MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") is provided by management of Madalena Ventures Inc. ("Madalena" or the "Company"), for the years ended December 31, 2008 and 2007. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2008 and 2007. 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 April 20, 2009. 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 accretion expenses, expectations as to the non-taxability of the Corporation and 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 Corporation 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, labor supply risks, environmental risks, competition from other producers, imprecision of reserve estimates, changes in general economic conditions, whether farm-in and farm-out opportunities result in agreements and other factors more fully described from time to time in the reports and filings made by the Corporation 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 Corporation does not undertake any obligation to publicly update or revise any forward-looking statements.

Non-GAAP Measurements

This MD&A contains the terms "funds from operations", "funds from operations per share", "netback" and "operating netback", which are not defined under Generally Accepted Accounting Principles ("GAAP"), and may not be comparable to similar measures reported by other companies. Management considers these measures to be useful supplementary information. Funds from operations, is a useful measure of how the Company generates funds to cover operating and capital spending. Operating netback is a useful measure for comparing prices received, royalties paid and operating costs incurred with industry peers.

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

Year ended December 31,	2008	2007
Cash flow from operating activities	$ (1,015,454)	$ (299,008)
Change in non-cash working capital	301,178	(129,169)
Funds from operations	$ (1,316,632)	$ (169,839)

Netback and operating netback are defined as total petroleum and natural gas revenue less royalties, operating expenses and transportation expenses. The following table reconciles operating netbacks to net loss and other comprehensive loss:

Year ended December 31,	2008	2007
Net loss and other comprehensive loss	$ (1,833,791)	$ (6,033,587)
Addback items not used in calculating operating netbacks		
Depletion, depreciation and accretion expense	1,188,546	4,422,984
Stock-based compensation expense	648,956	1,601,591
General and administrative expense	1,946,419	1,382,596
Foreign exchange gain	(1,299,708)	(158,613)
Interest income	(264,478)	(661,293)
Operating netbacks	$ 385,944	$ 553,678

Operating netbacks are analyzed further under Results of Operation.

HIGHLIGHTS

Year ended December 31,	2008	2007
Financial		
Petroleum and natural gas revenues	$ 764,700	$ 932,964
Interest income	264,478	661,293
Cash flow from operating activities	(1,015,454)	(299,008)
Cash flow from operating activities - basic and diluted[1]	(0.009)	(0.003)
Funds from operations[1]	(1,316,632)	(169,839)
Funds from operations per common share - basic and diluted[1]	(0.012)	(0.002)
Net loss for the period	(1,833,791)	(6,033,587)
Net loss per common share - basic and diluted	(0.017)	(0.056)
Capital expenditures	8,425,954	5,360,596
Total Assets	$23,874,947	$21,546,055
Operations		
Daily production		
Oil (bbls/d)	9	14
Natural gas (Mcf/d)	100	158
Natural gas liquids (bbls/d)	4	7
Oil equivalent (boe/d)	30	47
Average sales price		
Oil ($/bbl)	$ 101.70	$ 74.38
Natural gas ($/Mcf)	8.88	7.16
Natural gas liquids ($/bbl)	86.37	60.19
Oil equivalent ($/boe)	$ 69.64	$ 54.38

1) See "*Non-GAAP measurements*" above.

2008 annual and fourth quarter highlights include:

- Completed a $2.45 million private placement in April 2008.

- Completed drilling of the initial TT-2 well in the Remada Sud concession in southern Tunisia. The well tested positively for commercial flow rates of light crude oil. Approval to conduct a long term production test was received in Q1 2009 and is currently underway.

- Commenced and completed the 3D seismic programs for the Cortadera and Curamhuele blocks in Argentina. Analysis of the seismic data is underway and is scheduled to be completed during Q2 2009. In the fourth quarter, Madalena secured a drilling rig for the initial CAN X-2 exploratory well on the Coiron Amargo block in Argentina. Total depth on the well was reached in February 2009 and two separate hydrocarbon zones identified. Testing of the deeper formation was completed in March 2009, yielding an initial flow rate of 400 bbls/d (280 bbls/d net) with an oil gravity of 38 API and is expected to be brought on production in Q2 2009.

OVERVIEW

Tunisia

In 2008 Madalena completed evaluation of seismic data, selected a drilling site, and drilled and tested the TT-2 well on the Remada Sud concession in southern Tunisia. Testing conducted in the last half of 2008 demonstrated that the well is capable of producing light crude oil and a long term production testing plan was submitted to the Tunisia National Oil Company which was approved in Q1 2009. The well will be brought onto production pursuant to that plan in Q2 2009. Although testing has demonstrated that the well has potential to flow approximately 250 to 300 bbls/d (32 to 45 bbls/d net to Madelana), high fixed costs associated with bringing production to market from a single well production facililty may result in the well operating at a low netback until oil prices improve and additional production from other wells can be brought on stream.

Drilling the TT-2 well in the fourth quarter of 2008 has earned Madalena a 15% interest in 600,000 acres in the Remada Sud concession. The Company may participate in a new 3D seismic program during 2009 to further delineate the extent of the TT-2 discovery. Pending results of that seismic program and the ability to generate additional capital, development of the additional Remada Sud acreage could begin later in 2009 or 2010.

The Company has terminated its option to drill an exploratory earning well in the offshore Hammamet prospect in anticipation of focusing its capital in the Remada Sud region.

Argentina

In the first quarter of 2008, the Company commenced its Argentina branch operations by establishing banking operations, contracting a petroleum industry consultant and signing a three year office lease. The Company also completed its 3D seismic exploration programs on the Curamhuele and Cortadera blocks in the fourth quarter of 2008 and acquired an additional 20% working interest in Cortadera, giving Madalena a 90% interest and resulted in Madalena becoming operator of the block. The seismic data is currently being processed and the exploration potential of these blocks will be evaluated in the first half of 2009.

In the fourth quarter of 2008, Madalena was also able to secure a drilling rig to commence drilling the initial well on the Coiron Amargo block. Drilling of the CAN X-2 well was completed in February 2009 and two hydrocarbon zones were identified. Testing completed on the deeper zone has demonstrated initial flow rates of 400 bbls/d (280 bbls/d net) of light crude oil. The zone is currently being tied in and production is expected to commence in Q2 2009. The second zone is not presently capable of commercial flow rates and the Company may consider fracture stimulation of the formation at a later date. The Company is currently moving a pump to the CAN X-2 well site for the continuous production of the well.

The drilling of the CAN X-2 well will satisfy 100% of the work commitments for the Coiron Amargo block by the end of the second quarter of 2009. The Company has until November 2010 to satisfy the remaining work commitments on the Curamhuele and Cortadera blocks and may apply for a one year extension at the expiry date in the event work commitments are not completed by November 2010. The Company's share of the remaining work commitments at December 31, 2008 amount to $1,100,000 USD on the Cortadera block $3,396,800 USD on the Coiron Amargo block, and $1,131,000 USD on the Curamhuele block for a total of $5,627,800 USD.

Canada

The Company's Canadian oil and gas properties continue to provide funds from operations to finance a portion of general and administrative overhead. However, overall reserve declines and future commodity prices have negatively impacted the Canadian property results leading to a ceiling test write down of $795,000 for the fourth quarter of 2008. There are no significant capital expenditures committed or planned for the Canadian properties in 2009.

The Company has also historically relied on interest income earned on its excess cash balances to fund a portion of general and administrative overhead. The decline in interest rates in the fourth quarter of 2008 has negatively impacted the interest income earned by the Company. In addition, the weakening of the Canadian dollar against both the Argentine peso and US dollar has resulted in an increase in foreign exchange gains in the fourth quarter of 2008 as a significant portion of cash balances are denominated in these foreign currencies.

Going concern considerations

The historical financial information and forward-looking statements contained in this MD&A, together with the Company's audited consolidated financial statement for the year ended December 31, 2008 are 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. Currently there are material uncertainties that could negatively impact the Company's ability to continue as a going concern, including historical operating losses and limited cash flow from operating activities, decreasing commodity prices and interest rates that will further reduce cash flows from operations, reliance on third party financing to fund exploration and overhead expenses in an economic environment where equity and debt financing is increasingly difficult to secure, and the inability to find commercial oil and gas reserves in a timely manner.

In light of these uncertainties, management believes Madalena will continue as a going concern for a number of reasons including the following:

i. At December 31, 2008, the Company has a working capital surplus of approximately $7.2 million, including approximately $7.9 million in cash and cash equivalents;

ii. The Company has no external debt and the only significant commitments arising for 2009 relate to operating leases for office space in Calgary and Argentina; and

iii. The Company's overhead structure is relatively low cost and flexible.

In addition, management has implemented a strategy for 2009 which is focused on high impact, low cost exploration and development programs in an effort to conserve cash until the current global economic conditions recover and access to external capital improves.

RESULTS OF OPERATIONS

Year-Over-Year

Production

For the year ended December 31, 2008, Madalena averaged production of 30 boe/d compared to 47 boe/d in 2007. Total production decreased in 2008 due to natural declines in new wells brought on production in the first half of 2007 in addition to shutting-in production in 2008 for repairs and maintenance. In the year ended December 31, 2008 compared to 2007, oil production decreased to 9 bbs/d from 14 bbls/d, natural gas production decreased to 100 Mcf/day from 158 Mcf/day, and natural gas liquids decreased to 4 bbls/d from 7 bbls/d.

Petroleum and natural gas revenue

Revenue for the year ended December 31, 2008 totaled $764,700 compared to $932,964 in 2007. Revenue decreased in 2008 due to the production declines noted above, partially offset by increased realized commodity prices consistent with market trends for oil and natural gas. In the year ended December 31, 2008, Madalena received an average of $101.70/bbl for oil, $8.88/Mcf for natural gas and $86.37/bbl for natural gas liquids, compared to $74.38/bbl for oil, $7.16/Mcf for natural gas and $60.19/bbl for natural gas liquids in 2007.

Royalties

In the year ended December 31, 2008, crown royalties totaled $169,912 ($15.47/boe or 22.2% of revenue) compared to $119,624 ($6.97/boe or 12.8% of revenue) in 2007. Crown royalties increased in magnitude and on a per boe basis in 2008 as a result of the elimination of the crown royalty holidays associated with the Company's primary gas producing wells. Further, additional crown royalty expense was incurred in the second quarter of 2008 related to adjustments made by the joint venture operator for crown royalties actually incurred in prior months as the operator determined that a well was incorrectly subject to a royalty holiday.

In year ended December 31, 2008, gross overriding royalties ("GORR") totaled $44,656 ($4.07/boe or 5.8% of revenue) compared to $26,174 ($1.53/boe or 2.8% of revenue) in 2007. GORR increased in magnitude and on a per boe basis in 2008 as a result of new production attracting these types of royalties.

On January 1, 2009 the Government of Alberta implemented its New Royalty Framework ("NRF"). Based on the NRF, royalty rates on conventional and non-conventional petroleum and natural gas production may increase up to a maximum of 50% based on a range of commodity prices and production rates which are incorporated into sliding scale royalty calculations. In response to the drop in commodity prices experienced during the second half of 2008, the Government of Alberta announced on November 19, 2008, the introduction of a five-year program of transitional royalty rates with the intent of promoting new drilling. Under this new program, companies drilling new conventional petroleum and natural gas wells to a depth between 1,000 and 3,500 meters will be given a one-time option, on a well by well basis, to adopt either the new transitional royalty rates or those outlined in the NRF. In order to qualify for this program, wells must be drilled during the period starting on November 19, 2008 and ending on December 31, 2013. Following this period all new wells drilled will automatically be subject to the NRF. All of the Corporation's reserves and production are within the Province of Alberta and a significant portion are subject to the NRF.

Royalties under the NRF are sensitive to commodity prices and production levels. Therefore, the estimated NRF and corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled. Corporate royalty rates are expected to increase in 2009 as a result of these recent changes to royalties.

On March 3, 2009, the Government of Alberta announced a drilling royalty credit for new conventional petroleum and natural gas wells and a new well royalty incentive program. Under the drilling royalty credit program a $200 per meter royalty credit will be available on new conventional petroleum and natural gas wells drilled between April 1, 2009 and March 31, 2010, subject to certain maximum amounts. The maximum credits available will be determined by the Corporation's production level in 2008 and its drilling activity between April 1, 2009 and March 31, 2010. The new well incentive program will apply to all wells on Crown lands that begin production of conventional petroleum and natural gas between April 1, 2009 and March 31, 2010 and provides for a maximum 5% royalty rate on the primary product for the first 12 months of production, up to a maximum of 50,000 barrels of oil or 500 Mmcf of natural gas. These programs are expected to positively impact the Corporation. The effect of the announcement has not been reflected in the Corporation's reserves as evaluated by PLA at December 31, 2008.

Interest income

Interest income for the year ended December 31, 2008 totaled $264,478 compared to $661,293 in 2007. Interest income decreased in 2008 due to the use of cash-on-hand in exploration and development activities, particularly in Tunisia and Argentina and reduced interest rates on cash and cash equivalent balances.

Foreign exchange gain

The Company's operations in Tunisia and Argentina are subject to foreign exchange rate fluctuations for account balances denominated in US dollars and Argentine pesos. An increase in activity in Tunisia and Argentina in addition to the weakening of the Canadian dollar against both the US dollar and Argentine peso, particularly in the fourth quarter of 2008, resulted in a foreign exchange gain of $1,299,708 in the year ended December 31, 2008 compared to $158,613 in 2007.

Currently, the Company does not hedge its exposure to foreign currency fluctuations.

Operating expenses

Total operating expenses, including minimal transportation costs, totaled $164,188 ($14.95/boe) for the year ended December 31, 2008 compared to $233,488 ($13.61/boe) in 2007. Total operating expenses decreased in 2008 due to shutting-in certain production for repairs and maintenance and overall decreased production volumes. In contrast, operating expenses per boe increased in 2008 as a result of certain fixed operating costs which do not fluctuate with production volumes.

Operating Netbacks

	Amount	Per boe	Amount	Per boe
Petroleum and natural gas revenue	$ 764,700	$ 69.64	$ 932,964	$ 54.38
Royalties	214,568	19.54	145,798	8.50
Operating expenses, including transportation costs	164,188	14.95	233,488	13.61
Operating netback	$ 385,944	$ 35.15	$ 553,678	$ 32.28

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

The Company realized an operating netback of $35.15/boe for the year ended December 31, 2008 compared to $32.28/boe in 2007. Netbacks increased on a per boe basis in 2008 as a result of increased commodity prices which were only partially offset by increased crown and GORR royalty rates and operating expenses on a per boe basis.

General and administrative ("G&A") expenses

G&A expenses increased to $1,946,419 for the year ended December 31, 2008 from $1,382,596 for the year ended December 31, 2007 as a result of increased G&A in Argentina related to increased operations and drilling activities during the year. In the year ended December 31, 2008, the Company capitalized $379,329 of G&A expenses directly related to exploration and development activities, compared to $263,000 in 2007. The rate at which the Company is capitalizing G&A began increasing in the third quarter of 2007 and has continued through 2008 consistent with the increase in exploration activity in Argentina and Tunisia.

Stock-based compensation ("SBC") expense

SBC expense in the year ended December 31, 2008 totaled $648,956 compared to $1,601,591 in 2007. SBC expense reflects the amortization of existing stock options granted to employees and consultants which vest over three years. SBC expense was unusually high in 2007 as a result of a one-time charge of $679,000 related to the revaluation of options that were transferred between directors.

SBC for consultants is capitalized to property and equipment to the extent that the consultant's activities are directly related to the exploration or development of petroleum and natural gas. SBC for consultants is revalued each reporting period based on the period end price of the Company's outstanding common stock. In the year ended December 31, 2008, the Company capitalized $88,370 of SBC to property and equipment, compared to

$60,478 in 2007. SBC capitalized increased in 2008 due to additional stock options granted to consultants directly involved in exploration and development activities in the year, partially offset by a decrease in the fair value of these options at December 31, 2008 as a result of Madalena's decreasing share price.

At December 31, 2008, the Company has approximately $334,460 of unamortized SBC that will be charged to income over the remaining vesting period of the outstanding options.

Depletion, depreciation and accretion expense

Depletion and depreciation ("D&D") expense for the year ended December 31, 2008 totaled $1,182,736 compared $4,417,140 in 2007. D&D expense decreased in 2008 due to a lower carrying value on the Company's Canadian oil and gas properties resulting from a ceiling test write down in 2007 totaling $3,630,000. The Company incurred an additional ceiling test write down of $795,000 on its Canadian properties in Q4 2008. Only the Canadian oil and gas properties are subject to depletion as activity in Argentina and Tunisia is considered to be in the pre-production stage. Argentina and Tunisia capitalized pre-production costs are subject to impairment testing on an annual basis (as a minimum). There was no impairment to the total costs capitalized in these countries at December 31, 2008 or 2007.

Accretion expense associated with the Company's asset retirement obligation totaled $5,810 in the year ended December 31, 2008 compared to $5,844 in 2007. Accretion expense remained constant in 2008 as there was no significant change in the estimated cash flows associated with retirement costs of the Canadian oil and gas properties. An asset retirement provision was also recorded for the Argentina and Tunisia properties during the fourth quarter of 2008, but the accretion expense associated with these obligations will not begin accruing until 2009.

Net loss and other comprehensive loss

The Company realized a net loss of $1,833,791 for the year ended December 31, 2008, compared to a net loss of $6,033,587 in 2007. The net loss in 2007 was largely due to the write down of the Company's Canadian oil and gas properties and higher stock-based compensation expense noted previously. Increased commodity prices and the foreign exchange gain recorded by the Company in 2008 also reduced the net loss by partially offsetting production declines and increased royalty and G&A expense.

Income taxes

Future income tax assets and liabilities arise due to the difference between the tax basis of assets and their respective accounting carrying cost. The Company has Canadian tax losses and other cumulative tax deductions in excess of net book values, but to date, has not recognized the income tax benefit of these future tax assets as their recoverability is uncertain at this time. The Company does expect to be taxable in the Argentina as a result of bringing the Can-X2 well on production in 2009; however operating losses and capital spending incurred in Argentina to date will offset any future tax expense. Consequently a future tax asset of nil has been recorded at December 31, 2008 (2007 - nil).

Capital expenditures

Year ended December 31,	2008	2007
Argentina		
Geological and geophysical	$ 4,798,583	$ 173,820
Land	(123,698)	1,562,268
Drilling and completion	97,269	-
Other	281,587	162,595
	5,053,741	1,898,683
Tunisia		
Geological and geophysical	265,742	2,331,592
Land	-	-
Drilling and completion	2,939,374	-
	3,205,116	2,331,592
Canada		
Land	729	49
Drilling and completion	161,246	253,602
Well equipment and facilities	4,981	840,891
Other	141	16,919
	167,097	1,111,461
Total capital expenditures	$ 8,425,954	5,341,736

In the year ended December 31, 2008 Madalena incurred capital expenditures on petroleum and natural gas properties and office furniture and fixtures totaling $8,425,954 compared to $5,360,596 in 2007. Capital expenditures increased in 2008 due to the ongoing seismic and exploration activity in Argentina and drilling activity in Tunisia. In 2008, approximately $865,000 of Value Added Taxes ("VAT") incurred on Argentina capital expenditures was included in property and equipment (2007 - $18,860). 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.

Significant Fourth Quarter Events

(See also Quarterly Financial Information)

The Company's Canadian oil and gas properties continued to show natural decline in the fourth quarter of 2008 as Q4 production totaled 25 boe/d compared to 47 boe/d in Q4 2007 and 30 boe/d for all of 2008. Although the Company realized strong commodity prices for much of 2008 as compared to 2007, commodity prices decreased significantly in the fourth quarter of 2008. Madalena averaged $64.09/bbl for oil, $7.52/Mcf for natural gas and $55.90/bbl for natural gas liquids in the fourth quarter of 2008, compared to $101.70/bbl for oil, $8.88/Mcf for natural gas and $86.37/bble for natural gas liquids for all of 2008. The reserve declines and lower commodity prices negatively impacted the recoverable amounts of the Canadian properties leading to a ceiling test write down of $795,000 in Q4 2008.

In the fourth quarter of 2008, the Company incurred approximately $650,000 in Tunisia capital expenditures largely in connection with the completion and testing of the TT-2 well on the Remada Sud concession. The TT-2 well tested positively for commercial flow rates of light crude oil. However, approval to conduct long term production testing was not received until Q1 2009, and therefore, no commercial production was received from the TT-2 well in 2008.

Approximately $2.5 million of Argentina capital expenditures were incurred in the fourth quarter of 2008 in connection with the completion of the seismic program on the Cortadera and Curamhuele blocks and drilling the initial CAN X-2 exploratory well on the Coiron Amargo block. The CAN X-2 well tested positive for light crude oil in Q1 2009 and will be brought on production in Q2 2009. Therefore, no commercial production was received from this well in 2008.

The Argentina and Tunisia drilling activity in 2008 resulted in the recognition of asset retirement obligations in the fourth quarter of 2008 totaling $208,878 and $47,412, respectively. The accretion expense associated with these obligations will begin accruing in 2009.

The Company has historically relied on interest income earned on its excess cash balances to fund a portion of general and administrative overhead. The decline in interest rates in the fourth quarter of 2008 has negatively impacted the interest income earned by the Company. In addition, the weakening of the Canadian dollar against both the Argentine peso and US dollar has resulted in an increase in foreign exchange gains in the fourth quarter of 2008 as a significant portion of cash balances are denominated in these foreign currencies. Of the total $1,299,708 foreign exchange gain reported in 2008, approximately $650,000 was incurred in the fourth quarter.

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 and has revenue related to its Canadian oil and gas properties, but the cash generated from these activities is not sufficient to cover operating costs and other overhead.

The natural decline of the Canadian oil and gas reserves in 2008 combined with significantly lower commodity prices in the fourth quarter has negatively impacted funds from operations provided by these properties. In addition, lower cash balances and lower interest rates in 2008 resulted in decreased interest income in 2008 compared to 2007. Consequently, the Company' s funds from operations in the year ended December 31, 2008 increased to an outflow of $1,316,632 compared to an outflow of $169,839 in 2007 (funds from operations is a non-GAAP measurement – see the discussion on non-GAAP measurements above for a comparison to cash flow from operations). The Company anticipates bringing the Coiron Amargo CAN X-2 well on production in 2009 which should increase funds from operations; however, any delay in this production may increase the requirement of the Company to seek other sources of financing.

As a result of funding on-going exploration and development activities, primarily in Argentina and Tunisia, Madalena's working capital (including its cash and cash equivalents) decreased from $13,236,239 at December 31, 2007 to $7,243,361 at December 31, 2008. Historically, the Company raised funds from equity financings to fund exploration and development activities and overhead expenses, including completing a non-brokered private placement on April 4, 2008 for the issuance 4,375,003 common shares at $0.56 per share for total proceeds of $2,450,000. However, current global economic conditions have negatively impacted the availability of debt and equity financing sources. Management believes that the Company's existing cash balances will be sufficient to meet current obligations since the Company has no outstanding debt or capital commitments coming due in 2009 and the Company's general and administrative overhead is relatively flexible and low cost. In addition, management has implemented an exploration and development program for 2009 which is intended to conserve cash given the current economic conditions (see previous discussion of Going Concern Considerations).

TRANSACTIONS WITH RELATED PARTIES

There were no transactions with related parties in 2008 and no amounts are due to or from related parties at December 31, 2008.

During the year ended December 31, 2007 two of the Company's directors were also directors of a company that was a joint interest owner and operator of Madalena's Canadian oil and gas properties. This company is no longer the operator or joint interest owner of any of Madalena's oil and gas properties. In addition, during the year ended December 31, 2007 the Company incurred approximately $141,000 for legal services provided by a law firm in which one of the Company's directors was a partner. The services were provided at market rates and the director is no longer a partner in the law firm.

SHARE INFORMATION

At December 31, 2008 and April 20, 2009, the Company had 111,743,702 common shares and 11,155,000 stock options outstanding. In the second quarter of 2008 the Company completed a private placement resulting in the issuance of 4,375,003 common shares and all previously outstanding warrants to purchase common shares expired unexercised.

BUSINESS RISKS 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;
- Whether farm-in and farm-out opportunities result in agreements;
- Production risks associated the ability to extract commercial quantities of petroleum and natural gas;
- Transportation risk with respect to the ability to transport petroleum and natural gas to market;
- Third party credit risk and the resulting ability to collect amounts owed;
- Capital markets risk and the ability to finance future growth;
- Weather risk with respect to the ability to enter and drill wells in wet areas;
- Uncertainty as to the nature of evolving environmental legislation that is likely to result in stricter standards and enforcement;
- Gas processing risk with respect to the ability to process natural gas into third party owned facilities; and
- Environmental risk with respect to the ability to remedy spills, releases or emissions of various substances produced in association with petroleum and natural gas operations.

The Corporation will do its best to minimize these business risks by:

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

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers 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 the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

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

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Corporation's revenues may decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Corporation to additional access to capital risk. 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 Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business financial condition, results of operations and prospects.

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

CONTRACTUAL OBLIGATIONS

The Company has a lease commitment for its Calgary, Canada head office through June 15, 2011. The total estimated remaining lease payments at December 31, 2008, including operating costs, are approximately $317,000.

The Company has lease commitments for rental accommodations in Argentina which expire in October and December of 2009. The total estimated remaining lease payments at December 31, 2008 are $18,000 USD. The Company also has a lease agreement for office space in Argentina which expires in 2011. The total estimated remaining lease payments at December 31, 2008 is $65,000 USD.

The Company has agreed to work programs which have been approved by the Province of Neuquen in Argentina for three exploration blocks in the Province. The work programs require the Company to undertake specific activities on each block. At December 31, 2008 the Company's share of the remaining minimum work commitments is $5,627,800 USD.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2008 audited financial statements. Preparing financial statements in accordance with Canadian GAAP requires management to make judgments and estimates with respect to the critical accounting policies. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position. There were no changes to Madalena's critical accounting estimates during the year ended December 31, 2008.

INITIAL ADOPTION OF ACCOUNTING POLICIES

<u>New accounting policies</u>

The following describes the accounting policies initially adopted by the Company in 2008 as a result of certain events or transactions requiring the application of the new policies:

Principles of consolidation

On January 1, 2008 the Company adopted the Canadian accounting standard for "*Consolidated Financial Statements*" which requires the consolidation of all wholly owned subsidiaries and elimination of all inter-company balances. The standard was adopted in conjunction with the creation of two wholly owned Barbados subsidiaries on January 1, 2008 to which the Company transferred its interests in the Tunisian seismic option agreements. Since the Barbados companies are wholly owned, there was no significant impact on relevant reported account balances (i.e., cash, property and equipment, etc.).

Foreign currency translation

On January 1, 2008 the Company commenced operations in Tunisia and Argentina. Both locations are considered to be an "integrated foreign operation" for accounting purposes and their financial results are translated into Canadian dollars using the temporal method. Accordingly, the Company translates foreign denominated monetary assets and liabilities at the exchange rate prevailing at the period end; non-monetary assets, liabilities and related depletion, depreciation and accretion are translated at historic rates; and revenues and expenses are translated at the rate in effect at the time of the transaction. Any resulting foreign exchange gains or losses are included in earnings.

<u>New accounting standards</u>

The following describes the accounting policies initially adopted by the Company in 2008 as a result of new accounting standards:

Capital disclosures

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

Financial instruments disclosure and presentation

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

NEW ACCOUNTING PRONOUNCEMENTS

The following describes new accounting pronouncements that were issued in 2008, 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.

Goodwill and intangible assets

Effective January 1, 2009, the Company will be required to adopt the new Canadian accounting standard for "*Goodwill and Intangible Assets*", which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets, particularly with respect to those assets which are internally developed. The adoption of this standard should not have a material impact on the consolidated financial statements.

IFRS

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

Madalena commenced its IFRS convergence project in 2008 and is currently executing a specific convergence plan which will include assessment and quantification of anticipated impacts. The convergence plan has been designed with sufficient flexibility to adapt to changes and new developments in existing Canadian GAAP and IFRS standards. Quarterly updates of the status and implications of the convergence plan will be provided to the Audit Committee beginning in 2009.

Key elements of the convergence plan are as follows:

Convergence Plan	**Status**
Initial impact and diagnostic phase:	
• Assign roles and responsibility for the convergence plan.	Completed
• Ensure appropriate training and other resources are available to each member of the convergence team.	Preliminary training completed. Continue as needed through to the convergence date.
• Identify major differences between Canadian GAAP and IFRS standards and prioritize timing of next steps based on the complexity of the differences identified.	Completed
Research and planning phase	
• Perform detailed research on identified differences between Canadian GAAP and IFRS and select transitional and post convergence accounting policies.	To commence in 2009 and continued through convergence.
• Identify the impact of new accounting policies on business management and relationships, information systems and the overall control environment and develop a formal plan to address these impacts.	To commence in 2009 and continued through convergence.
• Develop a formal plan and timeline to address issues noted.	To commence in 2009 and continued through convergence.
Solution development and implementation phase	
• Quantify effects of identified accounting differences on financial results and develop formats and templates for financial statements and other financial reporting requirements.	To commence in 2010 and continued through convergence.
• Update information systems to ensure they provide IFRS compliant information.	To commence in 2009 and continue through convergence.
• Renegotiate service contracts, debt arrangements, employment compensation programs, as applicable, to ensure that terms are not negatively impacted by IFRS reported financial results.	To commence in 2010 and continued through convergence.
• Restate 2010 comparative financial statement balances, including opening retained earnings, and present 2011 financial results in full compliance with IFRS	To commence in 2009 and continue through convergence.

OUTLOOK

In 2008, the Company made significant progress towards completion of its exploration and development programs in both Tunisia and Argentina and exited the year with approximately $7.9 million of cash on hand. Given the current global economic conditions and difficulty in accessing external capital, much of 2009 will be focused on conserving cash and exploration and development activities will be focused on high impact prospects requiring minimal capital.

In 2009, the Company anticipates that the Remada Sud TT-2 well in Tunisia will commence production. The well may initially realize minimal operating netbacks until oil prices improve and increased production volumes in the area can support the high fixed facility cost structure associated with development of the Remada Sud concession. Exploration programs for the remaining acreage in Remada Sud are currently being contemplated for 2009 but the timing of those programs will be dependent on the Company's ability to generate sufficient capital to complete them.

In Argentina, the Company has completed drilling its CAN X-2 exploratory well in the Coiron Amargo block, fulfilling all its related work commitments for that block. Testing of the well has been completed and the well will be brought onto production during the second quarter of 2009. Cashflow generated by the CAN X-2 well, together with a portion of Madalena's available cash on hand will be used to further develop the Coiron Amargo block and identify exploration prospects from the results of the seismic programs conducted on the Curamhuele and Cortadera blocks.

QUARTERLY FINANCIAL INFORMATION

As at and for the three months ended	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Operations				
Daily production				
Oil (bbl/d)	8	8	11	9
Natural gas (mcf/d)	82	108	96	114
Natural gas liquids (bbl/d)	3	3	4	5
Oil equivalent (boe/d)	25	29	31	32
Average sales price				
Oil price ($bbl)	$ 64.09	$ 118.31	$ 121.26	$ 94.46
Natural gas price ($/mcf)	7.52	8.17	11.32	8.53
Natural gas liquids price ($/bbl)	55.90	108.00	106.20	78.39
Oil equivalent price ($/boe)	73.56	73.56	91.65	66.66
Operating net back ($/boe)	$ 24.21	$ 43.59	$ 43.26	$ 32.28
Financial				
Petroleum and natural gas revenues	$ 117,665	$ 196,260	$ 255,466	$ 195,309
Interest income	41,349	61,313	70,188	91,628
Net loss	(869,238)	(246,875)	(528,911)	(188,767)
Basic and diluted per share	(0.008)	(0.002)	(0.005)	(0.002)
Capital expenditures	3,335,224	2,607,546	424,618	2,058,566
Working capital	$ 7,243,361	$ 10,373,391	$ 12,978,586	$ 11,232,647
Shares outstanding (000's)	111,744	111,744	111,744	107,369

As at and for the three months ended	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Operations				
Daily production				
Oil (bbl/d)	18	8	28	-
Natural gas (mcf/d)	136	180	155	161
Natural gas liquids (bbl/d)	6	7	8	6
Oil equivalent (boe/d)	47	45	62	33
Average sales price				
Oil price ($bbl)	$ 77.07	$ 78.66	$ 71.42	$ -
Natural gas price ($/mcf)	6.32	6.04	8.31	8.03
Natural gas liquids price ($/bbl)	65.82	65.26	58.81	50.41
Oil equivalent price ($/boe)	56.75	48.38	60.88	48.60
Operating net back ($/boe)	$ 31.74	$ 25.38	$ 43.14	$ 23.15
Financial				
Petroleum and natural gas revenues	$ 245,704	$ 200,514	$ 341,338	$ 145,408
Interest income	128,382	164,981	177,874	190,056
Net loss	(3,624,807)	(462,486)	(836,521)	(1,109,773)
Basic and diluted per share	(0.030)	-	(0.008)	(0.010)
Capital expenditures	2,079,747	92,069	2,487,592	701,188
Working capital	$ 13,236,239	$ 15,144,359	$ 15,380,251	$ 17,713,097
Shares outstanding (000's)	107,369	107,369	107,369	106,869

DIRECTORS
Raymond G. Smith
Chairman,
Madalena Ventures Inc.

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

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

Ving Y. Woo
Independent Businessman

Michael J. Lock
President,
Upsilon Holdings Ltd.

Jay Reid
Partner, Burnet, Duckworth and Palmer LLP

James K. Wilson
VP Finance, CFO and Corporate Secretary,
Grizzly Resources Ltd.

OFFICERS
Kenneth L. Broadhurst
President and Chief Executive Officer

Dwayne H. Warkentin
Senior Vice President and Chief Operating Officer

Gregory J. Ford
Vice President, Finance and Chief Financial Officer

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

LEGAL COUNSEL
Burnet, Duckworth and Palmer LLP
Calgary, Alberta

BANKERS
BMO Bank of Montreal

AUDITORS
KPMG LLP
Calgary, Alberta

INDEPENDENT ENGINEERS
GLJ Petroleum Consultants

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"