Madalena Ventures Inc.

Quarterly Report

For the Three Months Ended March 31, 2012
(unaudited)

President's Message

In early May 2012, a new law was passed in Argentina with the long term objective of ensuring that the country would become self-sufficient in energy and with this aim, senior federal and provincial government officials have been active promoting investment in the country's oil and gas sector. While reaction to the new law and its potential impact on development of Argentina's significant non-conventional resources has been mixed, one of the medium to long term benefits we expect to see from this dialogue is a greater appreciation, by all stakeholders, of the numerous regulatory, fiscal, social and environmental factors that must align together in order to successfully convert those resources into reserves and production.

Since its initial investment in Argentina Madalena has demonstrated the significant role small independent companies can have in assisting the country develop its conventional and non-conventional resources. Over the past four years Madalena, as one of the few dedicated operators in the region, both accelerated and exceeded its minimum drilling and other exploration commitments in the basin and have been a leader in introducing new and innovative ideas/methods to its operations. We are hopeful that policy makers and other stakeholders will continue to promote development of Argentina's world class unconventional resource potential and that our strategy and method of creating value in and for the region will continue unchanged.

This year to date Madalena has drilled two additional exploration wells in the south and central portions of the Coiron Amargo Block and two development wells in the northern portion of the block. While testing multiple horizons, the CAS X-4 and CAS X-2 exploration wells were primarily intended to provide a more comprehensive delineation of the Vaca Muerta characteristics over the block to assist in development. Testing of the CAS X-2 well confirmed the existence of hydrocarbons in the Sierras Blancas formation in the central portion of the block and will be placed on pump.

Hydraulic fracture stimulation programs were completed on both the Coiron Amargo and Cortadera Blocks and with the planned completion next month of the first hydraulic fracture stimulation of the over-pressured Lower Agrio shale in the Neuquén Basin, Madalena will be one of the first companies operating in the basin to have completed a large scale hydraulic fracture stimulation program on each of its blocks. While core evaluation and equipment availability due to import restrictions has led to some long lag periods between drilling and completion of testing, we are optimistic that in the near future suppliers will be able to import new equipment in a timely manner and future fracture stimulation programs can be completed back to back. We also expect recent shale conferences in Buenos Aires and the City of Neuquen to have a positive impact on the timing and supply of local services.

In March 2012 the northern 108 km^2 of the 404 km^2 Coiron Amargo Block was converted to a 25 year exploitation concession by the Province of Neuquén. In addition, the exploration period for the remainder of the Coiron Amargo Block and the Curamhuele Block was extended to November 8, 2013. The extension of the Coiron Amargo and Curamhuele blocks will require additional work commitments of US$ 51.1 million (Madalena share – US$ 29.3 million). To meet its commitments, Madalena completed an equity offering in March 2012 for gross proceeds of $67.5 million. With completion of the offering the Company is in a strong financial position to continue to move forward with its drilling programs for the remainder of the year and into 2013.

To ensure that shareholders and the Board have adequate time to consider and evaluate any unsolicited bid made for the Company, in April 2012 the Company's Board adopted a Shareholder Rights Plan which will require shareholder approval at the Company's special and annual meeting of shareholders to be held in Calgary on June 14, 2012. We encourage all shareholders to attend and we look to providing updates on our progress as they come available.

Dwayne Warkentin
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is provided by management of Madalena Ventures Inc. ("Madalena" or the "Company"), as at and for the three months ended March 31, 2012 and 2011. This MD&A should be read in conjunction with the Company's condensed consolidated unaudited financial statements for the three month period ended March 31, 2012. The interim consolidated unaudited financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting. 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 May 24, 2012. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

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

Forward-looking Statements

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

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

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

Non-GAAP Measurements

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

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

	Three months ended March 31, 2012	2011
Cash flow from (used in) operating activities	$ 472,909	$ (599,039)
Change in non-cash working capital	(1,223,011)	(321,678)
Funds used in operations	$ (750,102)	$ (920,717)

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 oil and natural gas revenue less royalties and operating expenses. Additional information on operating netbacks is provided in "Netbacks".

HIGHLIGHTS

Highlights in the three months ended March 31, 2012 include:

- Successful completion and testing of the Company's first large scale hydraulic fracture stimulation treatment of the Vaca Muerta formation on the Coiron Amargo Block;
- Extension of the Company's large acreage position in the Neuquen Basin and conversion of the northern 108 km^2 of the 404 km^2 Coiron Amargo Block to a 25 year exploitation concession;
- Commenced testing the Vaca Muerta formation at the CorS X-1 deep gas exploration well on the Cortadera Block;
- Continued preparations for regions first fracture stimulation of the Lower Agrio shale; and
- Completed public offering in the first quarter of 2012 for gross proceeds of $67,500,000.

OVERVIEW

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

<u>Coiron Amargo Block (35% working interest)</u>

In May 2012 the Company completed drilling the CAN 5 development well located within the CAN X-1 Sierras Blancas structure discovered in the second half of 2010. The well was drilled to a total depth ("TD") of 10,525 feet and has been cased to TD. Based on electric logs the entire Vaca Muerta formation interval encountered was 345 feet and in the Sierras Blancas formation, the well encountered a potential gross hydrocarbon column of 45 feet. After drilling the CAN 5 well the Company immediately commenced drilling the CAN 7 development well location within the CAN X-3 Sierras Blancas structure. The CAN 7 well is currently drilling ahead at approximately 7,500 feet. The Corporation plans to complete both the CAN 5 and CAN 7 development wells once drilling operations at CAN 7 are completed. The completion rig will also be used to install pumping equipment at CAN X-1.

Other new infrastructure to increase production and improve operating netbacks from the area has recently been completed. Final tie-in of a pipeline from the northern development area to the Loma Jarillosa Este gas processing facility on an adjacent block was completed by the facility operator the week of April 15, 2012. In addition, a water disposal well has been completed which is expected to significantly reduce fluid transportation costs from the area.

In the non-conventional Vaca Muerta formation, flow testing of the CAS X-1 well in the southern portion of the block continues where it is anticipated that pumping equipment will be installed during the third quarter.

In February 2012 the Company drilled and cased to TD the CAS X-4 exploration well as a potential oil discovery. Located approximately nine kilometers south east of the CAS X-1 discovery well, a full diameter core was taken through most of the interval which will be used to optimize future wells in the Vaca Muerta formation. A hydraulic fracture stimulation program for the formation will be prepared after extensive laboratory analysis of the core is completed.

In March 2012, the Company drilled and cased to TD the CAS X-2 vertical exploration well in the center of the block. Based on electric logs the entire Vaca Muerta formation interval encountered was 435 feet thick and in the Sierras Blancas formation, the well encountered a potential gross hydrocarbon column of 68 feet. In April 2012, the Sierras Blancas formation, located below the Vaca Muerta formation, was flow tested with rates between 100 and 200 bopd over a five day period. The well has been equipped for artificial lift and will be placed on pump. The CAS X-2 well confirms the existence of hydrocarbons in the Sierras Blancas formation in the central portion of the block in addition to previous discoveries in the north and south.

In March 2012 an application by the Coiron Amargo joint venture to convert the northern 108 km^2 of the 404 km^2 block to a 25 year exploitation concession was approved by the Province of Neuquén. In addition, the exploration period for the remainder of the block was extended to November 8, 2013. The extension of the block will require additional work commitments of US$ 33.5 million (Madalena share – US$ 11.7 million). The exploration block qualifies for an additional one year extension period at the end of the exploration period in the fourth quarter of 2013.

A total of 8 wells are expected to be drilled in 2012 targeting both conventional and unconventional resources. Drilling of the CAS X-3 and CAS X-5 exploration wells is expected to commence in August and September 2012, respectively. While testing multiple horizons, these wells are primarily intended to provide a more comprehensive delineation of the Vaca Muerta characteristics over the block to assist in development. In addition, a 100 km2 3D seismic program is planned for the southwest corner of the block and a portion of the eastern side of the block not yet covered by 3D seismic.

Cortadera Block (40% working interest)

In March 2012 Apache completed a two stage hydraulic fracture stimulation of the Vaca Muerta formation in the CorS X-1 vertical exploration and testing of the Vaca Muerta formation continues. Currently we are awaiting specialized equipment required in this high pressure environment in order to add the initial frac stage to the testing. Further work to assess additional uphole formations (Quintuco, Mulichinco, and Agrio zones) is expected to be carried out following the Vaca Muerta test. Also in March 2012, a resolution was passed approving Apache's application to qualify the Cortadera exploration block for Gas Plus pricing. The Gas Plus program was launched at the end of 2008 to stimulate investments in and production of natural gas and oil through providing incentives for new production of natural gas or oil.

The Company has agreed a work program with provincial authorities to extend the initial exploration period of the Cortadera Block beyond the initial expiry date of October 26, 2011 and is optimistic that formal approval of the extension will be forthcoming. A 3D seismic program is planned for later in the year following testing of the CorS X-1 well.

Curamhuele Block (90% working interest)

The Company is continuing preparations to complete a hydraulic fracture stimulation in the over pressured Lower Agrio shale formation. The thick Lower Agrio shale on the block is believed to be prospective for oil based on tests of light oil from three existing wells in the Agrio formation and on outcrop work. Various well equipment required to perform the fracture stimulation has been ordered and purchased. The planned operation is expected to commence in June 2012 and would be the first hydraulic fracture stimulation of the Lower Agrio shale in the Neuquén Basin.

In March 2012 the exploration period for the block was extended to November 8, 2013. The extension of the block will require additional work commitments of US$ 17.6 million (Madalena share – US$ 17.6 million). The exploration block qualifies for an additional one year extension period at the end of the exploration period in the fourth quarter of 2013.

Corporate

In March 2012, the Company issued 54,000,000 common shares at an issue price of $1.25 per share for gross proceeds to Madalena of $67,500,000. The Company is in a strong financial position to move forward with its 2012 drilling program and meet the commitments associated with its recent block extensions.

Financial and Operating Results

	Three months ended March 31,	
	2012	2011
Financial Information (1)		
Oil and gas revenue	396,773	562,488
Funds used in operations (2)	(750,102)	(920,717)
Funds used in operations per share (2)	-	-
Cash flow from (used in) operating activities	472,909	(599,039)
Cash flow from (used in) operating activities per share	-	-
Net loss	(1,167,365)	(1,744,505)
Net loss per share	-	(0.01)
Total assets	108,350,400	58,296,848
Working capital	70,593,691	32,781,849
Capital expenditures	6,691,664	4,559,609
Debt	-	-
Production		
Oil production (barrels per day)	62	138

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

RESULTS OF OPERATIONS

The following paragraphs provide information about the results of Madalena's operations for the quarter ended March 31, 2012.

Oil and gas revenue

Oil and gas revenue for the quarter ended March 31, 2012 was $396,773 compared to $562,488 for the corresponding period in 2011. The Company's share of oil production from the Coiron Amargo Block in the quarter ended March 31, 2012 was 5,587 barrels (62 barrels per day) compared to 12,710 barrels (138 barrels per day) for the corresponding period in 2011. Net production declined from the corresponding period in 2011 due to a reduction in the Company's working interest in the block from 52.5% to 35% and wells waiting on pumping equipment.

Royalties

Royalty expense totaled $69,800 for the quarter ended March 31, 2012 compared to $108,274 for the corresponding period in 2011. In 2011 production from the Coiron Amargo Block was subject to a 15% provincial royalty rate. With conversion of the northern portion of the block into a 25 year exploitation concession, effective March 9, 2012 production from that portion of the block will be subject to a 12% provincial royalty payable to the Province of Neuquén. Royalty expense also includes a 3% provincial turnover tax on sales.

Operating costs

Operating costs increased to $330,156 for the quarter ended March 31, 2012 compared to $240,080 for the corresponding period in 2011. Operating costs increased primarily due to unscheduled maintenance at CAN X-2, completion of necessary road works, adjustment to surface rental rates payable to private land owners and higher transportation costs.

Netbacks

	Three Months Ended March 31, 2012				Three Months Ended March 31, 2011			
		Amount		Per boe		Amount		Per boe
Oil and gas revenues	$	396,773	$	77.19	$	562,488	$	53.91
Royalties		(69,800)		(13.58)		(108,274)		(10.38)
Operating costs		(330,156)		(64.23)		(240,080)		(23.01)
Operating netback (1)	$	(3,183)	$	(0.62)	$	214,134	$	20.52

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

The Company realized an operating netback of -$0.62/boe in the quarter ended March 31, 2012 compared to $20.52/boe for the corresponding period in 2011. Operating netbacks per boe decreased due to lower production in the quarter, unscheduled maintenance costs and higher fixed and variable operating costs compared to the corresponding period in 2011.

General and administrative ("G&A") expenses

G&A expenses decreased to $733,344 for the quarter ended March 31, 2012 compared to $1,165,310 for the corresponding period in 2011 as a result of higher compensation in the first quarter of 2011 with respect to bonuses.

A breakdown of general and administrative expenses is as follows:

For the three month period ended March 31,		2012		2011
Compensation	$	191,665	$	531,496
Office and administration		256,241		314,685
Professional fees		207,066		246,730
Travel		78,372		72,399
	$	733,344	$	1,165,310

Share-based payments ("SBP") expense

SBP expense decreased to $324,836 for the quarter ended March 31, 2012 compared to $713,356 for the corresponding period in 2011 as a result of fewer option grants in 2011 compared to 2010 and no option grants in the first quarter of 2012.

At March 31, 2012, the Company has approximately $1.1 million (December 31, 2011 - $1.45 million) of unamortized SBP that will be charged to income over the remaining vesting period of the outstanding options.

Depletion and depreciation expense

Depletion and depreciation expense for the quarter ended March 31, 2012 totaled $80,563 compared to $96,301 for the corresponding period in 2011 due to lower production from the Corion Amargo Block. Depletion expense for the quarter ended March 31, 2012 was $14.76 per barrel compared to $8.67 per barrel for the corresponding period in 2011.

Interest Income

Interest income for the quarter ended March 31, 2012 totaled $86,694 compared to $95,539 for the corresponding period in 2011.

Foreign exchange loss

The Company recorded a foreign exchange gain of $3,846 in the quarter ended March 31, 2012 compared to a loss of $26,346 for the corresponding period in 2011. In accordance with IFRS, foreign currency transactions are translated into the respective functional currencies of Madalena and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Finance costs

Finance costs consist of accretion of decommissioning obligations. Finance costs decreased to $13,026 in the quarter ended March 31, 2012 compared to $14,786 for the corresponding period in 2011. Finance costs decreased as a result of a decrease in the Company's working interest in the Coiron Amargo and Cortadera blocks.

Income tax expense

Income tax expense for the quarter ended March 31, 2012 totaled $102,953 compared to $38,079 for the corresponding period in 2011. Current income tax expense relates to minimum taxes based on the book value of assets in Argentina.

Net loss and other comprehensive loss

The Company realized a net loss of $1,167,365 for the quarter ended March 31, 2012 compared to $1,744,505 for the corresponding period in 2011. Net loss decreased primarily due to lower general and administrative expenses and share-based payments expense partially offset by lower oil revenue and higher operating costs from the Coiron Amargo Block. Total comprehensive income increased to $202,201 for the quarter ended March 31, 2012 compared to a loss of $2,597,167 for the corresponding period in 2011 due to the decrease in net loss above as well as income on translation of foreign operations. Exchange differences on translation of foreign operations resulted in income of $1,369,566 for the quarter ended March 31, 2012 compared to a loss of $852,662 for the corresponding period in 2011 as a result of an increase in the first quarter of 2012 in the value of the Argentina peso relative to the Canadian dollar.

Funds used in operations

Funds used in operations decreased to $750,102 for the quarter ended March 31, 2012 compared to $920,717 for the corresponding period in 2011. Funds used in operations decreased as a result of lower general and administrative expenses partially offset by lower oil revenue and higher operating costs.

Capital expenditures

		Three months ended March 31,		
		2012		2011
Argentina:				
Geological and geophysical	$	229,253	$	7,425
Land		-		-
Drilling and completion		4,764,990		3,839,523
Well equipment and facilities		801,719		22,724
Other		885,880		689,647
		6,681,842		4,559,319
Canada:				
Other		9,822		290
		9,822		290
Total Capital Expenditures	$	6,691,664	$	4,559,609

Capital expenditures increased to $6,691,664 for the quarter ended March 31, 2012 compared to $4,559,609 for the corresponding period in 2011. Capital expenditures increased as the Company completed drilling the CAS X-4 and CAS X-2 exploration wells, commenced drilling the CAN 5 development well and substantially completed the pipeline to the Loma Jarillosa Este gas processing facility.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2012 Madalena had working capital of $70,593,691 compared to $14,442,910 at December 31, 2011. Working capital increased as the Company issued 54,000,000 common shares at an issue price of $1.25 per share for gross proceeds to Madalena of $67,500,000.

The Company had negative funds from operations in the quarter ended March 31, 2012 totaling $750,102 compared to negative funds from operations of $920,717 for the corresponding period in 2011. Funds used in operations decreased as a result of lower general and administrative expenses partially offset by lower oil revenue and higher operating costs.

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

TRANSACTIONS WITH RELATED PARTIES

In the quarter ended March 31, 2012, the Company incurred fees of $94,755 (2011 - $2,805) payable to a law firm in which a director of the Company is a partner.

SHARE INFORMATION

At March 31, 2012 and May 24, 2012, the Company had 314,307,185 common shares and 13,690,366 stock options outstanding.

BUSINESS RISKS AND UNCERTAINTIES

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

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

The Company will seek to minimize these business risks by:

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

Foreign operations

All of the Company's oil and gas operations are 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.

On May 3, 2012, Law No. 26,741 was passed by the Argentine Congress and, on May 7, it was published in the Official Gazette of the Republic of Argentina. The law has declared achieving self-sufficiency in the supply of hydrocarbons as well as in the exploitation, industrialization, transportation and sale of hydrocarbons, a national public interest and a priority for Argentina. In addition, its stated goal is to guarantee socially equitable economic development, the creation of jobs, the increase of the competitiveness of various economic sectors and the equitable and sustainable growth of the Argentine provinces and regions. While the primary purpose of Law No. 26,741 was for the expropriation of 51% of the share capital of YPF S.A, future regulatory changes could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Expiration of licences and leases

The Company's properties are held in the form of licences and leases and working interests in licences and leases. If the Company or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Company's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

In response to declining oil and gas production volumes in Argentina, the federal and various provincial governments in Argentina are calling for oil and gas companies operating in the country to increase investment. While the Company believes that it has met all of its investment commitments with respect to its participation in the Coiron Amargo, Cortadera and Curamhuele blocks, any future changes to the licencing regime in Neuquen Province, Argentina where the Company's acreage is located could have a material adverse effect on the Company.

The Company is currently in discussion with provincial authorities to extend the initial exploration period of the Cortadera Block beyond the initial expiry date of October 26, 2011. While the Company has agreed a work program with provincial authorities and is optimistic that formal approval of the extension will be forthcoming, a delay or rejection of the extension terms may have a material adverse effect on the Company.

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.

Equipment availability

Following the government expropriation of YPF S.A. and a desire within the government and YPF S.A. to rapidly expand exploration activities throughout its portfolio, the Company anticipates high utilization rates for existing drilling and hydraulic fracturing equipment in Argentina. While the Company is aware of service companies plans to expand operations and capacity in Argentina, there is a risk in the short to medium term that certain equipment necessary to perform large scale hydraulic fracture operations may not be available in a timely manner.

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

CONTRACTUAL OBLIGATIONS

The Company has lease commitments for office space and rental accommodations in Canada and Argentina. The total estimated remaining lease payments at March 31, 2012, including operating costs, are approximately $250,000 through 2014.

In March 2012 the northern 108 km^2 of the 404 km^2 Coiron Amargo Block was converted to a 25 year exploitation concession by the Province of Neuquén. In addition, the exploration period for the remainder of the Coiron Amargo Block and the Curamhuele Block was extended to November 8, 2013. The extension of the Coiron Amargo and Curamhuele blocks will require additional work commitments of US$ 51.1 million (Madalena share – US$ 29.3 million). Both exploration blocks qualify for an additional one year extension period at the end of their exploration periods in the fourth quarter of 2013.

The initial exploration period on the Cortadera Block in the Province of Neuquén expired on October 26, 2011. The joint venture has agreed a work plan with provincial authorities which will require additional work commitments and is currently working with provincial authorities to formalize the extension of the initial exploration period.

OUTLOOK

Following the Company's equity offering March 2012, the Company is in a strong financial position to move forward with its 2012 drilling program and meet the commitments associated with its recent block extensions. While the expropriation of YPF S.A. has cast some doubt in financial markets that independent oil and gas companies can play an economic role in the development of Argentina's non-conventional resources, all stakeholders continue to recognize that significant new exploration and investment in technology will be required in order to move the country's energy security forward. Industry activity on Argentina's world class unconventional resources continues to pick up pace and the Company is continuing with its exploration and development programs in the Neuquen Basin in concert with its industry and provincial partners.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 3 to the December 31, 2011 consolidated financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. There were no changes to Madalena's critical accounting estimates during the three months ended March 31, 2012.

Following are the accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position:

Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the statement of operations and is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves.

Carrying value of development and production and exploration and evaluation assets

The Company assesses at each reporting date whether there is an indication that an asset or cash generating unit ("CGU") may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and CGU's have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. A material adjustment to the carrying value of the Company's development and production and exploration and evaluation assets may be required as a result of changes to these estimates and assumptions.

Decommissioning obligations

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on profit and loss or financial position.

Share-based payments

The Company measures the cost of its share-based payments to directors, officers and employees by reference to the fair value of the equity instruments at the date at which they are granted. The assumptions used in determining fair value include: expected lives of options, risk-free rates of return and stock price volatility. These assumptions, by their nature, are subject to measurement uncertainty.

Deferred tax

Deferred tax is recorded, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations from multiple jurisdictions. Rates are also affected by legislative changes. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded in the financial statements.

Legal, environmental remediation and other contingent matters

In respect of these matters, the Company is required to determine both whether a loss is probable based on judgment and interpretation of laws and regulations and if such a loss can reasonably be estimated. When any such loss is determined, it is charged to net income (loss). Management continually monitors known and potential contingent matters and makes appropriate provisions by charges to net income (loss) when warranted by circumstances.

NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

Unless otherwise noted, the following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company is in the process of evaluating the impact of adopting these standards.

IFRS 9 - Financial Instruments applies to the classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 - Consolidated Financial Statements was issued in May 2011 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statement.*

IFRS 11 - Joint Arrangements focuses on the rights and obligations of a joint arrangement, rather than its legal form (as is currently the case). To address reporting inconsistencies, the standard requires a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers.*

IFRS 12 - Disclosure of Interests in Other Entities applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

IFRS 13 - Fair Value Measurements defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements.

IAS 27 - Separate Financial Statements addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements.

IAS 28 - Investments in Associates and Joint Ventures has been amended to included joint ventures in its scope and to address the changes in IFRS 10 - 13.

IAS 1 - Presentation of Financial Statements has been amended to require components of other comprehensive income to be separately presented between those that may be reclassified to income and those that will not. The amendments are effective for annual periods beginning on or after July 1, 2012.

IAS 32 - Financial Instruments has been amended to provide clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after July 1, 2012.

QUARTERLY FINANCIAL INFORMATION

	Oil and Gas Revenue	Net Loss	Net Loss Per Share (1)
2012			
First quarter	$ 396,773	$ (1,167,365)	$ -
Total	$ 396,773	$ (1,167,365)	$ -
2011			
Fourth quarter	$ 609,340	$ (1,585,520)	$ (0.01)
Third quarter	619,178	(315,915)	-
Second quarter	807,497	(12,490,603)	(0.05)
First quarter	562,488	(1,744,505)	(0.01)
Total	$ 2,598,503	$ (16,136,543)	$ (0.07)
2010			
Fourth quarter	$ 244,235	$ (1,719,762)	$ (0.01)
Third quarter	-	(624,144)	-
Second quarter	-	(757,919)	-
First quarter	-	(784,240)	(0.01)
Total	$ 244,235	$ (3,886,065)	$ (0.02)

(1) Basic and diluted amounts per common share.

Condensed Consolidated Interim Financial Statements of

MADALENA VENTURES INC.

As at and for the three month period ended March 31, 2012 (unaudited)

MADALENA VENTURES INC.

Condensed Consolidated Balance Sheets (unaudited)

As at	Note	March 31, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		**$ 74,385,917**	$ 16,439,077
Trade and other receivables		**680,383**	712,737
Prepaid expenses		**296,917**	212,913
Inventory		**73,943**	42,876
		75,437,160	17,407,603
Non-current assets			
Property and equipment	3	**9,424,379**	7,120,404
Exploration and evaluation assets	4	**23,242,124**	17,338,614
Other non-current assets		**246,737**	231,166
		32,913,240	24,690,184
		$ 108,350,400	$ 42,097,787
Liabilities			
Current liabilities			
Trade and other payables		**$ 4,843,469**	$ 2,964,693
Decommissioning provisions	5	**497,330**	330,981
		5,340,799	3,295,674
Shareholders' equity			
Share capital	6	**141,673,943**	77,862,747
Contributed surplus		**10,267,763**	10,073,672
Accumulated other comprehensive loss		**(3,792,631)**	(5,162,197)
Deficit		**(45,139,474)**	(43,972,109)
		103,009,601	38,802,113
		$ 108,350,400	$ 42,097,787

Commitments (note 9)

See accompanying notes to the condensed consolidated interim financial statements

MADALENA VENTURES INC.

Condensed Consolidated Statements of Loss and Comprehensive Loss (unaudited)

For the three months ended March 31	Note		2012		2011
Revenue					
Oil and gas		**$**	**396,773**	$	562,488
Royalties			**(69,800)**		(108,274)
			326,973		454,214
Expenses					
Operating			**330,156**		240,080
General and administrative			**733,344**		1,165,310
Share-based payments	6		**324,836**		713,356
Depletion and depreciation	3		**80,563**		96,301
			1,468,899		2,215,047
Operating loss			**(1,141,926)**		(1,760,833)
Other income (expenses)					
Interest and other income			**86,694**		95,539
Foreign exchange gain (loss)			**3,846**		(26,346)
Finance cost	5		**(13,026)**		(14,786)
			77,514		54,407
Loss before tax			**(1,064,412)**		(1,706,426)
Current income tax expense			**(102,953)**		(38,079)
Net loss for the period			**(1,167,365)**		(1,744,505)
Exchange differences on translation of foreign operations			**1,369,566**		(852,662)
Total comprehensive income (loss) for the period		**$**	**202,201**	$	(2,597,167)
Weighted average number of shares:					
Basic and diluted	6		**274,955,663**		258,779,974
Net loss per share:					
Basic and diluted		**$**	**-**	$	(0.01)

See accompanying notes to the condensed consolidated interim financial statements

MADALENA VENTURES INC.

Condensed Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31	Note	2012	2011
Cash provided by (used in):			
Operating activities			
Net loss for the period		**$ (1,167,365)**	$ (1,744,505)
Items not involving cash:			-
Share-based payments		**324,836**	713,356
Depletion and depreciation		**80,563**	96,301
Accretion on provisions		**13,026**	14,786
Change in other non-current assets		**(1,162)**	(655)
Change in non-cash working capital items	8	**1,223,011**	321,678
		472,909	(599,039)
Financing activities			
Issue of common shares		**67,685,450**	1,661,511
Share issue costs		**(4,016,845)**	-
Change in non-cash working capital items	8	**105,441**	(3,880)
		63,774,046	1,657,631
Investing activities			
Additions to exploration and evaluation assets		**(4,726,199)**	(4,512,361)
Additions to property and equipment		**(1,965,465)**	(47,248)
Change in non-cash working capital items	8	**370,196**	(1,022,850)
		(6,321,468)	(5,582,459)
Change in cash and cash equivalents		**57,925,487**	(4,523,867)
Cash and cash equivalents, beginning of the period		**16,439,077**	40,719,947
Impact of foreign exchange on cash balances		**21,353**	(287,194)
Cash and cash equivalents, end of the period		**$ 74,385,917**	$ 35,908,886

See accompanying notes to the condensed consolidated interim financial statements

MADALENA VENTURES INC.

Condensed Consolidated Statements of Changes in Equity (unaudited)

	Note	Share Capital Number	Share Capital Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at December 31, 2010		**257,285,885**	**$ 75,403,123**	**$ 7,932,605**	**$ (1,662,102)**	**$ (27,835,566)**	**$ 53,838,060**
Loss for the period						(1,744,505)	(1,744,505)
Exercise of stock options		2,709,632	2,394,449	(732,938)	-	-	1,661,511
Share-based payments		-	-	734,075	-	-	734,075
Comprehensive loss for the period		-	-	-	(852,663)	-	(852,663)
Balance at March 31, 2011		**259,995,517**	**$ 77,797,572**	**$ 7,933,742**	**$ (2,514,765)**	**$ (29,580,071)**	**$ 53,636,478**
Loss for the period						(14,392,038)	(14,392,038)
Exercise of stock options		25,000	65,175	(57,175)	-	-	8,000
Share-based payments		-	-	2,197,105	-	-	2,197,105
Comprehensive loss for the period		-	-	-	(2,647,432)	-	(2,647,432)
Balance at December 31, 2011		**260,020,517**	**$ 77,862,747**	**$ 10,073,672**	**$ (5,162,197)**	**$ (43,972,109)**	**$ 38,802,113**
Loss for the period						(1,167,365)	(1,167,365)
Public offering		54,000,000	63,483,155	-	-	-	63,483,155
Exercise of stock options		286,668	328,041	(142,591)	-	-	185,450
Share-based payments		-	-	336,682	-	-	336,682
Comprehensive loss for the period		-	-	-	1,369,566	-	1,369,566
Balance at March 31, 2012		**314,307,185**	**$ 141,673,943**	**$ 10,267,763**	**$ (3,792,631)**	**$ (45,139,474)**	**$ 103,009,601**

See accompanying notes to the condensed consolidated interim financial statements

1. Corporate Information

Madalena Ventures Inc. ("Madalena" or the "Company") is incorporated pursuant to the laws of the Province of Alberta. Madalena is based in Calgary, Alberta and is involved in the exploration, development and production of petroleum and natural gas in Argentina.

2. Basis of Preparation

a) Future operations

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

b) Statement of compliance

The Company prepares its financial statements in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*. These interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Company for the year ended December 31, 2011. The disclosures below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted.

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2011. The interim consolidated financial statements were authorized for issuance by the Board of Directors on May 24, 2012.

c) Basis of measurement

These consolidated interim financial statements have been prepared on a historical cost basis. The Company's presentation currency is Canadian dollars ($).

d) Use of estimates, judgments and estimation uncertainty

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

Significant estimates and judgment used in the preparation of the financial statements are described in the Company's consolidated annual financial statements for the year ended December 31, 2011.

3. Property and equipment

	Development and Production Assets $	Furniture and Fixtures $	Total $
Cost			
At December 31, 2010	4,599,092	223,276	4,822,368
Additions	3,542,118	10,080	3,552,198
Effect of movement in exchange rates	(651,404)	(6,049)	(657,453)
At December 31, 2011	7,489,806	227,307	7,717,113
Additions	1,957,584	7,881	1,965,465
Effect of movement in exchange rates	446,867	3,026	449,893
At March 31, 2012	9,894,257	238,214	10,132,471
Depletion and depreciation			
At December 31, 2010	88,682	128,229	216,911
Depletion and depreciation charge in period	396,383	20,077	416,460
Effect of movement in exchange rates	(32,698)	(3,964)	(36,662)
At December 31, 2011	452,367	144,342	596,709
Depletion and depreciation charge in period	77,251	4,695	81,946
Effect of movement in exchange rates	27,417	2,020	29,437
At March 31, 2012	557,035	151,057	708,092
Net book value			
At December 31, 2010	4,510,410	95,047	4,605,457
At December 31, 2011	7,037,439	82,965	7,120,404
At March 31, 2012	9,337,222	87,157	9,424,379

Development and production assets consist of costs less depletion and depreciation with respect to the northern portion of the Company's Coiron Amargo Block. The amounts capitalized as development and production ("D&P") assets in Argentina at March 31, 2012 includes $1,136,183 of Value Added Tax ("VAT") (December 31, 2011 - $822,157. VAT is payable on goods and services supplied to the Company and is not recoverable from the Government of Argentina, however the Company is allowed to retain VAT on any sales that it collects to the extent of the VAT recorded and paid on previous expenditures.

The depletion expense calculation for the three months ended March 31, 2012 included $12.0 million (2011 – $11.1 million) for estimated future development costs associated with proved and probable reserves in Argentina.

4. Exploration and evaluation assets

	$
Cost	
At December 31, 2010	12,829,447
Additions	17,431,140
Effect of movement in exchange rates	(2,511,468)
At December 31, 2011	27,749,119
Additions	4,872,576
Effect of movement in exchange rates	1,680,379
At March 31, 2012	34,302,074
Depletion, depreciation and impairment losses	
At December 31, 2010	-
Depletion and depreciation charge in period	-
Impairment losses	11,006,637
Effect of movement in exchange rates	(596,132)
At December 31, 2010	10,410,505
Depletion and depreciation charge in period	-
Impairment losses	-
Effect of movement in exchange rates	649,445
At March 31, 2012	11,059,950
Net book value	
At December 31, 2010	12,829,447
At December 31, 2011	17,338,614
At March 31, 2012	23,242,124

E&E assets consist of the Company's intangible exploration projects in Argentina which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. E&E assets are not depreciated or depleted.

The amounts capitalized as Argentina E&E assets at March 31, 2012 before impairment losses include $4,975,349 of VAT (December 31, 2011 - $4,506,863). Included in impairment losses is $1,891,738 of VAT incurred during drilling of the Curamhuele X-1001 exploration well. During the three months ended March 31, 2012, share-based payments directly related to exploration and evaluation activities totaling $11,846 (2011 - $20,719) were capitalized.

5. Decommissioning provisions

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At March 31, 2012, the Company estimates the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning obligations to be approximately $2.1 million (December 31, 2011 - $1.7 million). The costs are expected to be incurred in the period between 2023 and 2025. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability. A non-credit risk adjusted rate for Argentina of 13.57% (December 31, 2011 – 15.49%) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	March 31, 2012	December 31, 2011
Balance, beginning of period	$ 330,981	$ 602,366
Additions	51,640	232,145
Revisions in interest rates	81,170	(308,189)
Accretion	13,026	56,534
Costs incurred	-	(78,472)
Disposition	-	(122,967)
Effect of movement in exchange rates	20,513	(50,436)
Balance, end of period	$ 497,330	$ 330,981

6. Share capital

a) Common shares

Authorized

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

Issued and outstanding common share activity

In March 2012, the Company issued 54,000,000 common shares at a price of $1.25 per common share for gross proceeds of $67,500,000.

b) Share-based payments

Employee stock option plan

Under the Company's stock option plan, directors, officers, employees and certain consultants are eligible to receive options to acquire common stock of the Company. The exercise price of the granted options is no less than the closing trading price per share on the last day preceding the date of the grant. Total options granted cannot exceed 10% of the issued and outstanding common shares of the Company. Options granted to directors, officers, employees and consultants may vest immediately or over three years on each anniversary of the grant date. Options expire three to five years from the grant date. There are no cash settlement alternatives for employees under the Company's stock option plan. Movements in the number of stock options outstanding and their related weighted average exercise prices are summarized as follows:

As at and for the period ended	March 31, 2012		December 31, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding - beginning of period	13,977,034	$ 0.57	16,565,000	$ 0.57
Granted	-	-	2,480,000	0.76
Exercised	(286,668)	0.65	(2,734,632)	0.61
Forfeited	-	-	(333,334)	0.73
Expired / cancelled	-	-	(2,000,000)	0.66
Outstanding - end of period	13,690,366	$ 0.57	13,977,034	$ 0.57
Exercisable - end of period	8,767,038	$ 0.55	7,570,372	$ 0.61

The Company recognized share-based payment expense related to stock options of $324,836 for the period ended March 31, 2012 (March 31, 2011 – $713,356).

c) Per share information

The diluted weighted average number of shares outstanding for the quarter ended March 31, 2012 was 274,955,663 (March 31, 2011 – 258,779,974). For the quarters ended March 31, 2012 and 2011, all share options were excluded from the calculation of diluted weighted average shares outstanding as they were anti-dilutive.

7. Segmented information

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

Financial information pertaining to the reportable segments as at and for the three months ended March 31, 2012 and 2011 is presented in the following tables:

As at and for the period ended March 31, 2012

	Canada	Argentina	Total
Total assets	$ 71,945,284	$ 36,405,116	$ 108,350,400
Total liabilities	(323,797)	(5,017,002)	(5,340,799)
Revenue	-	396,773	396,773
Loss	(684,610)	(482,755)	(1,167,365)
Depletion and depreciation	2,500	78,063	80,563
Other income (expenses)	81,456	(3,942)	77,514
Capital expenditures	9,822	6,681,842	6,691,664

As at and for the period ended March 31, 2011

	Canada	Argentina	Total
Total assets	$ 33,400,790	$ 24,896,058	$ 58,296,848
Total liabilities	(314,323)	(4,346,047)	(4,660,370)
Revenue	-	562,488	562,488
Income (loss)	(1,414,882)	(329,623)	(1,744,505)
Depletion and depreciation	2,700	93,601	96,301
Other income (expenses)	95,530	(41,123)	54,407
Capital expenditures	3,018	4,556,591	4,559,609

8. Supplemental cash flow information

For the three month period ended March 31,	2012	2011
Trade and other receivables	$ 74,694	$ 464,185
Prepaid expenses	(73,710)	(81,348)
Inventory	(27,307)	(107,447)
Trade and other payables	1,724,971	(980,442)
Change in non-cash working capital	$ 1,698,648	$ (705,052)
Attributable to:		
Operating activities	$ 1,223,011	$ 321,678
Financing activities	105,441	(3,880)
Investing activities	370,196	(1,022,850)
	$ 1,698,648	$ (705,052)

9. Commitments

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

Year	Amount
2012	$ 100,000
2013	104,000
2014	46,000
2015	-

In March 2012 the northern 108 km^2 of the 404 km^2 Coiron Amargo Block was converted to a 25 year exploitation concession by the Province of Neuquén. In addition, the exploration period for the remainder of the Coiron Amargo Block and the Curamhuele Block was extended to November 8, 2013. The extension of the Coiron Amargo and Curamhuele blocks will require additional work commitments of US$ 51.1 million (Madalena share – US$ 29.3 million). Both exploration blocks qualify for an additional one year extension period at the end of their exploration periods in the fourth quarter of 2013.

The initial exploration period on the Cortadera Block in the Province of Neuquén expired on October 26, 2011. The joint venture has agreed a work plan with provincial authorities which will require additional work commitments and is currently working with provincial authorities to formalize the extension of the initial exploration period. A delay or rejection of the extension terms may have a material adverse effect on the Company.

10. Capital management and financial risk

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.

In order to maintain a strong capital position 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; or
- 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.

Foreign currency exchange rate risk

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

The following table provides information on the foreign currency denominated working capital balances of the Company at March 31, 2012:

	Balance denominated in		Total CAD
	USD	ARS	equivalent
Cash and cash equivalents	24,802	11,369,257	$ 2,619,204
Trade and other receivables	366,484	1,041,663	603,275
Prepaid expenses	-	1,190,687	271,715
Inventory	-	324,028	73,943
Trade and other payables	3,382,440	5,149,495	$ 4,549,100

11. Related party transactions

These consolidated financial statements incorporate the financial statements of the Company and the subsidiaries listed in the following table:

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

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. During the quarter ended March 31, 2012, the Company incurred fees of $94,755 (2011 - $2,805) payable to a law firm in which a director of the Company is a partner.

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

For the three month period ended March 31,	2012	2011
Salaries and other short-term benefits	$ 124,636	$ 466,308
Share-based payments	267,483	669,773
Total remuneration	$ 392,119	$ 1,136,081

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

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

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

Michael J. Lock
President,
Upsilon Holdings Ltd.

Keith MacDonald
President,
Bamako Investment Management Ltd.

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

Jay Reid
Partner,
Burnet, Duckworth and Palmer LLP

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

OFFICERS
Dwayne H. Warkentin
President and Chief Executive Officer

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

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

LEGAL COUNSEL
Burnet, Duckworth and Palmer LLP
Calgary, Alberta

BANKERS
TD Canada Trust

AUDITORS
KPMG LLP
Calgary, Alberta

INDEPENDENT ENGINEERS
InSite Petroleum Consultants Ltd.

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

Alliance Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING
TSX Venture Exchange
Trading Symbol: "MVN"