Madalena Ventures Inc.

Quarterly Report

For the Three and Nine Months Ended September 30, 2010
(unaudited)

President's Message

Madalena was very active in the third quarter with significant progress made on all of our blocks in the period carrying into the fourth quarter. After having entered into a farmout agreement for the Coiron Amargo block at the end of last year, the first two wells of a two stage, multi-well drilling program were completed in the quarter. Both the CAN X-3 and CAN X-1 exploratory wells drilled in August and September 2010 encountered on logs gross hydrocarbon columns in excess of 65 feet and 110 feet in the Sierras Blancas and Vaca Muerta formations, respectively.

To date our testing program has focused on the Sierras Blancas formation which is a prolific oil producer in this part of the Neuquen Basin. At CAN X-1, two intervals totaling 26 feet were perforated in the Sierras Blancas formation. After fracture stimulation, the well tested over a 22 hour period at flow rates of between 660 – 1,620 bopd of 40 degree API light crude oil with 1,170-1,350 mcfd of gas at flow pressures between 445 – 1,000 psi wellhead pressure yielding total flow test rates of 850 – 1,851 boepd. The Company intends to place the CAN X-1 well on production and apply information gathered from the CAN X-1 test to the completion and continued testing of the CAN X-3 exploration well. At present, at CAN X-3 only the bottom 23 feet of a 75 foot hydrocarbon column in the Sierras Blancas formation has been perforated. The joint venture is currently evaluating various testing options for this well, including perforating the remaining two upper intervals and fracture stimulating the well. In 2011 Madalena will also seek to test, in conjunction with its joint venture partners, an emerging potential oil resource play in this area within the Vaca Muerta shale formation.

Under the terms of the farm-out, the Company has been carried on all of the drilling and testing costs associated with the two wells. APCO will have 60 days from completing testing of the two wells to elect to enter into the second stage of the farm-out, where again the Company will be carried on the cost of drilling and testing up to two additional wells. While we are only in the early stage of exploring the full potential of the block, the block is close to existing infrastructure and an excellent candidate for rapid appraisal and development.

On the Curamhuele Block, drilling of the Curamhuele X-1001 exploration well (truncation play) is progressing. Drilling progress has been somewhat slower than anticipated and will be factored into planning for subsequent wells on the block. The well is planned to be drilled to a depth of approximately 8,850 feet in order to penetrate the Lower Troncoso and Avile formations. Site preparation work for the foothills thrust fault play is also underway. Approved environmental impact assessments have been received and drilling of the Yapai X-2 exploratory well is expected to begin in late fourth quarter 2010 or early first quarter 2011.

On the Cortadera Block, Madalena is very pleased to have entered into a farm-out agreement with Apache Energia Argentina S.R.L.. Under the terms of the agreement, Madalena is to be fully carried on the cost of a relatively deep exploration well on the block expected to be drilled in the first quarter of 2011. Significant interest is building within the industry with respect to shale and tight gas potential in the Neuquen Basin. We look forward to bringing you further updates on our plans to drill this exciting prospect.

The remainder of 2010 and 2011 will be an exciting period for Madalena as it further progresses its prospects. With the completion of a $26.5 million equity financing in November 2010 and the exercise of a significant portion of the outstanding warrants that expire on December 30, 2010, the Company has addressed its immediate funding requirements and is well positioned to achieve its goal of building shareholder value through the drill bit.

Dwayne Warkentin
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"), as at and for the three and nine months ended September 30, 2010 and 2009. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2009 and 2008 and the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2010. 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 19, 2010. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

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

Forward-looking Statements

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

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

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

Non-GAAP Measurements

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Cash flow used in operating activities	$ (440,037)	$ (858,694)	$ (1,983,934)	$ (2,117,533)
Change in non-cash working capital	(41,377)	163,149	(5,067)	198,956
Funds used in operations	$ (481,414)	$ (695,545)	$ (1,989,001)	$ (1,918,577)

HIGHLIGHTS

Highlights in the nine months ended September 30, 2010 include:

- Sale of Tunisian assets to focus on core, high interest projects in Argentina;
- Extension of exploration period on all three Argentina exploration blocks;
- Completed the drilling of two successful exploration wells on the Coiron Amargo block;
- Commenced the drilling of a potential high impact exploration prospect (truncation play) on the Curamhuele Block (fourth quarter);
- Significant farm-out of the Cortadera Block to Apache Energia Argentina S.R.L (fourth quarter); and
- Completion of $26.5 million bought deal equity financing in November 2010.

OVERVIEW

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

The Company is active across all of its core high working interest projects in the Neuquén Basin of Argentina. In November 2010, the Company completed a public offering of 40,775,000 common shares at an issue price of $0.65 per share for gross proceeds to Madalena of $26,503,750. Proceeds from this offering will provide the Company with the resources needed to confidently move forward on each of its properties.

Coiron Amargo Block

In August 2010, the Company drilled the CAN X-3 exploratory well on the Coiron Amargo Block. To date the bottom 23 feet of a 75 foot hydrocarbon column in the Sierras Blancas formation has been perforated. This interval tested at flow rates of between 100-160 bbl/d with a 70% water cut and 650-890 mcfpd with flow pressures between 200-640 psi wellhead pressure on various choke sizes ranging from 1/4" to 5/8" for a total flow test of 200-300 boepd of hydrocarbons from the original perforations. A cement squeeze operation was subsequently carried out to isolate a lower water zone that appeared to be in contact with the perforated interval. Subsequent testing indicates that the lower water zone is still in partial communication with the perforated interval averaging 190 boepd with a 20% water cut on clean-up.

In September 2010, the Company drilled and cased the CAN X-1 exploratory well as a potential oil discovery. The well, situated on a defined 3D anomaly midway between the CAN X-3 well and the CAN X-2 discovery well, encountered several zones with hydrocarbon potential. Based on electric logs, the Sierras Blancas formation encountered a gross hydrocarbon column of approximately 65 feet. The Vaca Muerta formation had a gross hydrocarbon column similar to that encountered at CAN X-3 of approximately 110 feet. During testing, two intervals totaling 26 feet were perforated in the Sierras Blancas formation. After fracture stimulation, the well tested over a 22 hour period at flow rates of between 660 – 1,620 bopd of 40 degree API light crude oil with 1,170-1,350 mcfd of gas at flow pressures between 445 – 1,000 psi wellhead pressure yielding total flow test rates of 850 – 1,851 boepd. The Company intends to place the CAN X-1 well on production and apply information gathered from the CAN X-1 test to the completion and continued testing of the CAN X-3 exploration well.

Curamhuele Block

On the Curamhuele Block, the Curamhuele X-1001 exploratory well (truncation play) is currently being cased to 4,000 feet. The well is planned to be drilled to a depth of approximately 8,850 feet in order to penetrate the Lower Troncoso and Avile formations. Drilling is expected to be completed in December 2010. In October 2010 the Company agreed to acquire, subject to government approval, an additional 20% working interest in the Curamhuele Block from its partner in the block. Upon completion of the current drilling program, Madalena will hold a 90% working interest in the block and will become the operator of the block.

Also on the Curamhuele Block, site preparation work is currently underway on the Yapai X-2 well location (foothills thrust fault play). The thrust fault play is a potential high impact exploration prospect identified on 3D seismic as a possible extension of the Avile, Troncoso and Mulichinco formations from the offsetting Filo Morado Block. All necessary environmental impact assessments have been approved and drilling of the Yapai X-2 exploratory well is expected to begin in late fourth quarter 2010 or early first quarter 2011.

Cortadera Block

In October 2010, the Company entered into a farm-out agreement for the Cortadera Block with Apache Energia Argentina S.R.L. ("Farmee"). The terms of the farm-out provide for the Farmee to carry Madalena's exploration commitments on the block including the drilling of at least one exploration well on the block to earn a 50% working interest in the Cortadera Block. The Farmee's capital commitment under the farm-out is US$6 million. Madalena will retain a 40% working interest in the Cortadera Block. The farm-out will become effective once the parties receive final government approval of the farm-out. In anticipation of government approval, a well location has been identified and necessary environmental impact assessments are currently underway. The Company anticipates that an exploration well targeting gas in the Mulichinco and Vaca Muerta formations will be drilled in the first quarter of 2011.

Financial and Operating Results

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Financial Information				
Interest income	$ 13,487	$ 643	$ 59,352	$ 9,158
Funds used in operations (1)	(481,414)	(695,545)	(1,989,001)	(1,918,577)
Funds used in operations per share (1)	-	(0.01)	(0.01)	(0.02)
Cash flow used in operating activities	(440,037)	(858,694)	(1,983,934)	(2,117,533)
Cash flow used in operating activities per share (1)	-	(0.01)	(0.01)	(0.02)
Cash flow from (used in) discontinued operations	(4,518)	1,222,133	3,525,905	1,253,985
Cash flow from (used in) discontinued operations per share (1)	-	0.01	0.02	0.01
Net loss from continuing operations	(588,443)	(735,071)	(2,269,997)	(2,221,667)
Net loss from continuing operations per share	-	(0.01)	(0.01)	(0.02)
Net loss and other comprehensive loss	(576,481)	(692,859)	(2,197,318)	(3,641,640)
Net loss and other comprehensive loss per share	-	(0.01)	(0.01)	(0.03)
Total assets	25,193,026	21,063,610	25,193,026	21,063,610
Working capital	10,994,925	335,388	10,994,925	335,388
Capital expenditures	319,319	941,236	574,393	5,652,599
Debt	-	-	-	-

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

RESULTS OF OPERATIONS

The following paragraphs provide information about the results of Madalena's on-going operations for the three and nine months ended September 30, 2010. See the paragraphs entitled "Results from Discontinued Operations" for information on Madalena's discontinued operations for the three and nine months ended September 30, 2010.

Interest income

Interest income for the three months ended September 30, 2010 totaled $13,487 compared to $643 in the third quarter of 2009. Interest income increased due to higher cash balances. Interest income for the nine months ended September 30, 2010 totaled $59,352 compared to $9,158 for the corresponding period in 2009 due to higher cash balances and interest income earned on proceeds from the sale of the Remada Sud Permit in Tunisia.

General and administrative ("G&A") expenses

G&A expenses increased slightly to $534,088 for the three months ended September 30, 2010 from $504,043 for the third quarter of 2009 primarily as a result of higher professional fees associated with business development activities. G&A expenses increased to $2,013,830 for the nine months ended September 30, 2010 compared to $1,420,602 for the corresponding period in 2009 as a result of higher annual compensation costs, bonus payments of $150,000 paid in the first quarter of 2010 (2009 - $nil), higher professional fees and increased legal and registration costs in Argentina.

A breakdown of general and administrative expenses is as follows:

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Corporate expenses:				
Compensation	$ 137,872	$ 132,557	$ 746,286	$ 405,466
Office and administration	14,975	49,192	197,323	192,788
Professional fees	152,095	72,903	339,207	198,835
Travel	21,506	52,239	127,333	144,932
	326,448	306,891	1,410,149	942,021
International expenses	207,640	197,152	603,681	478,581
	$ 534,088	$ 504,043	$ 2,013,830	$ 1,420,602

Stock-based compensation ("SBC") expense

SBC expense in the three months ended September 30, 2010 totaled $70,839 compared to $41,309 in the third quarter of 2009. SBC expense increased in the quarter due to new option grants in the first quarter of 2010 compared to the prior year when a number of employee options had become fully vested. SBC expense decreased slightly to $221,925 for the nine months ended September 30, 2010 compared to $237,083 for the corresponding period in 2009.

SBC for consultants is capitalized to property and equipment to the extent that the consultant's activities are directly related to the exploration for or development of petroleum and natural gas reserves. SBC for consultants is revalued each reporting period based on the period end price of the Company's outstanding common stock. In the three months ended September 30, 2010, the Company capitalized $6,940 compared to $9,495 in the third quarter of 2009. The Company capitalized to property and equipment $57,942 of SBC in the nine months ended September 30, 2010, compared to $26,042 for the corresponding period in 2009. The increase in capitalized SBC expense in 2010 is due to an increase in the number of options granted to consultants and in increase in stock prices used to calculate SBC for consultant's options.

At September 30, 2010, the Company has approximately $621,000 of unamortized SBC that will be charged to income over the remaining vesting period of the outstanding options.

Foreign exchange loss (gain)

The Company reported a foreign exchange gain of $15,696 in the three months ended September 30, 2010 compared to a foreign exchange loss of $180,186 in the third quarter of 2009. Foreign exchange losses decreased to $55,826 for the nine months ended September 30, 2010 compared to $537,878 for the corresponding period in 2009. The Company's operations in Argentina are subject to foreign exchange rate fluctuations for account balances denominated in US dollars and Argentine pesos. The Company had significantly greater exposure to fluctuations in the Argentina peso in the first half of 2009 due to greater capital spending in that period. Currently, the Company does not hedge its exposure to foreign currency fluctuations.

Depreciation and accretion expense

Depreciation and accretion expense for the three months ended September 30, 2010 totaled $12,699 compared to $10,176 in the third quarter of 2009. Depreciation and accretion expense increased slightly to $37,768 in the nine months ended September 30, 2010 compared to $35,262 for the corresponding period in 2009.

Net loss from continuing operations

The Company realized a net loss from continuing operations of $588,443 for the three months ended September 30, 2010, compared to a net loss from continuing operations of $735,071 in the third quarter of 2009. Net loss from continuing operations increased to $2,269,997 for the nine months ended September 30, 2010 compared to $2,221,667 for the corresponding period in 2009. Net loss from continuing operations increased due to higher general and administrative expenses partially offset by lower foreign exchange losses.

Net loss and other comprehensive loss

The Company realized a net loss of $576,481 for the three months ended September 30, 2010, compared to a net loss of $692,859 in the third quarter of 2009. Net loss decreased to $2,197,318 for the nine months ended September 30, 2010 compared to $3,641,640 for the corresponding period in 2009. Higher general and administrative expenses compared to the corresponding period in 2009 were offset by lower foreign exchange losses and higher income from discontinued operations in the periods. See “Results from Discontinued Operations”.

Funds used in operations

Funds from operations and cash flow from operating activities are negative as the Company’s activities in Argentina are in the pre-production stage at September 30, 2010 and the Company has no other source of revenue other than interest income on cash balances. Funds used in operations decreased to $481,414 for the three months ended September 30, 2010, compared to funds used in operations of $695,545 in the third quarter of 2009.

Funds used in operations increased to $1,989,001 for the nine months ended September 30, 2010 compared to funds used in operations of $1,918,577 for the corresponding period in 2009. Funds used in operations increased as a result of higher general and administrative expenses partially offset by lower foreign exchange losses.

Capital expenditures

		Three months ended September 30,		Nine months ended September 30,	
		2010	2009	2010	2009
Argentina:					
	Geological and geophysical	$ 22,685	$ 80,485	$ 176,122	$ 740,005
	Land	-	22,393	58,393	37,284
	Drilling and completion	38,906	250,025	8,539	3,569,754
	Well equipment and facilities	(360)	552	167,991	109,405
	Other	256,004	(7,913)	137,477	539,359
		317,235	345,542	548,522	4,995,807
Tunisia:					
	Geological and geophysical	-	460,832	33,282	460,832
	Drilling and completion	-	268,763	2,600	308,234
	Other	-	(137,095)	(13,460)	(137,095)
		-	592,500	22,422	631,971
Canada:					
	Other	2,084	3,193	3,449	3,193
		2,084	3,193	3,449	3,193
Total Capital Expenditures		$ 319,319	$ 941,235	$ 574,393	$ 5,630,971

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 Neuquén, 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. Since March 2009, the Company has production tested the CAN X-2 well. Commercial production status can be applied for by the Company upon completion of the test production period. As at September 30, 2010 the test production period had not been completed, and production revenues, operating costs, and royalties have been capitalized for accounting purposes and therefore excluded from production and revenue information. All production in the third quarter of 2010 was placed into storage. For the three and nine month periods ended September 30, 2010, net operating costs of $64,619 (2009 – costs of $20,511) and net operating revenue of $19,540 (2009 – costs of $123,928), respectively, was credited to Argentina pre-production costs.

In the three months ended September 30, 2010, Madalena incurred capital expenditures on petroleum and natural gas properties and office furniture and fixtures totaling $319,319 compared to $980,707 in the third quarter of 2009. Capital expenditures decreased to $551,971 for the nine months ended September 30, 2010 compared to $5,630,971 for the corresponding period in 2009. Capital expenditures were significantly higher in 2009 as a result of drilling the CAN X-2 well in Argentina. Under the terms of a previous farm-out of the Coiron Amargo Block, the Company did not incur any capital costs associated with drilling the CAN X-3 and CAN X-1 wells in the third quarter of 2010.

At September 30, 2010, $1,472,932 (at December 31, 2009 - $1,375,432) of Value Added Taxes (“VAT”) incurred on Argentina capital expenditures was included in property and equipment. The VAT is not recoverable from the Argentina Government, however the Company can retain VAT it collects on revenue produced to the extent that it has un-recovered VAT that it has previously paid.

RESULTS FROM DISCONTINUED OPERATIONS

The Company recorded income from discontinued operations of $11,962 for the three month period ended September 30, 2010 compared to income from discontinued operations of $42,212 for the third quarter of 2009. Income from discontinued operations increased to $72,679 for the nine months ended September 30, 2010 compared to a loss from discontinued operations of $1,419,973 for the corresponding period in 2009. The increase in income from discontinued operations is due to the write-down of the Company’s Canadian oil and gas properties in the second quarter of 2009.

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 Company has reclassified its comparative figures to record the net loss from discontinued operations as a separate item on the income statement.

In March 2010, the Company sold its interest in the Remada Sud Permit in Tunisia for cash consideration of US$4 million. As a result of the sale and disposal of the Company’s Tunisia cost center, the Company has reclassified the property and equipment and asset retirement obligations associated with the Tunisia property as at December 31, 2009 as separate assets and liabilities on the balance sheet. The Company recorded a write-down and reduced the carrying value of the Tunisia cost center at December 31, 2009 by $2,110,666. During the nine months ended September 30, 2010, net operating revenue of $18,660 (2009 – $125,459) was credited to Tunisia pre-production costs.

The following table provides information on the results recorded as income (loss) from discontinued operations during the three and nine months ended September 30, 2010 and 2009.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Canada:				
Petroleum and natural gas revenues	$ -	$ 62,113	$ -	$ 245,055
Royalties	10,938	(8,666)	42,322	(30,437)
Operating costs	1,024	(25,943)	(1,675)	(86,152)
Depletion	-	(13,000)	-	(1,576,147)
Gain on sale of property and equipment	-	27,708	-	27,708
	11,962	42,212	40,647	(1,419,973)
Gain on sale of Tunisia property and equipment	-	-	32,032	-
Income (loss) from discontinued operations	$ 11,962	$ 42,212	$ 72,679	$ (1,419,973)

The following table provides information on the gain on sale of property and equipment used in discontinued operations for the period ended September 30, 2010.

Cash proceeds	$ 4,084,400
Asset retirement obligations	50,968
Net book value of property and equipment related to discontinued operations	(4,103,336)
Gain on sale of Tunisia property and equipment	$ 32,032

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 cash reserves, but the cash generated from interest income is not sufficient to cover operating costs and other overhead.

At September 30, 2010 Madalena had working capital of $10,994,925 compared to $8,871,993 at December 31, 2009. Working capital increased as a result of the sale in March 2010 of the Company's interest in the Remada Sud Permit in Tunisia and the exercise of warrants in the period.

The Company had negative funds from operations in the three and nine month periods ended September 30, 2010 totaling $481,414 (2009 – $695,545) and $1,989,001 (2009 – $1,918,577), respectively. Negative funds from operations increased in 2010 as a result of higher general and administrative expenses partially offset by lower foreign exchange losses.

In November 2010, the Company issued 40,775,000 common shares at an issue price of $0.65 per common share for gross proceeds to Madalena of $26,503,750. From October 1, 2010 to November 19, 2010, the Company issued 22,850,650 common shares on the exercise of warrants and 1,215,557 common shares on the exercise of agents' warrants. Historically, the Company has raised funds from equity financings to fund its exploration and development activities and operating cash flow requirements. The Company's ability to continue operations is dependent on 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, 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 month periods ended September 30, 2010, the Company incurred fees of approximately $15,000 (2009 - $25,000) and $47,000 (2009 - $47,000), respectively, payable to a law firm in which a director of the Company is a partner.

SHARE INFORMATION

At September 30, 2010, the Company had 181,390,246 common shares, 31,917,000 warrants, 1,903,639 agents' warrants and 13,063,333 stock options outstanding. On November 19, 2010, the Company had 247,231,453 common shares, 9,066,350 warrants, 688,082 agents' warrants and 10,630,000 stock options outstanding.

BUSINESS RISKS AND UNCERTAINTIES

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

- Global 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 Company will seek to minimize these business risks by:

- Employing management, technical staff and consultants with extensive industry experience;
- Maintaining a low cost structure;
- Maintaining prudent financial practices;
- Controlling timing and magnitude of operating and capital costs; 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.

<u>Foreign operations</u>

Following the sale of the Company's Canadian oil and gas assets in 2009 and Tunisian assets in March 2010, the Company's only significant remaining investment is in Argentina. A number of risks are associated with conducting foreign operations over which the Company has no control, including currency instability, potential and actual civil disturbances, restriction of funds movement outside of these countries, the ability of joint venture partners to fund their obligations, changes of laws affecting foreign ownership and existing contracts, crude oil and natural gas price and production regulation, royalty rates, potential expropriation of property without fair compensation, retroactive tax changes and possible interruption of oil deliveries.

Market uncertainty

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 companies 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. In addition, uncertain levels of near term industry activity and uncertain global markets may impair the Company's ability to access capital. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

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

CONTRACTUAL OBLIGATIONS

The Company has lease commitments for office space and rental accommodations in Canada and Argentina. The total estimated remaining lease payments at September 30, 2010, including operating costs, are approximately $118,000.

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 a total of US$10,500,000 be spent by November 2010 of which Madalena's share was US$8,722,222. At September 30, 2010, the Company estimates that it has met its share of the amount to be spent to satisfy the total dollar value of the initial work programs.

On May 25, 2010, the Company announced that it had received an extension of the exploration period on all three of its exploration blocks in Argentina. On the Coiron Amargo and Curamhuele blocks, the Company has received extension periods totaling three years on each block commencing from the end of their initial three year exploration periods on November 9, 2010. The first extension period is a one year continuation to the existing exploration period to be followed by a new two year exploration period. There will be no requirement to relinquish non-commercial or non-prospective acreage on either block until the end of the one year continuation. The subsequent new two year exploration periods for Coiron Amargo and Curamhuele will require additional gross work commitments the equivalent of US$3.1 million and US$2.0 million, respectively, which will include the drilling of at least one well on each block. These drilling commitments will be fulfilled by Madalena's current drilling programs.

On the Cortadera block, the Company has received a second three year exploration period commencing on October 26, 2010. The new three year exploration period will require an additional gross work commitment the equivalent of US$2.0 million which may be fulfilled through conducting additional seismic or the drilling of a well. The Corporation has submitted a request for a one year continuation of the first exploration period to be followed by a new two year exploration period. If government approval is received, there will be no requirement to relinquish non-commercial or non-prospective acreage on the Cortadera Block until the end of the one-year continuation.

All three exploration blocks qualify for an additional one year extension period at the end of their second exploration periods in the fourth quarter of 2013.

OUTLOOK

Recent extensions to the exploration period of all three exploration blocks in Argentina combined with proceeds from the Company's recent equity financing allows the Company to move forward with its exploration and development plans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2009 audited consolidated financial statements. Preparing financial statements in accordance with Canadian GAAP requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. There were no changes to Madalena's critical accounting estimates during the three and nine month period ended September 30, 2010.

NEW ACCOUNTING STANDARDS AND 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 new 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 ("AcSB") confirmed that IFRS will become Canadian GAAP effective January 1, 2011 for profit-oriented Canadian publicly accountable enterprises.

Madalena commenced its IFRS convergence project in 2008 and is currently executing a specific convergence plan which includes assessment and quantification of anticipated impacts, identifying and implementing associated changes to processes and information systems, updating and ensuring compliance with internal controls and educating staff and other stakeholders. The convergence plan has been designed with sufficient flexibility to adapt to changes and new developments in existing Canadian GAAP and IFRS standards.

Management has identified a number of key accounts that will be impacted by IFRS, the most significant of which is property and equipment the differences for which are as follows:

- First time adoption exemption – the International Accounting Standards Board has approved exemptions for the retrospective application of IFRS for first time adopters. Of most relevance to the Company is an exemption that allows full cost oil and gas companies to elect, at the date of transition to IFRS, to measure exploration and evaluation assets at the amount determined under Canadian GAAP and to measure oil and gas assets in the development or production phases by allocating the amount determined under Canadian GAAP to the underlying assets pro-rata using reserve volumes or reserve values as of that date. The Company plans to use this exemption.

- Re-classification of exploration and evaluation ("E&E") expenditures from property and equipment ("PP&E") on the consolidated balance sheet – this will consist of the book value of the Company's undeveloped land that relates to its Argentina properties which are currently excluded from the depletion calculation and are assessed for impairment. E&E assets will not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment.

- Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed at the cash generating unit (CGU) level as opposed to the entire PP&E balance attributed to the cost center under the full cost ceiling test. Impairment calculations will be performed at the CGU level based on discounted cash flows using either total proven or proven plus probable reserves.

- Calculation of future depletion expense for PP&E - On transition to IFRS, the Company has the option to use either proved reserves or proved plus probable reserves in the depletion calculation. The Company anticipates that it will use proved plus probable reserves in determining future depletion expense for PP&E.

- Asset retirement obligation (ARO) – The major difference between current Canadian GAAP and IFRS is the discount rate used to measure ARO. Under current Canadian GAAP, a credit adjusted risk free rate is used, whereas IFRS allows the use of a risk free rate when the estimated cash flows are risked. The Company has not yet concluded which rate method it will follow.

Other key differences identified by the Company that may impact the financial statements include stock based compensation and foreign currency translation. With respect to stock-based compensation, the Company must estimate a forfeiture rate at grant date as opposed to recognizing the impact of forfeitures when they occur. In addition, stock-based compensation will be expensed using a graded vesting schedule rather than the straight-line method utilized by the Company. At this time the Company does not anticipate the impact of the stock based compensation differences, on transition, to be material.

The Company's foreign currency translation methods and the functional currency of the Company's foreign operations must be re-evaluated – under IFRS, the functional currency emphasizes the currency that determines the pricing of the transactions that are undertaken, rather than focusing on the currency in which those transactions are denominated. At this time the Company anticipates that its Argentina subsidiary will have a functional currency change. Converting the subsidiary's financial statements into the Company's presentation currency (Canadian dollars) will result in a cumulative translation difference. The Company will elect to utilize the first time adoption exemption available in IFRS 1 and thus set the cumulative translation difference to zero at the transition balance sheet date with the difference recorded directly to retained earnings.

At this time, the impact on the Company's financial position and results of operations has not been determined for the accounting policy differences previously identified. The Company took steps in the third quarter of 2010 towards completing its implementation plan by assessing accounting policy alternatives and systems changes. The Company anticipates substantially completing calculations of opening and interim 2010 results under IFRS in the fourth quarter of 2010.

QUARTERLY FINANCIAL INFORMATION

		Interest Income		Net Loss		Net Loss Per Share
2010						
Third quarter	$	13,487	$	(576,481)	$	-
Second quarter		17,492		(733,878)		-
First quarter		28,373		(886,959)		(0.01)
Total	$	59,352	$	(2,197,318)	$	(0.01)
2009						
Fourth quarter	$	254	$	(2,721,709)	$	(0.02)
Third quarter		643		(692,859)		(0.01)
Second quarter		1,350		(2,075,920)		(0.02)
First quarter		7,165		(872,861)		(0.01)
Total	$	9,412	$	(6,363,349)	$	(0.06)
2008						
Fourth quarter	$	41,349	$	(869,238)	$	(0.01)
Third quarter		61,313		(246,875)		-
Second quarter		70,188		(528,911)		(0.01)
First quarter		91,628		(188,767)		-
Total	$	264,478	$	(1,833,791)	$	(0.02)

Interim Consolidated Financial Statements of

MADALENA VENTURES INC.

As at and for the three and nine month periods ended September 30, 2010 (unaudited)

MADALENA VENTURES INC.

Consolidated Balance Sheets (unaudited)

As at		September 30, 2010		December 31, 2009
Assets				
Current assets				
Cash and cash equivalents	$	10,923,621	$	10,131,040
Accounts receivable		224,678		187,193
Prepaid expenses		202,943		154,972
		11,351,242		10,473,205
Property and equipment (note 2)		13,841,784		13,143,782
Property and equipment related to discontinued operations (note 3)		-		4,080,914
	$	25,193,026	$	27,697,901
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	356,317	$	1,601,212
Asset retirement obligations (note 4)		430,227		304,370
Asset retirement obligations related to discontinued operations (note 3)		-		50,968
		786,544		1,956,550
Shareholders' equity				
Share capital (note 5)		39,144,335		38,345,561
Warrants (note 5)		2,174,921		2,380,678
Contributed surplus (note 6)		7,274,938		7,005,506
Deficit		(24,187,712)		(21,990,394)
		24,406,482		25,741,351
	$	25,193,026	$	27,697,901

Commitments (note 9) and Subsequent Events (note 12)

See accompanying notes to the interim consolidated financial statements

MADALENA VENTURES INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Revenue				
Interest income	$ 13,487	$ 643	$ 59,352	$ 9,158
Expenses				
General and administrative	534,088	504,043	2,013,830	1,420,602
Stock-based compensation	70,839	41,309	221,925	237,083
Foreign exchange loss (gain)	(15,696)	180,186	55,826	537,878
Depreciation and accretion	12,699	10,176	37,768	35,262
	601,930	735,714	2,329,349	2,230,825
Loss from continuing operations	(588,443)	(735,071)	(2,269,997)	(2,221,667)
Income (loss) from discontinued operations (note 3)	11,962	42,212	72,679	(1,419,973)
Net loss and other comprehensive loss	(576,481)	(692,859)	(2,197,318)	(3,641,640)
Deficit - beginning of the period	(23,611,231)	(18,575,826)	(21,990,394)	(15,627,045)
Deficit - end of the period	$ (24,187,712)	$ (19,268,685)	$ (24,187,712)	$ (19,268,685)
Weighted average number of shares:				
Basic and diluted	180,239,438	111,743,702	179,080,247	111,743,702
Loss from continuing operations per share:				
Basic and diluted	$ -	$ (0.01)	$ (0.01)	$ (0.02)
Income (loss) from discontinued operations per share:				
Basic and diluted	$ -	$ -	$ -	$ (0.01)
Net loss and other comprehensive loss per share:				
Basic and diluted	$ -	$ (0.01)	$ (0.01)	$ (0.03)

See accompanying notes to the interim consolidated financial statements

MADALENA VENTURES INC.

Consolidated Statements of Cash Flows (unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Cash provided by (used in):				
Operating activities				
Loss from continuing operations	$ (588,443)	$ (735,071)	$ (2,269,997)	$ (2,221,667)
Items not involving cash:				
Stock-based compensation	70,839	41,309	221,925	237,083
Depreciation and accretion	12,699	10,176	37,768	35,262
Foreign exchange loss (gain)	23,491	(11,959)	21,303	30,745
	(481,414)	(695,545)	(1,989,001)	(1,918,577)
Change in non-cash working capital items (note 8)	41,377	(163,149)	5,067	(198,956)
	(440,037)	(858,694)	(1,983,934)	(2,117,533)
Discontinued operations (note 3)				
Income (loss) from discontinued operations	11,962	42,212	72,679	(1,419,973)
Items not involving cash:				
Depletion included in discontinued operations	-	13,000	-	1,576,147
Foreign exchange loss (gain)	(4,926)	(19,748)	(8,614)	(19,748)
Gain on sale of property and equipment	-	(27,708)	(32,032)	(27,708)
Non-cash adjustments to purchase price	-	14,052	-	14,052
Abandonment costs	-	-	-	(2,570)
Additions to discontinued property and equipment	-	39,471	(22,422)	(21,628)
Proceeds on sale of property and equipment	-	554,000	4,084,400	554,000
Change in non-cash working capital (note 8)	(11,554)	606,854	(568,106)	601,413
	(4,518)	1,222,133	3,525,905	1,253,985
Financing activities				
Issue of common shares	399,046	-	582,582	-
Change in non-cash working capital items (note 8)	-	-	(124,014)	-
	399,046	-	458,568	-
Investing activities				
Additions to property and equipment	(319,319)	(980,707)	(551,971)	(5,630,971)
Change in non-cash working capital items (note 8)	(59,593)	26,217	(638,436)	106,871
	(378,912)	(954,490)	(1,190,407)	(5,524,100)
Change in cash and cash equivalents	(424,421)	(591,051)	810,132	(6,387,648)
Cash and cash equivalents, beginning of the period	11,361,837	1,942,676	10,131,040	7,861,868
Impact of foreign exchange on cash balances	(13,795)	(25,626)	(17,551)	(148,221)
Cash and cash equivalents, end of the period	**$ 10,923,621**	**$ 1,325,999**	**$ 10,923,621**	**$ 1,325,999**

See accompanying notes to the interim consolidated financial statements

1. Nature of business and basis of presentation

Madalena Ventures Inc. (“Madalena” or the “Company”) is incorporated pursuant to the laws of the Province of Alberta. Madalena is based in Calgary, Alberta and is involved in the exploration, development and production of petroleum and natural gas in Argentina. In August 2009 and March 2010, the Company sold its Canadian and Tunisian oil and gas assets, respectively.

These interim consolidated financial statements have been prepared on the basis that the Company is a going concern and will realize assets and discharge liabilities in the normal course of operations for the foreseeable future. Presently, Madalena has minimal production and limited cash flow from operating activities. The Company currently relies on equity financing to pay for exploration activities and overhead expenses. Therefore, the Company’s ability to continue operations is dependent on identifying commercial oil and gas reserves, generating profitable operations and raising sufficient capital to complete planned exploration and development activities. The outcome of these matters cannot be predicted at this time.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), and have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2009. The interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2009. Certain comparative information has been reclassified to be consistent with current period presentation. The Company’s reporting currency is Canadian dollars ($).

2. Property and equipment

As at September 30, 2010	Cost	Accumulated depletion and depreciation	Net book value
Argentina pre-production costs	$ 13,797,198	$ -	$ 13,797,198
Furniture and fixtures	170,857	(126,271)	44,586
	$ 13,968,055	$ (126,271)	$ 13,841,784

As at December 31, 2009	Cost	Accumulated depletion and depreciation	Net book value
Argentina pre-production costs	$ 13,081,079	$ -	$ 13,081,079
Furniture and fixtures	167,063	(104,360)	62,703
	$ 13,248,142	$ (104,360)	$ 13,143,782

At September 30, 2010 the Argentina cost center was considered to be in the pre-production stage and all costs directly attributable to this center was capitalized and excluded from costs subject to depletion and depreciation. The amounts capitalized for Argentina at September 30, 2010 include $1,472,932 of Value Added Tax (“VAT”) (December 31, 2009 - $1,375,432). VAT is payable on goods and services supplied to the Company and is not recoverable from the Government of Argentina, however the Company is allowed to retain VAT on any sales that it collects to the extent of the VAT recorded and paid on previous expenditures.

Revenues and operating expenses realized from the testing of wells in pre-production stage cost centers are recorded in the full cost pool. During the nine months ended September 30, 2010, net operating revenue of $19,540 (2009 – net operating costs of $123,928) was credited to Argentina pre-production costs.

During the nine months ended September 30, 2010, stock-based compensation directly related to exploration and development activities totaling $57,942 (2009 - $26,042) was capitalized.

3. 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 Company has reclassified its comparative figures to record the net loss from discontinued operations as a separate item on the income statement.

In March 2010, the Company sold its interest in the Remada Sud Permit in Tunisia for cash consideration of US$4 million. As a result of the sale and disposal of the Company's Tunisia cost center, the Company reclassified the property and equipment and asset retirement obligations associated with the Tunisia property as at December 31, 2009 as separate assets and liabilities on the balance sheet. The Company recorded a write-down and reduced the carrying value of the Tunisia cost center at December 31, 2009 by $2,110,666. Prior to sale, net operating revenue of $18,660 (2009 – $ 125,459) was credited to Tunisia pre-production costs.

The following table provides a summary of the income (loss) from discontinued operations for the three and nine month periods ended September 30, 2010 and 2009.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Canada:				
Petroleum and natural gas revenues	$ -	$ 62,113	$ -	$ 245,055
Royalties	10,938	(8,666)	42,322	(30,437)
Operating costs	1,024	(25,943)	(1,675)	(86,152)
Depletion	-	(13,000)	-	(1,576,147)
Gain on sale of property and equipment	-	27,708	-	27,708
	11,962	42,212	40,647	(1,419,973)
Gain on sale of Tunisia property and equipment	-	-	32,032	-
Income (loss) from discontinued operations	$ 11,962	$ 42,212	$ 72,679	$ (1,419,973)

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

Cash proceeds	$ 4,084,400
Asset retirement obligations	50,968
Net book value of property and equipment related to discontinued operations	(4,103,336)
Gain on sale of Tunisia property and equipment	$ 32,032

4. 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, 2010, the estimated total undiscounted amount of cash flows required to settle the Company's asset retirement obligations are approximately US$1,600,000 (December 31, 2009 – US$1,100,000). These costs are expected to be incurred over the next 15 - 25 years. A credit adjusted risk-free interest rate of 11.3% (2009 additions - 8%) and an inflation rate of 11% (2009 additions - 7.85%) was used to calculate the fair value of the asset retirement obligations.

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

	September 30, 2010	December 31, 2009
Balance, beginning of period	$ 304,370	$ 356,378
Obligations accrued	110,000	78,865
Accretion expense	15,857	23,321
Costs incurred	-	(2,570)
Related to discontinued operations	-	(151,624)
Balance, end of period	$ 430,227	$ 304,370

5. Share capital

a) Common Shares

Authorized

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

Issued and outstanding

The following table provides a summary of the issued and outstanding common share activity:

	Common shares	
	Number	Amount
Balance - December 31, 2008	111,743,702	$ 31,491,768
Public offering	66,667,000	7,890,040
Share issue costs	-	(1,036,247)
Balance - December 31, 2009	178,410,702	38,345,561
Exercise of stock options	133,333	24,435
Exercise of warrants	1,416,500	443,788
Exercise of agents' warrants	1,429,711	330,551
Balance - September 30, 2010	181,390,246	$ 39,144,335

In December 2009, the Company completed a public offering of 66,667,000 units at an issue price of $0.15 per unit for gross proceeds to Madalena of $10,000,050. Each unit consisted of one common share and one-half (1/2) common share purchase warrant. Each whole warrant issued entitles the holder thereof to purchase one common share at a price of $0.25 per share until December 30, 2010. The Company also issued 3,333,350 agents' warrants. Each agent warrant entitles the holder thereof to purchase one common share at a price of $0.15 per share until December 30, 2010.

b) **Warrants**

	Warrants Number	Warrants Amount	Average Exercise Price
Balance - December 31, 2008	-	$ -	$ -
Public offering	33,333,500	2,110,010	0.25
Agents' warrants	3,333,350	270,668	0.15
Balance - December 31, 2009	36,666,850	2,380,678	$ 0.24
Exercise of warrants	(1,416,500)	(89,663)	0.25
Exercise of agents' warrants	(1,429,711)	(116,094)	0.15
Balance - September 30, 2010	33,820,639	$ 2,174,921	$ 0.24

The fair value of the warrants at the issue date was estimated using the Black Scholes option pricing model with the following assumptions: Risk free interest rate – 1.46%; expected life – 12 months; expected volatility – 147%; expected dividend yield – nil.

c) 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 closing price of the Company’s stock for the day prior to the grant date. Total options granted cannot exceed 10% of the issued and outstanding common shares of the Company.

Options granted to officers, employees, and consultants vest equally over three years on each anniversary of the grant date. Options granted to directors may vest immediately or 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, 2010		December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding - beginning of period	10,405,000	$ 0.55	11,155,000	$ 0.57
Granted	4,925,000	0.22	300,000	0.13
Exercised	(133,333)	0.11	-	-
Expired	(2,133,334)	0.52	(1,050,000)	(0.61)
Outstanding - end of period	13,063,333	$ 0.43	10,405,000	$ 0.55
Exercisable - end of period	8,178,333	$ 0.57	9,168,333	$ 0.59

The following table presents the estimated remaining life of outstanding stock options and the number of shares that may be issued at September 30, 2010:

	Outstanding		Exercisable
Exercise Price ($)	Number of options	Weighted average remaining life (years)	Number of options
0.105	708,333	3.16	241,666
0.120	1,000,000	0.07	1,000,000
0.125	300,000	3.66	100,000
0.210	3,850,000	4.33	-
0.320	325,000	4.51	-
0.405	30,000	2.33	20,000
0.410	300,000	0.25	300,000
0.600	1,100,000	1.72	1,100,000
0.660	4,300,000	0.41	4,300,000
0.700	100,000	2.05	66,667
0.730	500,000	0.47	500,000
0.850	550,000	1.06	550,000
	13,063,333	2.08	8,178,333

Stock-based compensation

The Company accounts for its stock-based compensation using the fair value method. The fair value of each stock option granted is estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 1.85% (2009 – 0.92%), expected life of 3.77 years (2009 – 3.00 years), expected volatility of 119% (2009 – 171%) and 0% dividend yield (2009 – 0%). The grant date weighted average fair value of stock options granted in the nine month period ended September 30, 2010 was $0.19 per option (2009 - $0.11 per option). The fair value, estimated at the grant date for options issued to directors, officers and employees and the measurement date for options issued to consultants, is expensed on a straight-line basis over the vesting terms of the options.

d) Per share information

	September 30, 2010	September 30, 2009
Basic common shares outstanding	181,390,246	111,743,702
Dilutive effect of:		
Share options outstanding	13,063,333	10,405,000
Shares issuable for warrants	31,917,000	-
Shares issuable for agents' warrants	1,903,639	-
Total possible common shares outstanding	228,274,218	122,148,702
Weighted average shares outstanding	179,080,247	111,743,002
Dilutive effect of options, warrants and agents' warrants	-	-
Diluted weighted average shares outstanding	179,080,247	111,743,002

At September 30, 2010 and 2009, all share options, warrants and agents’ warrants were excluded from the calculation of diluted weighted average shares outstanding as they were anti-dilutive.

6. Contributed surplus

	September 30, 2010	December 31, 2009
Balance - beginning of the period	$ 7,005,506	$ 6,709,251
Stock-based compensation expensed	221,925	260,860
Stock-based compensation capitalized	57,942	35,395
Transferred to share capital on exercise of stock options	(10,435)	-
Balance - end of the period	$ 7,274,938	$ 7,005,506

7. Segmented information

Financial information pertaining to continuing and discontinued geographic segments is presented in the following tables:

	Three months ended September 30, 2010		Nine months ended September 30, 2010		
	Revenue	Income (Loss)	Revenue	Income (Loss)	Identifiable Assets
Canadian corporate	$ 13,487	$ (388,841)	$ 59,352	$ (1,592,275)	$ 10,881,560
Argentina	-	(187,640)	-	(637,075)	14,311,466
Tunisia	-	-	-	32,032	-
Total	$ 13,487	$ (576,481)	$ 59,352	$ (2,197,318)	$ 25,193,026

	Three months ended September 30, 2009		Nine months ended September 30, 2009		
	Revenue	Income (Loss)	Revenue	Income (Loss)	Identifiable Assets
Canadian corporate	$ 62,747	(311,573)	$ 254,198	$ (2,677,268)	$ 1,236,816
Argentina	-	(416,342)	-	(922,052)	13,402,343
Tunisia	9	35,056	15	(42,320)	6,424,451
Total	$ 62,756	$ (692,859)	$ 254,213	$ (3,641,640)	$ 21,063,610

8. Supplemental cash flow information

Change in non cash working capital items	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Accounts receivable	$ 265,857	$ (273,002)	$ (47,873)	$ (255,516)
Prepaid expenses	34,614	121,697	(55,283)	11,386
Accounts payable and accrued liabilities	(330,241)	621,227	(1,222,333)	753,458
Change in non-cash working capital	$ (29,770)	$ 469,922	$ (1,325,489)	$ 509,328
Attributable to:				
Operating activities	$ 41,377	$ (163,149)	$ 5,067	$ (198,956)
Discontinued operations	(11,554)	606,854	(568,106)	601,413
Financing activities	-	-	(124,014)	-
Investing activities	(59,593)	26,217	(638,436)	106,871
	$ (29,770)	$ 469,922	$ (1,325,489)	$ 509,328

9. Commitments

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

Year	Amount
2010	$ 46,000
2011	72,000

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 a total of US$10,500,000 be spent by November 2010 of which Madalena's share was US$8,722,222. At September 30, 2010, the Company estimates that it has met its share of the amount to be spent to satisfy the total dollar value of the initial work programs.

On May 25, 2010, the Company announced that it had received an extension of the exploration period on all three of its exploration blocks in Argentina. On the Coiron Amargo and Curamhuele blocks, the Company has received extension periods totaling three years on each block commencing from the end of their initial three year exploration periods on November 9, 2010. The first extension period is a one year continuation to the existing exploration period to be followed by a new two year exploration period. There will be no requirement to relinquish non-commercial or non-prospective acreage on either block until the end of the one year continuation. The subsequent new two year exploration periods for Coiron Amargo and Curamhuele will require additional work commitments the equivalent of US$3.1 million and US$2.0 million, respectively, which will include the drilling of at least one well on each block. These drilling commitments will be fulfilled by Madalena's drilling programs commencing this summer. The expenditures for the drilling programs will be credited towards the new work commitments by virtue of Madalena having already satisfied the majority of its outstanding work commitments for the first exploration period on each block.

On the Cortadera block, the Company has received a second three year exploration period commencing on October 26, 2010. The new three year exploration period will require an additional work commitment the equivalent of US$2.0 million which may be fulfilled through conducting additional seismic or the drilling of a well.

All three exploration blocks qualify for an additional one year extension period at the end of their second exploration periods in the fourth quarter of 2013.

10. Financial risk and capital management

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, policies and procedures. The following outlines the Company's risk exposures and explains how these risks and its capital structure are managed.

Capital management

The Company's objective is to maintain a strong capital position in order to execute on its exploration and development plans and maximize shareholder value.

The Company currently defines its capital as shareholders' equity. Changes to the relative weighting of the capital structure is driven by our business plans, changes in economic conditions and risks inherent in the oil and gas industry. In order to maintain or adjust the capital structure, the Company may consider any or all of the following activities, depending on existing economic conditions and access to external capital sources:

- Issue new shares through a public offering or private placement
- Raise fixed or floating interest rate debt
- Consolidate outstanding common shares
- Farm-out existing exploration opportunities

The Company is not subject to any external restrictions on its capital structure and has no debt facilities.

The Company periodically reviews its capital structure in relation to its expected exploration and development budgets. As the Company is primarily in the exploration phase, certain quantitative measures used by industry peers, such as return on equity, return on capital employed and debt to equity ratios, are not relevant measures for the Company.

The 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. The Company's capital management is currently focused on conserving cash balances and focusing on high impact, low capital cost exploration and development programs. There were no changes to the way the Company manages its capital during the three month period ended September 30, 2010.

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 Canadian and international banks, and therefore the Company does not believe these financial instruments are subject to material 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 Argentine operators which are subject to normal industry credit risk. The carrying amounts of cash and cash equivalents and accounts receivable represents the Company's maximum credit exposure. The Company has not recorded an allowance for doubtful accounts and has not written off any accounts receivable in the nine month period ended September 30, 2010 or the year ended December 31, 2009.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk through management of its capital structure and annual budgeting of its revenues, expenditures, and cash flow. As of September 30, 2010, the Company has a working capital surplus of $10,994,925 (December 31, 2009 - $8,871,993) which given planned capital expenditures, administrative overhead requirements and commitments, is sufficient to meet all financial obligations in the current year.

Market risk

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

Commodity price risk

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

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 earnings of the market risk factors discussed above and is calculated based on the noted change in the market factor applied to the balance at the end of the period.

Market risk	Change in market factor	Increase (decrease) in loss before tax
Foreign exchange - effect of strengthening CAD $		
USD denominated financial assets and liabilities	5%	3,500
ARS denominated financial assets and liabilities	5%	23,200

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 due to their short-term nature. The Company has no bank indebtedness.

The following table provides information on the foreign currency denominated financial instruments held by the Company at September 30, 2010:

	Balance denominated in		Total CAD
	USD	ARS	equivalent
Cash and cash equivalents	294,912	590,403	$ 454,608
Accounts receivable	(4,318)	758,340	189,692
Prepaid expenses	-	680,597	174,233
Accounts payable and accrued liabilities	223,080	216,738	$ 285,034

11. Related party transactions

During the nine month period ended September 30, 2010, the Company incurred fees of $47,000 (2009 - $47,000) payable to a law firm in which a director of the Company is a partner.

12. Subsequent events

On November 10, 2010, the Company issued 40,775,000 common shares at an issue price of $0.65 per common share for gross proceeds to Madalena of $26,503,750.

From October 1, 2010 to November 19, 2010, the Company issued 22,850,650 common shares on the exercise of warrants and 1,215,557 common shares on the exercise of agents' warrants.

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Dwayne H. Warkentin
President and Chief Executive Officer,
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Michael J. Lock
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Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

Alliance Trust Company
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STOCK EXCHANGE LISTING
TSX Venture Exchange
Trading Symbol: "MVN"