberta announced that it would be altering the royalty regime in the province effective January 1, 2009. With the assistance of an independent petroleum engineering firm, the Company evaluated the affect of the increased royalty rates on its existing reserves at December 31, 2007. At December 31, 2007 the Government had not yet clarified the details of all aspects of the royalty changes, therefore the independent group of petroleum engineers provided a range of estimated affects of the royalties on the Company's production. The evaluation concluded that the Company's undiscounted future cash flow could be reduced by approximately $179,000 to $358,000. The Company believes that these estimates have not changed as of June 30, 2008. At December 31, 2007 the impact of these changes were included in the ceiling test calculation so no additional impairment charges are anticipated from the increased royalties.

CONTRACTUAL OBLIGATIONS

The Company has a lease commitment for its Calgary, Canada head office through June 15, 2011. The total estimated remaining lease payments at June 30, 2008, including operating costs, is approximately $362,000.

The Company has lease commitments for two apartments in Argentina which expire in October and December of 2009. The total estimated remaining lease payments at June 30, 2008 are USD$23,000. In the second quarter of 2008 the Company entered into a lease agreement for office space in Argentina which will expire in 2011. The total estimated remaining lease payments at June 30, 2008 is USD$80,000.

The Company has agreed to work programs approved by the Province of Neuquen in Argentina for three exploration blocks in the Province. The total work programs call for USD$10.5 million to be spent over three years on the three exploration blocks. The Company's share of these work programs will be 78.8 % or USD$8.3 million.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2007 audited financial statements. Preparing financial statements in accordance with Canadian GAAP requires management to make judgments and estimates with respect to the critical accounting policies. 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 first and second quarters of 2008.

CHANGES IN ACCOUNTING POLICIES

Principles of consolidation

In the first quarter of 2008 the Company adopted the Canadian accounting standard for "Consolidated Financial Statements" which requires the consolidation of all wholly owned subsidiaries and elimination of all inter-company balances. The standard was adopted in conjunction with the creation of two wholly owned Barbados subsidiaries on January 1, 2008 to which the Company sold its interests in the Tunisian seismic option agreements.

Foreign currency translation

In the first quarter of 2008 the Company commenced operations in Tunisia and Argentina. Both locations are considered to be an "integrated foreign operation" for accounting purposes and their financial results are translated into Canadian dollars using the temporal method. Accordingly, the Company translates foreign denominated monetary assets and liabilities at the exchange rate prevailing at the period end; non-monetary assets, liabilities and related depletion, depreciation and accretion are translated at historic rates; and revenues and expenses are translated at the rate in effect at the time of the transaction. Any resulting foreign exchange gains or losses are included in earnings.

Capital disclosures

On January 1, 2008 the Company adopted the new Canadian accounting standard for "Capital Disclosures" which requires disclosure of objectives, policies and processes for defining and managing capital. There was no financial impact as a result of implementing this new standard.

Financial instruments disclosure and presentation

On January 1, 2008 the Company adopted the new Canadian accounting standards for "Financial Instruments – Disclosures" and "Financial Instruments – Presentation". These standards require disclosure of the significance of financial instruments to an entity's financial position and performance, the risks associated with the financial instruments, and how the entity manages those risks. There was no financial impact as a result of implementing these new standards.

NEW ACCOUNTING PRONOUNCEMENTS

Over the next three years GAAP will be modified to converge with International Financial Reporting Standards ("IFRS"). The date of convergence to IFRS is January 1, 2011. On May 9, 2008 the Canadian Securities Administrators issued staff notice 52-320 which provides guidance on the disclosure of changes in expected accounting policies related to the change over to IFRS. The policy indicates that an issuer should disclose certain information in its interim and annual MD&A three years prior to the January 1, 2011 change over, if at the time of preparing the MD&A, the issuer has developed an IFRS change over plan. The Company has not yet developed a comprehensive accounting conversion plan but will continue to monitor and assess the impact of the convergence on its financial statements and financial position.

OUTLOOK

For the remainder of 2008, the Company will continue its exploration program on its blocks in Argentina, complete its evaluation of two wellbores on one of its blocks in Argentina and look for opportunities to produce from these wellbores. In Tunisia, the Company will work with its partners to complete testing of its Remada Sud well and determine its commercial viability and potential for development of additional zones. The Company will also work to evaluate additional international opportunities as they are presented.

QUARTERLY FINANCIAL INFORMATION

As at and for the three months ended	June, 30 2008	March 31, 2008	December 31, 2007	September 30, 2007
Operations				
Daily production				
Oil (bbl/d)	11	9	18	8
Natural gas (mcf/d)	96	114	136	180
Natural gas liquids (bbl/d)	4	5	6	7
Oil equivalent (boe/d)	31	32	47	45
Average sales price				
Oil price ($bbl)	$ 121.26	$ 94.46	$ 77.07	$ 78.66
Natural gas price ($/mcf)	11.32	8.53	6.32	6.04
Natural gas liquids price ($/bbl)	106.20	78.39	65.82	65.26
Oil equivalent price ($/boe)	91.65	66.66	56.75	48.38
Operating net back ($/boe)	$ 43.26	$ 32.28	$ 31.74	$ 25.38
Financial				
Petroleum and natural gas revenues	$ 255,466	$ 195,309	$ 245,704	$ 200,514
Interest income	70,188	91,628	128,382	164,981
Loss from continuing operations	(528,911)	(188,767)	(3,624,808)	(462,486)
Basic and diluted per share	(0.005)	(0.002)	(0.030)	-
Net loss	(528,911)	(188,767)	(3,624,808)	(462,486)
Basic and diluted per share	(0.005)	(0.002)	(0.030)	-
Capital expenditures	424,618	2,058,566	2,079,747	92,069
Working capital	$ 12,978,586	$ 11,232,647	$ 13,236,239	$ 15,144,359
Shares outstanding (000's)	111,744	107,369	107,369	107,369

As at and for the three months ended	June, 30 2007	March 31, 2007	December 31, 2006*	September 30, 2006*
Operations				
Daily production				
Oil (bbl/d)	28	-		
Natural gas (mcf/d)	155	161	198	109
Natural gas liquids (bbl/d)	8	6	7	2
Oil equivalent (boe/d)	62	33	40	20
Average sales price				
Oil price ($bbl)	$ 71.42	$ -	$ -	$ -
Natural gas price ($/mcf)	8.31	8.03	7.54	5.75
Natural gas liquids price ($/bbl)	58.81	50.41	51.65	62.47
Oil equivalent price ($/boe)	60.88	48.60	46.39	37.01
Operating net back ($/boe)	$ 43.14	$ 23.15	$ 25.11	$ 32.57
Financial				
Petroleum and natural gas revenues	$ 341,338	$ 145,408	$ 171,532	$ 67,475
Interest income	177,874	190,056	147,948	94,762
Loss from continuing operations	(836,521)	(1,109,773)	(2,892,752)	(352,724)
Basic and diluted per share	(0.008)	(0.010)	(0.032)	(0.005)
Net loss	(836,521)	(1,109,773)	(2,895,425)	(405,633)
Basic and diluted per share	(0.008)	(0.010)	(0.032)	(0.006)
Capital expenditures	2,487,592	701,188	1,471,112	5,398,608
Working capital	$ 15,380,251	$ 17,713,097	$ 18,309,436	$ 274,561
Shares outstanding (000's)	107,369	106,869	106,391	71,586

* Comparative information for 2006 has been re-stated to reflect adjustments to stock-based compensation, oil and gas revenues, royalties, operating costs, and depletion. Net loss and other comprehensive loss in the three months ended December 31, 2006 was increased by $99,178 as a result of understated stock based compensation. The loss from continuing operations and net loss and other comprehensive loss in the three months ended September 30, 2006 was decreased by $10,521 as a result of understated, on a net basis, oil and gas revenues, royalties, operating costs, and depletion.

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Ving Y. Woo
Independent Businessman

Michael J. Lock
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