Madalena Ventures Inc.

Quarterly Report

For the Three and Nine Months Ended September 30, 2009
(unaudited)

President's Message

Madalena is at a critical stage in its development. By the end of September 30, 2009 the Company has developed its core exploration blocks in Tunisia and Argentina to a point where management feels there is significant value to be created by pursuing further development. The Company has carefully monitored its working capital position throughout the development of its exploration properties, has remained debt free, and has managed to meet the majority of its commitments on the exploration blocks. The challenge facing the Company is securing sufficient funding to complete the development of these properties and its remaining commitments.

In Tunisia, the operator has approval from the Tunisian National Oil Company to conduct long term production tests on the TT2 discovery well until the well has recovered 80,000 barrels of oil. Madalena has earned a 15% working interest in approximately 600,000 acres on the Remada Sud block by drilling the TT2 well and retains the option to drill a second earning well to earn a 15% working interest in an additional 600,000 acres. The operator can apply for commercial production status on completion of the test production period. Madalena is participating in 3D seismic exploration and evaluation to assist in determining additional drilling locations. Information obtained from the long term production tests and seismic evaluation of will allow the operator to submit a formal plan for the phased development of the concession to the Tunisia authorities by the end of the fourth quarter of 2009.

In Argentina, Madalena has drilled a successful exploration well on the CAN X-2 prospect on the Coiron Amargo block and completed the evaluation of 3D seismic on the Coiron Amargo, Curamhuele and Cortadera exploration blocks. The Coiron Amargo well was completed in the Sierras Blancas formation and was placed on pump in 2009. The well is currently producing a steady 100 barrels of 38° API oil per day. Further development of the Coiron Amargo block will focus on drilling locations identified in the seismic data evaluation and making an application for commerciality. Processing of the 3D seismic data on the Curamhuele and Cortadera exploration blocks also suggest numerous locations for exploiting hydrocarbon trends and the next development steps would be to drill exploration wells on these properties.

In order to pursue the further development of its properties, Madalena is evaluating innovative ways to fund the development. On August 27, 2009, the Company completed the sale of all of its Canadian petroleum and natural gas properties. On November 12, 2009 the Company announced that it had signed a letter of acceptance outlining the terms of a multi-well drilling program ("Farmout") on its Coiron Amargo block in the Neuquen Province of Argentina. The farmout provides that the farmee will drill a minimum of two exploration wells on the Block to earn 25% (net 17.5%) of Madalena's current 70% net working interest and has the option to drill two additional wells to earn an additional 25% (net 17.5%) of Madalena's current 70% net working interest. The Farmout is subject to completion of standard legal and environmental due diligence procedures, governmental approval, and the execution of a mutually acceptable definitive farmout agreement.

Madalena remains debt free and is receiving cash flow from Tunisia and Argentina test production. Given its limited working capital, Management will continue to focus on the evaluation of various alternatives to provide the capital required to maximize the potential of its successful exploration and development projects, and is aggressively reviewing its general and administrative cost structure.

We look forward to providing our shareholders with updates as we implement our strategy.

Ken Broadhurst

President and Chief Executive Officer

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 nine months ended September 30, 2009 and 2008. This MD&A should be read in conjunction with the Company's MD&A and audited consolidated financial statements for the year ended December 31, 2008 and the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2009. 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 **November 25, 2009**. 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 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 also forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

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

Non-GAAP Measurements

This MD&A contains the terms “funds from operations”, “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. However, management considers these measures to be useful supplementary information.

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 funds from operations to cash flow from operating activities:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash flow from operations	$ (902,401)	$ (343,152)	$ (2,137,281)	$ (857,161)
Change in non-cash working capital	170,731	(28,427)	198,956	(291,696)
Funds from operations	$ (731,670)	$ (371,579)	$ (1,938,325)	$ (1,148,857)

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, operating expenses and transportation expenses. Additional information on operating netbacks is provided in “Discontinued operations”.

Overall Performance

Madalena is an upstream exploration and development Company that is focused on increasing shareholder value by searching out, obtaining, evaluating, and developing oil and gas exploration opportunities throughout the world.

In November of 2006 Madalena raised approximately $24 million to pursue its international exploration and development objectives and has accomplished the following to the end of September 2009:

- Madalena has acquired four international exploration properties which management believes have the potential to provide significant returns.
- The Company has spent approximately $19 million to acquire exploration rights, obtain and evaluate seismic exploration data, conduct environmental studies, select drilling locations, and drill two exploration wells on its international properties in Tunisia and Argentina.
- In both Countries, the results of these activities have been very positive and the first exploration wells drilled on the Remada Sud and Coiron Amargo exploration properties discovered oil and gas reserves.
- Evaluation of test production information from both exploration wells drilled by the Company provide conclusive evidence that additional exploration and development activities are warranted and that the Company has accomplished its objective of developing exploration opportunities with significant potential for increasing shareholder value.
- Interpretation of seismic data on the Curamhuele and Cortadera blocks in Argentina indicates the possible extension of the Avile and Troncoso formations producing on the Filo Morado block to the north, trending on to the Madalena blocks.

In early 2006 Madalena participated in a development drilling project in Canada that was intended to provide the Company with funds from operations to cover general and administrative costs ("G&A") and allow management to focus on international opportunities. Unfortunately, the results of the Canadian development program were disappointing and did not provide the anticipated cash flow. In the three months ended September 30, 2009 Madalena completed the sale of its share of the Canadian properties for $554,000 and used the proceeds to cover ongoing expenditures.

With the current working capital position of the Company management has spent considerable time and effort over the last quarter examining various alternatives for raising additional equity. As mentioned above the Company sold the Canadian properties in August and in November announced that it accepted the terms of a farmin agreement on the Coiron Amargo property. The farmin is subject to due diligence, government approval, and the completion of a definitive farmin agreement between the parties. When completed it is anticipated that the farmin agreement will allow the Company to drill up to four wells on the Coiron Amargo property without an outlay of capital and maintain at least a 35% working interest in the block.

Additional information on the development of the Company's properties is provided in the following overview, and a discussion of the financial results is provided in the following results of operations.

OVERVIEW

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Financial information				
Interest income	$ 643	$ 61,313	$ 9,158	$ 223,129
Funds from operations(1)	(731,670)	(371,579)	(1,938,325)	(1,148,857)
Funds from operations per common share(1)	(0.007)	(0.003)	(0.017)	(0.010)
Cash flow from operations	(902,401)	(343,152)	(2,137,281)	(857,161)
Cash flow from operations per common share(1)	(0.008)	(0.003)	(0.019)	(0.008)
Cash flow from discontinued operations	575,399	184,389	635,124	238,498
Cash flow from discontinued operations per common share(1)	0.005	0.002	0.006	0.002
Net loss and other comprehensive loss	(692,859)	(246,875)	(3,641,640)	(964,553)
Net loss and other comprehensive loss per common share(1)	(0.006)	(0.002)	(0.033)	(0.009)
Net income (loss) from discontinued operations	42,212	31,304	(1,419,973)	63,466
Net income (loss) from discontinued operations per common share(1)	-	-	(0.013)	0.001
Capital expenditures	941,235	2,608,774	5,630,971	5,058,529
Total assets at the period ended	$ 21,063,610	$ 25,226,921	$ 21,063,610	$ 25,226,921

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

<u>Tunisia</u>

Testing of the Remada Sud TT-2 well (located in south central Tunisia along the border of Libya) conducted in the last half of 2008 demonstrated the well was capable of producing light crude oil. The Operator filed a long term production testing plan which was approved by the Tunisia National Oil Company and completed a successful work-over on the well in March 2009. The Operator commenced production testing at the end of Q1 2009. To the end of Q3 2009, the well has production tested approximately 40,000 gross barrels of light oil Madalena's share of the total test production is approximately 3,500 barrels of light oil. Commercial production status can be applied for upon completion of the test production period. The test production period has not been completed at September 30, 2009, and production revenues, operating costs, and royalties have been capitalized for accounting purposes and excluded from production and revenue information provided in this document. As of September 30, 2009 Madalena had recorded net production revenue of $117,725 US ($125,459 CDN) as a reduction of total pre-production costs in Tunisia.

High fixed costs associated with bringing production to market from a single well production facility may result in the well operating at a low netback until additional production from other wells can be brought on stream. Work on a formal plan for the phased development of the Remada Sud concession continued during the third quarter of 2009. The Company agreed to participate in a 3D seismic exploration program to further delineate structures on the Remada Sud property. However, continued development of the concession is dependant on the availability of capital.

<u>Argentina</u>

In the first quarter of 2009, the Company completed drilling of the CAN X-2 well on the Coiron Amargo block (located in the Province of Neuquen, Argentina approximately 650 miles southwest of Buenos Aires and 75 miles east of the Cortadera block) identifying potential hydrocarbon production from the Sierras Blancas formation. In the second and third quarters of 2009 the Company production tested the CAN X-2 well. Commercial production status can be applied for by the Company upon completion of the test production period. The test production period has not been completed at September 30, 2009, and production revenues, operating costs, and royalties have been capitalized for accounting purposes and therefore excluded from production and revenue information.

The Company substantially completed processing and interpretation of 3D seismic data received from the 3D seismic exploration programs conducted on the Curamhuele (located in the Province of Neuquen, Argentina approximately 650 miles southwest of Buenos Aires) and the Cortadera (located in the Province of Neuquen, Argentina approximately 700 miles southwest of Buenos Aires) blocks. Interpretation of the 3D seismic data indicates structures in the Avile, Troncoso, and Mulichinco formations which are similar in nature to structures which have been successfully drilled and developed on the Filo Morado and El Porton fields to the north. The Filo Morado field has produced approximately 64 million barrels of oil equivalent since its discovery in 1986, and the El Porton field has produced approximately 66 million barrels of oil equivalent since its discovery in 1990[1]. Field studies confirmed the presence of source rock and reservoir rock located directly on the Curamhuele and Cortadera blocks. Seismic interpretation is currently being high graded to select optimal drilling targets on the blocks.

Completion of the seismic exploration and evaluation programs and completion of the CAN X-2 well has allowed the Company to complete its work commitments on the Coiron Amargo block. On acquisition of the Argentine exploration properties the Company and its joint venture partners agreed to work programs with the Province of Neuquen on the three blocks. The work programs required that specific activities (such as seismic exploration, seismic interpretation and drilling of exploration wells) be completed, and that the Company and its partners spend specific amounts on each of these activities. The total of each of the specific activities amounted to $10,500,000 US (Madalena's share was $8,722,222 US) and had to be spent by November of 2010. The November 2010 date can be extended by one year upon application by the Company and its partners.

In August of 2009 the Company, its joint venture partners, and the Province of Neuquen agreed to amendments to the work programs. The work programs no longer require specific amounts for each of the activities, rather the work programs only require that a total of $10,500,000 US be spent. At September 30, 2009 the Company estimates that its share of the remaining amount to be spent to satisfy the total dollar value of the work program is $840,000 US which will be exceeded if further seismic or drilling expenditures on Curamhuele and Cortadera are undertaken by the Company. At Cortadera and Curamhuele, if one well is not drilled on each block by November of 2010, or if an application to extend the deadline is accepted and the wells are not drilled by November of 2011 the Company could forfeit its right to the non-producing portions of the Cortadera and Curamhuele exploration blocks. Drilling of the two wells is dependent on the availability of capital.

[1] The production data associated with the Filo Morado field may constitute "analogous information". Such information was released in the Concession Reserves and Resources Statistics Report effective December 31, 2008 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 Corporation may have an interest. The Corporation is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor or in accordance with the COGE Handbook and therefore, the reader is cautioned that the data relied upon by Madalena may be in error and/or may not be analogous to Madalena's land holdings.

On November 12, 2009 Madalena announced that it had entered into a farm out agreement with a Company operating in the Neuquen basin with respect to the Coiron Amargo property. The terms of the Farmout provide for the Farmee to drill a minimum of two exploration wells on the Block to earn 25% (net 17.5%) of Madalena's current 70% net working interest in the Block with the option to drill two additional earning wells to earn an additional 25% (net 17.5%) of Madalena's current 70% net working interest in the Block. Madalena will continue to own a net 52.5% working interest in the Block after the first two wells have been drilled, and a net 35% working interest in the Block in the event the two option wells are drilled. Madalena estimates the potential for approximately 38 additional wells to be drilled on the Block based on the Corporation's 3D seismic interpretation over the Block and the results of the successful CAN X-2 discovery well drilled on the Block earlier in 2009. The Farmout is subject to completion of standard legal and environmental due diligence procedures, governmental approval and the execution of a mutually acceptable definitive Farmout Agreement.

In the nine months ended September 30, 2009, net operating costs of $123,928 incurred during the test production period have been charged to the Argentina pre-production cost center, compared to net operating revenues of $142,867 which were credited to the Argentina pre-production cost center during the year ended December 31, 2008.

Canada

On August 27, 2009, the Company completed the sale of all of its Canadian petroleum and natural gas properties for proceeds after closing adjustments of $581,052 which includes the sales price received of $554,000, and the assumption by the purchaser of all abandonment and reclamation obligations which were recorded in the accounts in the amount of $100,658. The sale resulted in a change in the Company's depletion rate by more than 20%, a disposal of the Company's entire Canadian cost center, and a gain recorded on the disposition in the amount of $27,708.

Going concern considerations

The historical financial information and forward-looking statements contained in this MD&A and the Company's unaudited interim consolidated financial statement as at and for the three and nine months ended September 30, 2009, have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. Madalena's current financial situation creates doubt with respect to its ability to continue as a going concern. Presently the Company has no significant production revenue and limited working capital, has incurred negative cash flows from operations, and recognized recurring losses.

If the company is not able to realize its assets and discharge its liabilities and commitments in the normal course of operations, the interim consolidated financial statements and historical information contained in this MD&A would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

Continuing operations, the recovery of petroleum property costs and the ability to continue as a going concern is dependent on the Company's ability to access sufficient funds to continue operations, identify commercial reserves, generate profitable operations and complete development activities. The Company intends to explore the availability of obtaining additional funding by pursuing any and all of the strategies outlined below:

- Issue new shares through a public offering or private placement
- Raise fixed or floating interest rate debt
- Farm-out existing exploration opportunities
- Sell assets
- Merge with other exploration Company's

RESULTS OF OPERATIONS

The following paragraphs provide information about the results of Madalena's on-going operations for the three and ninemonths ended September 30, 2009. See the paragraphs entitled "Discontinued operations" for information on Madalena's discontinued operations for the three and nine months ended September 30, 2009.

Interest Income

Interest income for the three months ended September 30, 2009 totaled $643 compared to $61,313 for the third quarter of 2008. Interest income for the nine months ended September 30, 2009 totaled $9,158 compared to $223,129 for the same period in 2008. The decrease in interest income in 2009 is due to the use of cash reserves to pay for exploration and development activities in Tunisia and Argentina and reduced interest rates on cash and cash equivalent balances.

Foreign exchange gain/(loss)

The Company's operations in Tunisia and Argentina are subject to foreign exchange rate fluctuations for account balances denominated in US dollars (USD) in Tunisia and Argentine Pesos (ARS) in Argentina. For the three months ended September 30, 2009 the Company experienced a foreign exchange loss of $180,186 compared to a foreign exchange gain of $294,923 for the same period in 2008. For the nine months ended September 30, 2009 the Company experienced a foreign exchange loss of $537,878 compared to a foreign exchange gain of $650,003 for the same period in 2008.

The Company's exposure to fluctuations in the ARS Peso in the three quarters ended September 30, 2009 increased compared to the same period in 2009 because the Company held more ARS Pesos in relation to US dollars in 2009 compared to 2008 during a period when the Peso had weakened against the Canadian dollar.

General and administrative ("G&A") expenses

G&A expenses totaled $504,043 for the three months ended September 30, 2009 compared to $469,880 for the third quarter of 2008. G&A expenses for the nine months ended September 30, 2009 totaled $1,420,602 compared to $1,408,974 for the same period in 2008. G&A is slightly higher in 2009 due to additional legal fees during the period.

For the three months ended September 30, 2009, the Company capitalized $99,017 of G&A expenses directly related to exploration and development activities, compared to $85,371 in the third quarter of 2008. The Company capitalized $261,412 of G&A expenses directly related to exploration and development activities in the nine months ended September 30, 2009, compared to $221,394 in the same period in 2008. The amount of G&A capitalized in 2009 increase due to greater exploration activity in 2009 in Argentina.

Stock-based compensation ("SBC") expense

SBC expense in the three months ended September 30, 2009 totaled $41,309 compared to $158,983 in the third quarter of 2008. SBC expense for the nine months ended September 30, 2009 totaled $237,083 compared to $475,519 for the same period in 2008. SBC expense decreased in 2009 because options granted in February and March of 2006 were amortized by the end of the first quarter of 2009.

SBC for consultants is capitalized to property and equipment to the extent that the consultant's activities are directly related to the exploration or development of petroleum and natural gas. SBC for consultants is revalued each quarter based on the price of the Company's outstanding common stock at the end of the quarter. In the three months ended September 30, 2009, the Company capitalized $9,495 of SBC to property and equipment, compared to $12,760 in the third quarter of 2008. The Company capitalized $26,042 of SBC in the nine months ended September 30, 2009, compared to $82,317 in the same period in 2008. The decrease in capitalized SBC expense in 2009 is due to reduced stock prices in 2009 which is used in calculating consultants SBC.

At September 30, 2009, the Company has approximately $142,700 of unamortized SBC that will be charged to income over the remaining vesting period of the outstanding options.

Depreciation and accretion expense

Depreciation expense for the three months ended September 30, 2009 totaled $6,194 compared to $4,100 in the third quarter of 2008. D&D expense for the nine months ended September 30, 2009 totaled $20,568 compared to $12,300 in the same period in 2008. Depletion has not changed significantly and reflects normal amortization of furniture and fixtures.

Accretion expense associated with the Company's asset retirement obligation totaled $3,982 for the three months ended September 30, 2009 compared to $1,452 for the third quarter of 2008. Accretion expense for the nine months ended September 30, 2009 totaled $14,694 compared to $4,358 for the same period in 2008. Accretion expense increased in 2009 as a result of accruing additional asset retirement obligations on the test wells drilled in Tunisia and Argentina.

Net loss and other comprehensive loss

The Company realized a net loss of $692,859 for the three months ended September 30, 2009, compared to a net loss of $246,875 in the third quarter of 2008. The net lost increased in 2009 largely due to a swing in foreign exchange from a gain of $294,923 in 2008 to a loss of $180,186 in 2009.

The net loss for the nine months ended September 30, 2009 totaled $3,641,640 compared to a net loss of $964,553 for the same period in 2008. Net losses increased in 2009 because of a decline in interest income and a swing in foreign exchange from gains of $650,003 in 2008 to losses in 2009 of $537,878 which was somewhat offset by reductions in stock based compensation. In addition the net loss from discontinued operations in the nine months ended September 30, 2009 increased as a result of a ceiling test reduction in the carrying value of the Canadian oil and gas properties.

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 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

The following table summarizes the capital expenditures incurred for ongoing operations in Argentina and Tunisia and for furniture and fixtures in Canada. Capital additions for discontinued operations are summarized in the paragraph on discontinued operations.

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Argentina				
Geological and geophysical	$ 80,485	$ 1,818,708	$ 740,005	$ 2,223,347
Land	22,393	-	37,284	(331,498)
Drilling and completion	250,025	102,441	3,569,754	131,490
Well equipment and facilities	552	-	109,405	-
Other	(7,913)	219,126	539,359	483,912
	345,542	2,140,275	4,995,807	2,507,251
Tunisia				
Geological and geophysical	460,832	-	460,832	7,500
Drilling and completion	268,763	468,499	308,234	2,543,637
Other	(137,095)	-	(137,095)	-
	592,500	468,499	631,971	2,551,137
Canada				
Other	3,193	-	3,193	141
	3,193	-	3,193	141
Total capital expenditures	$ 941,235	$ 2,608,774	$ 5,630,971	$ 5,058,529

Capital expenditures increased in 2009 because the Company drilled the CAN X-2 well in Argentina and incurred costs for seismic exploration, processing and interpretation on the Curamhuele and Cortadera blocks. In Tunisia the majority of the costs associated with drilling the Remada Sud well were incurred in the first quarter of 2008. The Company received a cash call for 3D seismic exploration and an adjustment to costs for the TT-2 well on the Remada Sud block in Tunisia just before the end of the quarter.

RESULTS FROM DISCONTINUED OPERATIONS

On August 27, 2009, the Company completed the sale of all of its Canadian petroleum and natural gas properties for proceeds after closing adjustments of $581,052 which includes the sale proceeds received of $554,000, adjustments for accrued revenues and expenditures to September 30, 2009, and the assumption by the purchaser of all abandonment obligations which were recorded in the accounts in the amount of $100,658. The sale resulted in a change in the Company's depletion rate by more than 20%, a disposal of the Company's entire Canadian cost center, and a gain recorded on the disposition in the amount of $27,708. Madalena has reclassified property and equipment and asset retirement obligations for the Canadian properties as separate assets and liabilities on the balance sheet, and has also reclassified the net income (loss) from discontinued operations as a separate item on the income statement. All comparative figures have also been reclassified.

The following table provides information on the results recorded as income (loss) from discontinued operations during the three and nine months ended September 30, 2009 with comparative figures for the three and nine months ended September 30, 2008.

Income (loss) from discontinued operations for the	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Petroleum and natural gas revenues	$ 62,113	$ 196,260	$ 245,055	$ 647,035
Royalties	(8,666)	(42,126)	(30,437)	(184,938)
Operating costs	(25,943)	(37,830)	(86,152)	(130,631)
Depletion	(13,000)	(85,000)	(1,576,147)	(268,000)
Income (loss) from discontinued operations	14,504	31,304	(1,447,681)	63,466
Gain on sale of property and equipment	27,708	-	27,708	-
Income (loss) from discontinued operations	$ 42,212	$ 31,304	$ (1,419,973)	$ 63,466

The following table provides information on the gain on sale of property and equipment used in discontinued operations for the three and nine months ended September 30, 2009.

Proceeds after closing adjustments	$ 581,052
Assumption of asset retirement obligations	100,656
Net book value of property and equipment related to discontinued operations	(654,000)
Gain on sale of property and equipment used in discontinued operations	$ 27,708

The following information is a summary of the results from the Canadian properties for the three and nine months ended September 30, 2009 with comparative information for the same periods in 2008. All information includes results to the closing date of the sale of the properties on August 27, 2009.

Production

Discontinued operations information	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Daily production				
Oil (bbls/d)	6	8	5	9
Natural gas (Mcf/d)	68	108	64	106
Natural gas liquids (bbls/d)	-	3	2	4
Oil equivalent (boe/d)	17	29	17	31
Average sales price				
Oil ($/bbl)	$ 68.63	$ 118.31	$ 59.22	$ 112.07
Natural gas ($/Mcf)	$ 4.27	$ 8.17	$ 4.89	$ 9.24
Natural gas liquids ($/bbl)	$ -	$ 108.00	$ 42.73	$ 95.15
Oil equivalent ($/boe)	$ 39.88	$ 73.56	$ 38.95	$ 76.18
Operating netback per boe	$ 17.66	$ 43.59	$ 20.42	$ 39.02

For the three and nine months ended September 30, 2009 Madalena averaged 17 boe/d compared to 29 and 31 boe/d for the three and nine months ended September 30, 2008. The decrease is due to natural declines in production from the wells.

Petroleum and natural gas revenue

Petroleum and natural gas revenue for the three months ended September 30, 2009 was $62,113 compared to $196,260 in the third quarter of 2008 and was $245,055 for the nine months ended September 30, 2009 compared to $647,035 for the nine months ended September 30, 2008.

Decreases in revenues for 2009 are due to production declines, reduced commodity prices and the sale of the Canadian properties.

Royalties

Crown royalties and GORR totaled $8,666 for the three months ended September 30, 2009 and $30,407 for the nine months ended September 30, 2009 compared to $42,126 and $184,938 for the comparable periods in 2008. Royalties decreased in magnitude as a result of various credits processed by our operators, the decline of crown royalties on low productivity wells and the significant reduction in prices received on production.

Operating expenses

Total operating expenses, including minimal transportation costs, totaled $25,943 for the three months ended September 30, 2009 and $86,152 for the nine months ended September 30, 2009 compared to $37,830 and $130,631 for the comparable periods in 2008. Total operating expenses decreased as a result of shutting-in production during the period, overall production volume declines and receiving credits for previous period operating expenses from our operators.

Operating Netbacks

Three months ended September 30,	2009		2008	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenue	$ 62,113	$ 39.88	$ 196,260	$ 73.56
Royalties	8,666	5.56	42,126	15.79
Operating expenses, including transportation costs	25,943	16.66	37,830	14.18
Operating netback	$ 27,504	$ 17.66	$ 116,304	$ 43.59

Nine months ended September 30,	2009		2008	
	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenue	$ 245,055	$ 38.95	$ 647,035	$ 76.18
Royalties	30,437	4.60	184,938	21.77
Operating expenses, including transportation costs	86,152	12.72	130,631	15.38
Operating netback	$ 128,466	$ 21.63	$ 331,466	$ 39.03

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

The Company realized an operating netback of $17.66 for the three month ended September 30, 2009 and $21.63/boe for the nine months ended September 30, 2009 compared to $43.59 and $39.03/boe for the same periods in 2008. Netbacks have decreased in 2009 due to substantial decreases in revenues resulting from decreases in production and commodity price declines which were only partially offset by decreases in royalties and operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2009 Madalena had working capital of $335,388 (including $1,325,999 in cash and cash equivalents) compared to $7,243,361 (including $7,861,868 in cash and cash equivalents) at December 31, 2008. Working capital and cash were used in 2009 to fund seismic exploration and drilling activity in Argentina, and fund operating cash flow requirements.

The Company had negative funds from operations in the three months ended September 30, 2009 totaling $731,670 compared to negative funds from operations of $371,579 in the third quarter of 2008. The Company had negative funds from operations of $1,938,325 in the nine months ended September 30, 2009, compared to negative funds from operations of $1,148,857 for the same period in 2008 (funds from operations is a non-GAAP measurement – see the paragraph on non-GAAP measurements above for a comparison to cash flow from operations). Negative funds from operations have increased in 2009 as interest income has declined and the impact of foreign exchange gains and losses has worked its way into changes in non cash working capital items.

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 dependant on raising sufficient capital to complete planned exploration and development activities, successfully producing economic quantities of petroleum and natural gas from its exploration properties in Argentina and Tunisia, 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 nine months ended September 30, 2009 the Company used the services of a law firm in which one of the Company's directors was a partner. During the three and nine months ended September 30, 2009 the Company incurred $24,000 and $47,000, respectively, for legal services at market rates from the law firm. There were no related party transactions in the comparative periods for 2008 as the director joined the Company in the first quarter of 2009.

SHARE INFORMATION

At September 30, 2009 and August 27, 2009, the Company has 111,743,702 common shares and 10,405,000 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 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 financial crisis and the resulting economic uncertainty;
- 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;
- Weather risk with respect to the ability to enter and drill wells in wet areas;
- Uncertainty as to the nature of evolving environmental legislation that is likely to result in stricter standards and enforcement;
- Gas processing risk with respect to the ability to process natural gas into third party owned facilities; 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 Corporation will do its best 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; 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.

Global financial downturn

Market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions during the latter part of 2008 have caused significant volatility to commodity prices and global stock markets. These conditions worsened in the latter part of 2008 and continued in the first and second quarters of 2009, causing a loss of confidence in the broader Canadian, U.S. and global credit and financial markets and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused further deterioration in credit markets and substantial declines in stock markets. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward and the ability of Company's to raise money in the capital markets.

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. As the Company's revenues continue to decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit downturn exposes the Company to limited access to 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 a lease commitment for its Calgary, Canada head office that expires in September 2011. The total estimated remaining lease payments at September 30, 2009, including operating costs, are approximately $221,000.

The Company has lease commitments for rental accommodations in Argentina which expire in October and December of 2009. The total estimated remaining lease payments at September 30, 2009 are $2,000 USD. The Company also has a lease agreement for office space in Argentina which expires in May 2011. The total estimated remaining lease payments at September 30, 2009 is $45,000 USD.

On acquisition of the Argentine exploration properties the Company and its joint venture partners agreed to work programs with the Province of Neuquen in Argentina. The work programs required that specific activities (such as seismic exploration, seismic interpretation and drilling of exploration wells) be completed, and that the Company and its partners spend specific amounts on each of these activities. The total of each of the specific activities amounted to $10,500,000 US (Madalena's share was $8,722,222 US) and had to be spent by November of 2010. The November 2010 date can be extended by one year upon application by the Company and its partners.

In August of 2009 the Company, its joint venture partners, and the Province of Neuquen agreed to amendments to the work programs. The work programs no longer require specific amounts for each of the activities, rather the work programs only require that a total of $10,500,000 US be spent. At September 30, 2009 the Company estimates that its share of the remaining amount to be spent to satisfy the total dollar value of the work program is $840,000 US which will be exceeded if further seismic or drilling expenditures on Curamhuele and Cortadera are undertaken by the Company. At Cortadera and Curamhuele, if one well is not drilled on each block by November of 2010, or if an application to extend the deadline is accepted and the wells are not drilled by November of 2011 the Company could forfeit its right to the non-producing portions of the Cortadera and Curamhuele exploration blocks.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2008 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 three and nine months ended September 30, 2009.

INITIAL ADOPTION OF ACCOUNTING POLICIES

The following describes the accounting policies initially adopted by the Company in 2009 as a result of new accounting standards:

Goodwill and intangible assets

Effective January 1, 2009, a new Canadian accounting standard for "*Goodwill and Intangible Assets*" replaced the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets, particularly with respect to internally developed intangible assets. The adoption of this standard does not have any impact on the Company's consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

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

Business combinations, Non-controlling interests, Consolidated financial statements

Effective January 1, 2011 the Company will be required to adopt the new Canadian accounting standards for "*Business Combinations*", "*Non-controlling Interests*" and "*Consolidated Financial Statements*". All three standards were issued in contemplation of convergence with International Financial Reporting Standards ("IFRS") as discussed below. The new standard address accounting for a business combination both at the time of acquisition and subsequent to the initial purchase accounting, and includes guidance on accounting for non-controlling interests and subsequent preparation of consolidated financial statements. The Company has no transactions that are affected by these new standards. Early adoption of the standards is allowed, and will be considered if and when applicable transactions arise.

IFRS

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that IFRS will become Canadian GAAP effective January 1, 2011 for profit-oriented Canadian publicly accountable enterprises. The adoption of IFRS will have a significant impact on the financial results and disclosures of the Company; however, that impact cannot be reasonably estimated at this time. Madalena has developed a specific implementation plan which will include assessment and quantification of anticipated impacts.

Madalena commenced its IFRS convergence project in 2008 and is currently executing a specific convergence plan which will include assessment and quantification of anticipated impacts. The convergence plan has been designed with sufficient flexibility to adapt to changes and new developments in existing Canadian GAAP and IFRS standards.

In the third quarter of 2009, the Company continued its research and planning for convergence to IFRS. Management has identified a number of key accounts that will be impacted by IFRS, the most significant of which is property and equipment. Analysis is being performed to determine the magnitude of the impact that IFRS convergence is likely to have on these significant accounts and related processes.

OUTLOOK

The Company has experienced a high level of success in its international exploration and development projects in Tunisia and Argentina. Going forward, the Company will continue to evaluate a variety of mechanisms that will enable Madalena shareholders to maximize the full potential of the international exploration successes the Company has experienced to date in Argentina and Tunisia.

QUARTERLY FINANCIAL INFORMATION

As at and for the three months ended	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Financial				
Interest income	$ 643	$ 1,350	$ 7,165	$ 41,349
Funds from operations(1)	(731,670)	(473,078)	(733,577)	(403,232)
Funds from operations per common share(1)	(0.007)	(0.004)	(0.007)	(0.004)
Cash flow from operations	(902,401)	(474,829)	(760,051)	(501,740)
Cash flow from operations per common share(1)	(0.008)	(0.004)	(0.007)	(0.004)
Cash flow from discontinued operations	575,399	5,923	53,802	137,536
Cash flow from discontinued operations per common share(1)	0.005	-	-	0.001
Net loss and other comprehensive loss	(692,859)	(2,075,920)	(872,861)	(869,238)
Net loss and other comprehensive loss per common share(1)	(0.006)	(0.019)	(0.074)	(0.008)
Income (loss) from discontinued operations	42,212	(1,434,817)	(27,368)	(829,589)
Net income (loss) from discontinued operations per common share(1)	-	(0.013)	-	(0.007)
Capital expenditures	941,235	1,806,650	2,904,713	3,335,224
Working capital	$ 335,388	$ 1,364,654	$ 3,689,766	$ 7,243,361
Shares outstanding (000's)	111,744	111,744	111,744	111,744

As at and for the three months ended	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Financial				
Interest income	$ 61,313	$ 70,188	$ 91,628	$ 128,382
Funds from operations(1)	(371,579)	(396,832)	(380,446)	(122,666)
Funds from operations per common share(1)	(0.003)	(0.004)	(0.004)	(0.001)
Cash flow from operations	(343,152)	(423,683)	(90,326)	(176,411)
Cash flow from operations per common share(1)	(0.003)	(0.004)	(0.001)	(0.002)
Cash flow from discontinued operations	184,389	79,181	(25,073)	135,215
Cash flow from discontinued operations per common share(1)	0.002	0.001	-	0.001
Net loss and other comprehensive loss	(246,875)	(528,911)	(188,767)	(3,624,807)
Net loss and other comprehensive loss per common share(1)	(0.002)	(0.005)	(0.002)	(0.004)
Income (loss) from discontinued operations	31,304	31,590	572	(3,194,571)
Net income (loss) from discontinued operations per common share(1)	-	-	-	(0.030)
Capital expenditures	2,607,546	424,618	2,058,566	2,079,747
Working capital	$ 10,373,391	$ 12,978,586	$ 11,232,647	$ 13,236,239
Shares outstanding (000's)	111,744	111,744	107,369	107,369

Interim Consolidated Financial Statements of

MADALENA VENTURES INC.

As at and for the three and nine months ended September 30, 2009
(unaudited)

MADALENA VENTURES INC.

Consolidated Balance Sheets (unaudited)

As at	September 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 1,325,999	$ 7,861,868
Accounts receivable	463,834	235,274
Prepaid expenses	64,162	90,814
	1,853,995	8,187,956
Property and equipment related to discontinued operations (note 6)	-	2,195,519
Property and equipment (note 5)	19,209,615	13,491,472
	$ 21,063,610	$ 23,874,947
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,518,607	$ 944,595
Asset retirement obligations related to discontinued operations (note 6)	-	100,088
Asset retirement obligations (note 7)	349,544	256,290
	1,868,151	1,300,973
Shareholders' equity		
Share capital and warrants (note 8)	31,491,768	31,491,768
Contributed surplus (note 8)	6,972,376	6,709,251
Deficit	(19,268,685)	(15,627,045)
	19,195,459	22,573,974
	$ 21,063,610	$ 23,874,947

See accompanying notes to the interim consolidated financial statements.

Commitments (note 11)
Subsequent events (note 13)
Future operations (note 1)

MADALENA VENTURES INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenue				
Interest income	$ 643	$ 61,313	$ 9,158	$ 223,129
Foreign exchange gain/(loss)	(180,186)	294,923	(537,878)	650,003
	(179,543)	356,236	(528,720)	873,132
Expenses				
General and administrative	504,043	469,880	1,420,602	1,408,974
Stock-based compensation	41,309	158,983	237,083	475,519
Depreciation and accretion	10,176	5,552	35,262	16,658
	555,528	634,415	1,692,947	1,901,151
Loss from continuing operations	(735,071)	(278,179)	(2,221,667)	(1,028,019)
Income (loss) from discontinued operations (note 6)	42,212	31,304	(1,419,973)	63,466
Net loss and other comprehensive loss	(692,859)	(246,875)	(3,641,640)	(964,553)
Deficit - beginning of the period	(18,575,826)	(14,510,932)	(15,627,045)	(13,793,254)
Deficit - end of the period	$ (19,268,685)	$(14,757,807)	$ (19,268,685)	$ (14,757,807)
Net loss and other comprehensive loss per common share - basic and diluted	$ (0.006)	$ (0.002)	$ (0.033)	$ (0.009)
Net income (loss) from discontinued operations per common share - basic and diluted	$ -	$ -	$ (0.013)	$ 0.001
Weighted average number of shares: Basic and diluted	111,743,702	111,743,702	111,743,702	110,226,821

See accompanying notes to the interim consolidated financial statements.

MADALENA VENTURES INC.

Consolidated Statements of Cash Flows (unaudited)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Cash provided by (used in):				
Operating activities				
Loss from continuing operations	$ (735,071)	$ (278,179)	$ (2,221,667)	$ (1,028,019)
Items not involving cash				
Stock-based compensation	41,309	158,983	237,083	475,519
Depreciation and accretion	10,176	5,552	35,262	16,658
Unrealized foreign exchange	(48,084)	(257,935)	10,997	(613,015)
	(731,670)	(371,579)	(1,938,325)	(1,148,857)
Change in non-cash working capital items (note 10)	(170,731)	28,427	(198,956)	291,696
	(902,401)	(343,152)	(2,137,281)	(857,161)
Discontinued operations				
Income (loss) from discontinued operations (note 6)	42,212	31,304	(1,419,973)	63,466
Items not involving cash				
Depletion included in discontinued operations	13,000	85,000	1,576,147	268,000
Gain on sale of property and equipment (note 6)	(27,708)	-	(27,708)	-
Non cash adjustments to purchase price (note 6)	27,504	-	27,504	-
Abandonment costs	-	(310)	(2,570)	(17,741)
Additions to discontinued property and equipment	-	1,228	(21,628)	(32,202)
Proceeds on sale of property and equipment (note 6)	554,000	-	554,000	-
Change in non-cash working capital (note 10)	(33,609)	67,167	(50,648)	(43,025)
	575,399	184,389	635,124	238,498
Financing activities				
Issue of common shares	-	-	-	2,450,000
Investing activities				
Additions to property and equipment	(941,235)	(2,608,774)	(5,630,971)	(5,058,529)
Change in non-cash working capital items (note 10)	677,186	1,319,230	745,480	1,257,382
	(264,049)	(1,289,544)	(4,885,491)	(3,801,147)
Change in cash and cash equivalents	(591,051)	(1,448,307)	(6,387,648)	(1,969,810)
Cash and cash equivalents, beginning of the period	1,942,676	12,916,049	7,861,868	13,082,472
Impact of foreign exchange on cash balances	(25,626)	257,935	(148,221)	613,015
Cash and cash equivalents, end of the period	$ 1,325,999	$ 11,725,677	$ 1,325,999	$ 11,725,677

See accompanying notes to the interim consolidated financial statements.

1. Nature of business and basis of presentation

Madalena Ventures Inc. ("Madalena" or the "Company") was 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 Tunisia and Argentina. The Alberta operations were disposed of this quarter. These interim consolidated financial statements include the accounts of Madalena Ventures Inc. and its wholly owned subsidiaries Madalena Ventures International Holding Company Inc., Madalena Ventures International Inc., and Madalena Astral SA. All inter-company transactions and balances have been eliminated.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2008 except as described in note 2. These notes do not include all disclosures required in annual financial statements and are incremental to, and should be read in conjunction with, the audited financial statements and notes for the year ended December 31, 2008.

Future operations

These interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. Madalena's current financial situation creates doubt with respect to its ability to continue as a going concern. Presently the Company has no significant production revenue, limited working capital, incurred negative cash flows from operations, and has recognized recurring losses.

If the company is not able to realize its assets and discharge its liabilities and commitments in the normal course of operations, these interim consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

Continuing operations, the recovery of petroleum property costs and the ability to continue as a going concern is dependent on the Company's ability to access sufficient funds to continue operations, identify commercial reserves, generate profitable operations and complete development activities. The Company intends to explore the availability of obtaining additional funding by pursuing any and all of the strategies outlined in the capital management section of Note 4 the outcome of which can not be predicted with certainty at this time.

During the third quarter the Company continued to seek solutions to its working capital issue and was successful in selling its entire Canadian oil and gas division for net proceeds of $554,000. Subsequent to the quarter end the Company announced that it had signed a letter of acceptance outlining the terms of a multi-well drilling program ("Farmout") on its Coiron Amargo block in the Neuquen Province of Argentina which will allow the Company to develop the property without any outlay of expenditures and still benefit from future production from the property (see note 13).

2. Changes in significant accounting policies

Goodwill and intangible assets

Effective January 1, 2009, the Company adopted a new Canadian accounting standard for "*Goodwill and Intangible Assets*". The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets, particularly with respect to internally developed intangible assets. The adoption of this standard has not had any impact on the Company's consolidated financial statements.

3. Recent accounting pronouncements

Business combinations, Non-controlling interests, Consolidated financial statements

Effective January 1, 2011 the Company will be required to adopt the new Canadian accounting standards for "*Business Combinations*", "*Non-controlling Interests*" and "*Consolidated Financial Statements*". All three standards were issued in contemplation of convergence with International Financial Reporting Standards ("IFRS") as discussed below. The new standards address accounting for business combinations, both at the time of acquisition and subsequent to the initial purchase accounting, and includes guidance on accounting for non-controlling interests and subsequent preparation of consolidated financial statements. The Company has no transactions that are affected by these new standards. Early adoption of the standards is allowed and will be considered if and when applicable transactions arise.

IFRS

In February 2008, the CICA Accounting Standards Board confirmed that IFRS will become Canadian GAAP effective January 1, 2011 for profit-oriented Canadian publicly accountable enterprises. The adoption of IFRS will have a significant impact on the financial results and disclosures of the Company; however, that impact cannot be reasonably estimated at this time. Madalena has developed a specific implementation plan which will include assessment and quantification of anticipated impacts.

4. 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 and working capital. Changes to the relative weighting of the capital structure is driven by the Company's 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
- Farm-out existing exploration opportunities
- Sell assets
- Merge with other exploration Company's

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. Since the Company is primarily in the exploration phase as a result of its Tunisia and Argentina pre-production activities, 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 current global economic conditions, including lower interest rates, the fluctuating Canadian dollar, lower commodity prices and the limited access to external debt and equity financing markets has required Madalena to refocus its capital management policies and processes in 2009. The Company's capital management is now focused on conserving cash balances, looking for additional capital reserves, and focusing on high impact, low capital cost exploration and development programs.

Credit risk

The Company is exposed to credit risk in relation to its cash and cash equivalents and accounts receivable.

Cash and cash equivalents are held with highly rated international banks and are considered to have negligible credit risk.

The Company's accounts receivable are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Company's accounts receivable include amounts due from its Canadian and Argentine operators which are subject to normal industry credit risk. The carrying amounts of accounts receivable represents the Company's maximum credit exposure. The Company does not record an allowance for doubtful accounts and has not written off any accounts receivable in the three and nine months ended September 30, 2009 or 2008. At September 30, 2009 the Company had accounts receivable that are greater than ninety days which are completely offset by accounts payable with the same party.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages liquidity risk by monitoring capital structure and through annual budgeting of its revenues, expenditures, and cash flow. As of September 30, 2009, the Company has a working capital surplus of $335,388 (including cash of $1,325,999) which may not be sufficient to meet current cash flow requirements. Management is looking to increase capital reserves of the Company by pursuing the strategies described in the "Capital management" paragraph above.

Market risk

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net earnings and in the fair value of its financial assets and liabilities.

Commodity price risk

Price fluctuations for both crude oil and natural gas are determined by world and North American supply and demand factors. The Company has no influence over the pricing of oil and natural gas and has not attempted to mitigate commodity price risk through the use of financial derivatives.

Interest rate risk

The Company is exposed to interest rate fluctuations on its investments of excess cash in short term discount notes issued by international banks.

Foreign currency exchange rate risk

A substantial portion of the Company's exploration and development activities are conducted in foreign jurisdictions and a portion of the Company's cash and cash equivalents are denominated in US dollars (USD) and Argentine Pesos (ARS). Consequently, the Company is exposed to foreign currency exchange risk on a substantial portion of its financial assets. The Company has not entered into derivative exchange rate contracts to mitigate this risk.

Sensitivity analysis

The following table presents an estimate of the impact on net loss and other comprehensive loss of each of the market risk factors discussed above and is calculated based on the noted change in the market factor applied to the results for the nine months ended September 30, 2009 or the balance at September 30, 2009.

Market risk	Change in market factor (+/-)	Impact on net loss ($+/-)
Commodity prices - effect of change in market factor for:		
Crude oil and liquids produced in the period	$10/bbl	$ 6,000
Natural gas produced in the period	$0.50/mcf	3,000
Foreign exchange - effect of change in market factor for:		
USD denominated financial assets and liabilities	3%	32,000
ARS denominated financial assets and liabilities	3%	71,000

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, the carrying values of which approximate their fair values at September 30, 2009 due to their short-term nature. The Company has no bank indebtedness.

Cash and cash equivalents, including amounts invested in discount notes, are categorized as held-for-trading financial assets and are measured at fair value with any change in fair value recognized in net loss during the period. Accounts receivable are categorized as loans and receivables and accounts payable and accrued liabilities are categorized as other financial liabilities; all of which are recorded at amortized cost. Periodically, the Company invests excess cash in discount notes issued by Canadian chartered banks. The fair value of the discount notes is based on trading prices issued by the chartered banks. The difference between fair value and cost of the notes is recorded as interest income. At September 30, 2009, the Company did not hold any discount notes.

The following table provides information on the foreign currency denominated financial instruments held by the Company at September 30, 2009:

	Balance denominated in		Total CAD
	USD	ARS	equivalent
Cash and cash equivalents	31,544	697,509	228,170
Accounts receivable	117,175	997,009	403,325
Accounts payable and accrued liabilities	854,557	1,557,160	1,348,626

5. Property and equipment

As at September 30, 2009	Cost	Accumulated depletion and depreciation	Net book value
Argentina pre-production costs	$ 12,902,466	-	$ 12,902,466
Tunisia pre-production costs	6,277,620	-	6,277,620
Furniture and fixtures	117,406	(87,877)	29,529
	$ 19,297,492	$ (87,877)	$ 19,209,615

As at December 31, 2008	Cost	Accumulated depletion and depreciation	Net book value
Argentina pre-production costs	7,798,917	-	7,798,917
Tunisia pre-production costs	5,645,649	-	5,645,649
Furniture and fixtures	114,213	(67,307)	46,906
	$ 13,558,779	$ (67,307)	$ 13,491,472

At September 30, 2009 the cost centers for Argentina and Tunisia were considered to be in the pre-production stage and all costs directly attributable to these centers were capitalized and excluded from costs subject to depletion and depreciation. The amounts capitalized in the Argentina cost center at September 30, 2009 include $1,417,759 of Value Added Tax ("VAT") (December 31, 2008 - $865,143). 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 charge and retain VAT on any oil and gas revenue to the extent of the VAT recorded and paid on previous expenditures.

Revenues and operating expenses realized from the testing of wells in the pre-production stage cost centers is recorded in the full cost pool. During the nine months ended September 30, 2009, there was $123,928 of net operating costs charged to Argentina pre-production costs and $125,459 of net operating revenue credited to Tunisia pre-production costs. For the year ended December 31, 2008 there was $142,867 of net operating revenue credited to Argentina pre-production costs.

General and administrative expenses and stock-based compensation totaling $261,412 and $26,042, respectively, directly related to exploration and development activities were capitalized in the nine months ended September 30, 2009 (2008 – $221,394 and $82,317 respectively).

6. Discontinued operations

On August 27, 2009, the Company completed the sale of all of its Canadian petroleum and natural gas properties for cash proceeds of $554,000 prior to closing adjustments. The sale resulted in the Company's depletion rate changing by more than 20%, and a disposal of the Company's entire Canadian cost center, therefore Madalena has recorded a gain on sale of the Canadian properties, has reclassified the property and equipment and asset retirement obligations associated with the Canadian properties as separate assets and liabilities on the balance sheet, and has reclassified the net income (loss) from discontinued operations as a separate item on the income statement, including all comparative figures.

The following table provides a summary of the income (loss) from discontinued operations for the three and nine months ended September 30, 2009 with comparative figures for the three and nine months ended September 30, 2008.

Income (loss) from discontinued operations for the	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Petroleum and natural gas revenues	$ 62,113	$ 196,260	$ 245,055	$ 647,035
Royalties	(8,666)	(42,126)	(30,437)	(184,938)
Operating costs	(25,943)	(37,830)	(86,152)	(130,631)
Depletion	(13,000)	(85,000)	(1,576,147)	(268,000)
Income (loss) from discontinued operations	14,504	31,304	(1,447,681)	63,466
Gain on sale of property and equipment	27,708	-	27,708	-
Income (loss) from discontinued operations	$ 42,212	$ 31,304	$ (1,419,973)	$ 63,466

The income from discontinued operation of $14,504 for the three months ended September 30, 2009 reflects revenues and expenses from the effective date of the agreement (July 1, 2009) to the closing date of the agreement (August 27, 2009) ("the adjustment period"). The income earned during the adjustment period ($27,504) belongs to the purchaser in accordance with the terms of the agreement and therefore results in an adjustment to the purchase price and the cash flow from the properties. The depletion calculation for Canadian petroleum and natural gas properties for the nine months ended September 30, 2009 includes future development costs of proved reserves of $441,250 (2008 - $441,250).

The following table summarizes the gain on sale of property and equipment used in discontinued operations recorded by Madalena.

Proceeds after closing adjustments	$ 581,052
Assumption of asset retirement obligations	100,656
Net book value of property and equipment related to discontinued operations	(654,000)
Gain on sale of property and equipment held for use in discontinued operations	$ 27,708

7. Asset retirement obligations

Asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At September 30, 2009 the total undiscounted amount of cash flows estimated to settle the Company's asset retirement obligations is approximately $1,105,000 USD in Argentina and $270,000 USD in Tunisia ($900,000 USD in Argentina, and $270,000 USD in Tunisia at December 31, 2008). These costs are expected to be incurred over the next 3 to 25 years in Argentina and over the next 25 years in Tunisia. A credit-adjusted risk-free rate of 8% and an inflation rate of 7.85% was used to calculate the fair value of the asset retirement obligations in Argentina, and a credit-adjusted risk-free interest rate of 8% and an inflation rate of 4% was used to calculate the fair value of the asset retirement obligation in Tunisia which are consistent with assumptions used at December 31, 2008.

A reconciliation of the total asset retirement obligations is provided below:

	Argentina	Tunisia	Total
Balance, beginning of the year	$ 208,878	$ 47,412	$ 256,290
Obligations accrued	81,700		81,700
Accretion expense	8,822	2,732	11,554
Balance, end of period	$ 299,400	$ 50,144	$ 349,544

During the three months ended September 30, 2009 the Company disposed of it Canadian oil and gas properties and the purchaser assumed all asset retirement obligations with respect to the properties in the amount of $100,656 at the time of disposition ($100,088 at December 31, 2008) which has been accounted for as a discontinued operation.

8. Share capital and warrants

Authorized

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

Issued and outstanding

The following table provides a summary of the issued and outstanding common shares and warrant activity for the nine months ended September 30, 2009:

	Common shares		Warrants			
	Number	Amount ($)	Number	Weighted average exercise price ($)	Amount ($)	Share capital & warrants ($)
At December 31, 2007	107,368,699	29,041,768	12,577,625	0.90	2,900,000	31,941,768
Private placement	4,375,003	2,450,000	-		-	2,450,000
Warrants expired	-	-	(12,577,625)	(0.90)	(2,900,000)	(2,900,000)
At December 31, 2008 and September 30, 2009	111,743,702	31,491,768	-	-	-	31,491,768

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, with no associated issue costs.

On May 2, 2008 all outstanding warrants expired.

Stock options

Under the Company's stock option plan, directors, officers, employees and consultants are eligible to receive options to acquire common stock. The exercise price of each stock option is the average market price of the Company's stock for the five trading days prior to the grant date. Total options granted cannot exceed 10% of the issued and outstanding common shares of the Company.

Options granted to directors vest immediately. Options granted to officers, employees, and consultants vest equally over three years on each anniversary of the grant date. All options expire five years from the grant date.

The following table presents the Company's stock option activity:

As at and for the period ended	September 30, 2009		December 31, 2008	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding - beginning of the period	11,155,000	0.57	10,150,000	0.62
Granted	300,000	0.125	1,055,000	0.105
Exercised	-	-	-	-
Forfeited	(1,050,000)	(0.61)	(50,000)	0.85
Outstanding - end of the period	10,405,000	0.55	11,155,000	0.57
Exercisable - end of the period	8,801,667	0.58	7,608,333	0.58

On May 15, 2009, 525,000 fully vested stock options were forfeited by a former director of the Company and on August 30, 2009 an additional 525,000 fully vested stock options were forfeited by another former director of the Company. On May 25, 2009, 300,000 stock options were granted to a new director of the Company at $0.125 cents per share.

The following table presents the estimated remaining life of outstanding stock options and the number of shares that may be issued at September 30, 2009:

	Outstanding		
Exercise Price	Number of options	Weighted average remaining life (years)	Number of options exercisable
$ 0.105	975,000	4.16	75,000
$ 0.120	1,000,000	1.01	1,000,000
$ 0.125	300,000	4.65	300,000
$ 0.410	330,000	1.44	310,000
$ 0.600	1,450,000	2.72	1,166,667
$ 0.660	4,300,000	1.40	4,300,000
$ 0.700	100,000	3.05	33,333
$ 0.730	800,000	1.47	800,000
$ 0.850	1,150,000	2.04	816,667
	10,405,000	1.99	8,801,667

Stock-based compensation and contributed surplus

The Company calculates stock-based compensation using the fair value method and estimates the fair value of each stock option granted using the Black-Scholes option pricing model. The fair value is estimated at the grant date for options issued to directors, officers and employees, and at the measurement date for options issued to consultants. The estimated fair value is expensed on a straight-line basis over the vesting term of the options. The underlying weighted average assumptions used in calculating stock-based compensation are summarized in the following table:

	September 30, 2009	December 31, 2008
Risk free interest rate percentage	2.65	3.37
Expected life in years	4.03	3.59
Expected volatility percentage	125.00	79.60
Expected dividend yield percentage	-	-

The grant date weighted average fair value of stock options granted during the nine months ended September 30, 2009 was $0.11 per option compared to $0.24 per option for options granted in the nine months ended September 30, 2008.

The following table presents the Company's stock-based compensation and continuity of contributed surplus:

As at and for the period ended	September 30, 2009	December 31, 2008
Balance - beginning of the period	$ 6,709,251	$ 3,071,925
Stock-based compensation expensed	237,083	648,956
Stock-based compensation capitalized	26,042	88,370
Balance transferred on expiration of warrants	-	2,900,000
Exercise of stock options	-	-
Balance - end of the period	$ 6,972,376	$ 6,709,251

9. Segmented information

The Company has determined its three geographic operating segments to be Tunisia Argentina, and the Corporate head office. Financial information pertaining to these operating segments is presented in the following tables. The information for the Corporate head office does not include any information with respect to discontinued operations related to the Canadian petroleum and natural gas properties sold during the three months ended September 30, 2009. Information on discontinued operations is provided in note 6.

	2009							
Three months ended September 30,	Argentina	Tunisia	Corporate	Total	Argentina	Tunisia	Corporate	Total
Gross revenue, including interest	$ -	$ 9	$ 634	$ 643	$ -	$ 71	$ 61,242	$ 61,313
Loss from continuing operations	$ (416,342)	$ 35,056	$ (353,785)	$ (735,071)	$ (6,069)	$ (24,612)	$ (247,498)	$ (278,179)

	2009							
Nine months ended September 30,	Argentina	Tunisia	Corporate	Total	Argentina	Tunisia	Corporate	Total
Gross revenue, including interest	$ -	$ 15	$ 9,143	$ 9,158	$ -	$ 71	$ 223,058	$ 223,129
Loss from continuing operations	$ (922,052)	$ (42,320)	$ (1,257,295)	$ (2,221,667)	$ (76,793)	$ (36,282)	$ (914,944)	$ (1,028,019)

	September 30, 2009							
As at and for the periods ended	Argentina	Tunisia	Corporate	Total	Argentina	Tunisia	Corporate	Total
Property and equipment, net	$ 12,902,466	$ 6,277,620	$ 29,529	$ 19,209,615	$ 7,798,917	$ 5,645,649	$ 46,906	$ 13,491,472
Property and equipment expenditures	4,995,807	631,971	3,193	5,630,971	5,053,741	3,205,116	141	8,258,998
Total assets	$ 13,402,343	$ 6,424,451	$ 1,236,816	$ 21,063,610	$ 8,771,874	$ 5,671,606	$ 7,235,948	$ 21,679,428

10. Supplemental cash flow information

Changes in non-cash working capital items are comprised of the following:

Change in non cash working capital items

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Accounts receivable	$ (256,861)	$ (150,651)	$ (228,560)	$ (128,220)
Prepaid expenses	126,920	1,562	26,652	(16,693)
Accounts payable and accrued liabilities	542,530	1,563,913	574,012	1,650,966
Foreign exchange	60,257	-	123,772	-
Change in non-cash working capital	$ 472,846	$ 1,414,824	$ 495,876	$ 1,506,053
Attributable to:				
Operating activities	$ (170,731)	$ 28,427	$ (198,956)	$ 291,696
Discontinued operations	(33,609)	67,167	(50,648)	(43,025)
Investing activities	677,186	1,319,230	745,480	1,257,382
	$ 472,846	$ 1,414,824	$ 495,876	$ 1,506,053

11. Commitments

The Company entered into a lease agreement for its Calgary office premises which expires June 15, 2011. The minimum lease rentals including estimated operating costs at September 30, 2009 are as follows:

2009	$ 33,000
2010	129,000
2011	59,000
Total	$ 221,000

The Company has entered into a lease for office space in Argentina which expires in May of 2011. The minimum lease rentals, excluding operating costs, at September 30, 2009 are as follows:

	USD
2009	$ 7,000
2010	27,000
2011	11,000
Total	$ 45,000

The Company also has two leases for rental accommodations in Argentina which expire in October 2009 and December 2009. The minimum lease rentals payable under the leases at September 30, 2009 is $2,000 US.

On acquisition of the Argentine exploration properties the Company and its joint venture partners agreed to work programs with the Province of Neuquen in Argentina. The work programs required that specific activities (such as seismic exploration, seismic interpretation and drilling of exploration wells) be completed, and that the Company and its partners spend specific amounts on each of these activities. The total of each of the specific activities amounted to $10,500,000 US (Madalena's share was $8,722,222 US) and had to be spent by November of 2010. The November 2010 date can be extended by one year upon application by the Company and its partners.

In August of 2009 the Company, its joint venture partners, and the Province of Neuquen agreed to amendments to the work programs. The work programs no longer require specific amounts for each of the activities, rather the work programs only require that a total of $10,500,000 US be spent. At September 30, 2009 the Company estimates that its share of the remaining amount to be spent to satisfy the total dollar value of the work program is $840,000 US which will be exceeded if further seismic or drilling expenditures on Curamhuele and Cortadera are undertaken by the Company. At Cortadera and Curamhuele, if one well is not drilled on each block by November of 2010, or if an application to extend the deadline is accepted and the wells are not drilled by November of 2011 the Company could forfeit its right to the non-producing portions of the Cortadera and Curamhuele exploration blocks.

12. Related party transactions

In January of 2009 a partner in a law firm which the Company uses to provide legal services became a Director. During the period ending September 30, 2009 the Company expended approximately $47,000 on services provided by the law firm.

13. Subsequent event

On November 12, 2009 the Company announced that it had signed a letter of acceptance outlining the terms of a multi-well drilling program ("Farmout") on its Coiron Amargo block in the Neuquen Province of Argentina. The farmout provides that the farmee will drill a minimum of two exploration wells on the Block to earn 25% (net 17.5%) of Madalena's current 70% net working interest and has the option to drill two additional wells to earn an additional 25% (net 17.5%) of Madalena's current 70% net working interest. The Farmout is subject to completion of standard legal and environmental due diligence procedures, governmental approval, and the execution of a mutually acceptable definitive farmout agreement.

DIRECTORS

Raymond G. Smith
Chairman,
Madalena Ventures Inc.

Kenneth L. Broadhurst
President and Chief Executive Officer,
Madalena Ventures Inc.

Dwayne H. Warkentin
Sr. Vice President and Chief Operating Officer,
Madalena Ventures Inc.

Ving Y. Woo
Independent Businessman

Michael J. Lock
President,
Upsilon Holdings Ltd.

Jay P. Reid
Partner, Burnet, Duckworth & Palmer LLP

OFFICERS

Kenneth L. Broadhurst
President and Chief Executive Officer

Dwayne H. Warkentin
Senior Vice President and Chief Operating Officer

Gregory J. Ford
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

BMO Bank of Montreal

AUDITORS

KPMG LLP
Calgary, Alberta

INDEPENDENT ENGINEERS

Paddock Lindstrom & Associates 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"