

The logo consists of three overlapping, teardrop-shaped elements in a golden-brown color, arranged to resemble a flame or a stylized letter 'M'.

Madalena Ventures Inc.

Quarterly Report

**For the Three Months Ended March 31, 2007
(unaudited)**

President's Message

Madalena reached a significant milestone during Q1 2007 when we received listing approval to trade on the TSX Venture Exchange under the symbol "MVN" on February 15, 2007.

Another significant event during Q1 2007 was receipt of the final government approval for the establishment of a Madalena branch office in the Province of Rio Negro in Argentina. The establishment of the registered branch office will be a significant benefit to Madalena as we pursue deal opportunities in Argentina.

On the domestic drilling and production side, Madalena participated in the drilling of two wells in Edson during Q1 2007. Madalena participated for a 12.5% working interest in the first well which was not successful and for 16.667% in a second well which was cased as a potential gas well.

Significant progress has been made on our operations in Tunisia. The delineation and final approvals for the shooting of the seismic program for the Remada Sud onshore exploration block were finalized during Q1 2007 and the seismic program is currently underway. The Remada Sud block contains over 1.2 million acres in the highly prospective Ghadames basin of southern Tunisia. Madalena is participating for a 30% working interest in a 200 kilometer 3D seismic program which will further delineate structures identified by 2D seismic data shot during 2005. Upon review of the 3D seismic Madalena will have the option to participate for 30% in the drilling of a test well on the block to earn a 15% working interest in approximately 600,000 acres of land. Madalena will retain the option to drill a second test well on the block to earn an additional 600,000 acres and will have the right to participate in all further development of the block. In addition to the multi-zone play concepts defined by offsetting production, there are at least two additional trap configurations prospective on the block that could prove to be significantly larger. The Ghadames basin is widely recognized as a world-class oil and gas producing basin. It is anticipated a test well will be drilled prior to year end.

Significant progress was also made on the Hammamet offshore exploration block in Tunisia during Q1 2007. The delineation of the 3D seismic program was finalized and we anticipate the program will commence shooting during the third or fourth quarter of 2007. The Hammamet offshore exploration block contains over 1.1 million acres in the Pelagian basin offshore Tunisia. The block contains the previously developed Tazerka oil field which produced 21 million barrels prior to its deactivation. Lundin Petroleum announced in December 2006 that their Oudna block located offshore Tunisia has exceeded production rates of 20,000 boepd. The Oudna block directly offsets the Hammamet block and is surrounded on three sides by the Hammamet acreage. Madalena is participating for a 30% working interest in an extensive seismic program consisting of approximately 400 square kilometers of 3D seismic and 200 kilometers of 2D seismic to commence during the third or fourth quarter of 2007. Upon review of the seismic Madalena will have the option to participate for 30% in the drilling of a test well on the block to earn a 15% working interest and the right to participate in all further development of the block. The 3D seismic program has been designed to evaluate the potential reactivation of the Tazerka field, delineate seven significant hydrocarbon shows in wells drilled on the block, evaluate three large untested structures previously recognized on the block and high-grade the most prospective test well location on the block.

The Tunisia project is an exciting opportunity for Madalena and is advancing on schedule. The other key area for projected growth and development is South America where we are currently focused on several new venture opportunities. Madalena is committed to providing its shareholders with high quality investment opportunities resulting from the extensive framework we have established within the international oil and gas community over the past year. I look forward to providing you with updates and announcements throughout 2007.

Ken Broadhurst

President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") is provided by the management of Madalena Ventures Inc. ("Madalena" or the "Company"), for the three months ended March 31, 2007 with comparative information for the corresponding period in the prior year. This MD&A should be read in conjunction with the Company's MD&A and audited financial statements for the year ended December 31, 2006. The Company's audited financial statements and other public disclosure documents are filed on SEDAR at www.sedar.com. The commentary in this MD&A is based on information available to May 28, 2007. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

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

Forward-looking Statements

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

Non-GAAP Measurements

This MD&A contains the term "operating netback", which has been calculated as total petroleum and natural gas revenue less royalties, operating expenses, and transportation expenses and is not defined under Generally Accepted Accounting Principals ("GAAP"). Management considers operating netbacks as an important measure as it demonstrates the Company's profitability relative to current commodity prices.

Disclosure Controls and Procedures

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

The CEO and CFO have evaluated the effectiveness of the Company's DC&P as of March 31, 2007 and have concluded that the DC&P provide a reasonable level of assurance that material information related to the Company is recorded, processed, summarized, and reported in a timely fashion and that material information is made known to them by others within the organization except as described below.

Internal Controls over Financial Reporting

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

- (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of the assets of the Company;
- (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors; and
- (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets, that could have a material affect on the annual or interim financial statements.

ICFR have been designed under the supervision of the CEO and CFO of Madalena to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP, however in designing the ICFR, management has identified the following significant weaknesses inherent in the system:

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

Management is of the view that the size of the Company and cost of correcting these inherent weaknesses does not justify the additional assurance re-mediation will provide, and therefore does not plan to re-mediate these weaknesses. Management believes that the small size of the Company, allows the board of directors and management to possess significant knowledge of all events occurring in the Company which mitigates the possibility of a material error from taking place.

There were no changes in the Company’s ICFR during the first quarter of 2007 that have materially affected, or are reasonable likely to materially affect the Company’s ICFR.

HIGHLIGHTS

	Restated *	
	Three months ended March 31, 2007	Three months ended March 31, 2006
<i>Financial</i>		
Gross revenues petroleum and natural gas	\$ 145,408	\$ -
Interest revenues	190,056	26,520
Net income (loss) for the period	(1,146,773)	(948,451)
Net income (loss) per common share - basic and diluted	(0.01)	(0.06)
Capital expenditures	\$ 704,833	\$ 1,181,058
<i>Operations</i>		
Daily production		
Natural gas (Mcf)	160.9	-
Natural gas liquids (bbls)	6.4	-
Total production (boe @ 6:1)	2,992	-
Average sales price		
Natural gas (\$/Mcf)	8.03	-
Natural gas liquids (\$/bbl)	50.41	-
Netback per boe (6:1)		
Petroleum and natural gas	\$ 48.60	-
Royalties	7.35	-
Operating expenses	17.50	-
Transportation	0.62	-
Operating netback	\$ 23.15	-

* The three months ended March 31, 2006 have been restated to reflect an error in the calculation of stock based compensation which reduced the amount of stock based compensation by \$1,830,609

Highlights of the quarter include:

- Final listing approval to trade on the TSX Venture Exchange on February 15, 2007.
- Final government approval for the establishment of a branch office in the Province of Rio Negro in Argentina.
- Continued progress on 3D seismic programs in Tunisia.
- Maintenance of activities operating and drilling activities in Alberta.

OVERVIEW

In the first quarter of 2007 Madalena received final listing approval from the TSX Venture exchange which should provide greater liquidity for our investors. The Company also received final approval from the Province of Rio Negro to open a branch office in the province which should allow us to pursue additional deal opportunities in Argentina. Madalena spent a significant amount of time in the first quarter evaluating exploration and development opportunities in South America. Management also participated in the delineation and final approvals for its seismic program in the Remada Sud area of Tunisia, and completed the delineation of the seismic program for the offshore Hammamet block in Tunisia. In Alberta the Company participated in drilling two

new wells in the Edson area. Madalena participated for a 12.5% working interest in the first well which was not successful and for 16.667% in a second well which was cased as a potential gas well.

RESULTS OF OPERATIONS

Production

Madalena's daily production volumes averaged 33.2 boe/d in the first quarter of 2007, compared to 24.4 boe/d for the year ended December 31, 2006, and 40.2 boe/d for the fourth quarter of 2006. The Company had no production in the first quarter of 2006. Natural gas and natural gas liquids accounted for 100 percent of the Company's production in the first quarter. Slight declines in production in the first quarter over production in the fourth quarter of 2006, reflect flush production on initial start up and declines as production starts to stabilize.

Production Revenue

Madalena received an average of \$8.03 per Mcf for natural gas and and \$50.41 per bbl for natural gas liquids in the first quarter of 2007. For the year ended December 31, 2006 the Company averaged \$6.84 per Mcf for natural gas and \$55.74 per bbl for natural gas liquids. The Company had no production during the first quarter of 2006. Gas prices received by the Company are slightly higher than quoted AECO spot prices as the gas produced by the Company is higher in BTU value than the quoted gas prices on AECO.

Gross revenues for the first quarter of 2007 were \$116,242 (80%) for natural gas and \$29,167 (20%) for natural gas liquids. The Company had gross revenues of \$234,958 (81%) for natural gas and \$55,390 (19%) for natural gas liquids for the year ended December 31, 2006. The Company averaged \$48.6 per boe in the first quarter of 2007 and averaged \$43.24 per boe during 2006. There was no production in the first quarter of 2006.

The Company did not have any natural gas pricing contracts in place at March 31, 2007.

Interest Income

Interest income for the first quarter of 2007 amounted to \$190,056 compared to \$26,520 for the first quarter of 2006. Interest income for the year ended 2006 amounted to \$286,533. The increase in interest income reflects the Company's investment of funds it received from its private placement in November in low risk short term asset backed securities which are purchased at a discount and mature at face value providing interest income at an average yield of 4.2%.

Operating netbacks

Madalena realized the following operating netbacks from oil and gas operations:

		Three months ended March 31, 2007	Three months ended March 31, 2006
Netback per boe (6:1)			
Petroleum and natural gas	\$	48.60	-
Royalties		7.35	-
Operating expenses		17.50	-
Transportation		0.60	-
Operating netback	\$	23.15	-

For the first quarter of 2007 the average net back amounted to \$23.15 per boe compared to the total average operating netbacks of \$27.62 per boe for the year ended December 31, 2006. The Company did not have any production in the first quarter of 2006. Madalena does not operate any of its properties. Operating netbacks decreased over 2006 as a result of higher operating costs during the first quarter of 2007.

Royalties

Crown royalties amounted to \$22,000 for the first quarter of 2007 for an average of \$7.35 per boe or 15.1% of total production revenue. The Company had no production in the first quarter of 2006. For the year ended December 31, 2006 crown royalties were \$45,184 for an average of \$10.17 per boe or 15.6% of production revenues. The somewhat low royalty rates reflect reduced rates for low productivity wells and expected gas cost allowance reductions on production from the Alberta wells.

Production expenses and transportation

Total production expenses for the first quarter of 2007 amounted to \$52,295 or \$17.50 per boe and transportation costs amounted to \$1,849 or \$0.60 per boe. For the year ended December 31, 2006 production expenses amounted to \$55,704 or \$8.29 per boe, and transportation expenses amounted to \$4,011 or \$0.60 per boe for 2006. There was no production in the first quarter of 2006. Production expenses in total have increased due to higher production in the first quarter of 2007, and have increased on a boe basis over 2006 due to start up costs of new production and higher overall industry average costs.

General and administrative costs

General and administrative ("G&A") costs were \$393,023 for the first quarter of 2007, compared to \$89,033 in the first quarter of 2006 and \$1,013,873 for the year ended December 31, 2006. The Company capitalized \$15,490 of G&A in the Argentina cost center, and \$15,875 to the Tunisia cost center in the first quarter of 2007. For the year ended December 31, 2006 \$470,961 of G&A was capitalized in the Argentina cost center and \$31,692 of G&A was capitalized in the Tunisia cost center. There was no capitalized G&A in the first quarter of 2006. The capitalized G&A reflects costs directly attributable to exploration activities in these cost centers.

The Company incurred significantly more G&A costs in the first quarter of 2007 than it did in the first quarter of 2006. The higher costs reflect the Company's focus on international oil and gas exploration and development opportunities in the first quarter of 2007. In the first quarter of 2006 the Company was just beginning to transition from a small mining development company to an international oil and gas Company. Therefore in 2007 the Company had more G&A expenses related to rent, salaries, travel, geological consulting, and legal and accounting fees.

Stock-based compensation

Stock-based compensation ("SBC") in the first quarter of 2007 amounted to \$823,391 compared to \$913,526 for the first quarter of 2006. Total SBC for the year ended December 31, 2006 amounted to \$1,312,249. The costs recorded in the first quarter of 2007 reflect amortization of options granted during 2006 as well as a one time adjustment for options transferred from one director to two other directors during the quarter. Accounting standards require that a transfer of options in this fashion be reflected in the accounts as a contribution of capital by the transferor, and as an issuance of new options to the transferees thereby resulting in an additional expense for the Company on the deemed grant of the new options. In the first quarter of 2006 the Company restated its calculation of SBC by reducing the original SBC recorded in the accounts from \$2,744,135 to \$913,526, a decrease of \$1,830,609. The reduction reflects a revision to the calculation of SBC in order to charge the SBC with respect to options granted in the first quarter of 2006 over the correct vesting period. The Company capitalized \$3,646 of SBC to foreign cost centers in the first quarter of 2007 and \$28,783 of SBC to foreign cost centers during the year ended December 31, 2006. There was no SBC capitalized in the first quarter of 2006. The SBC capitalized reflects the estimated cost of options granted to the Company's geological consultant for evaluating exploration opportunities in the foreign cost centers. At March 31, 2007, the Company has \$1,347,159 of unamortized stock-based compensation costs that will be charged to income over the remaining vesting period of the options outstanding.

Depletion depreciation and accretion

Depletion for petroleum and natural gas assets is calculated using the unit-of-production method based on total estimated proved reserves. Depreciation on office furniture and fixtures and on leasehold improvements is calculated on a declining balance basis or on a straight line basis at rates designed to amortize the cost of the asset over its estimated useful life. Depletion expense for the first quarter of 2007 was \$184,000 and \$288,000 for the year ended December 31, 2006. There was no depletion recorded in the first quarter of 2006 as there was no production in the first quarter of 2006.

Depletion was not recorded in Argentina or Tunisia. These cost centers are considered to be in the development stage where all costs reasonably attributable to exploring for oil and gas in these areas are capitalized to the cost center. Management feels that the costs capitalized to date will be recoverable from future business activities in the area.

Depreciation for the first quarter of 2007 was \$4,000 and was \$19,431 for the year ended December 31, 2006. There was no depreciation recorded in the first quarter of 2006 as there were no assets to depreciate in the first quarter of 2006.

The provision for accretion of asset retirement costs was \$1,605 for the first quarter of 2007, and \$5,945 for the year ended December 31, 2006. There was no accretion recorded in the first quarter of 2006.

Canadian oil and gas property carrying value

At March 31, 2007 the Company has estimated the fair value of its proved Canadian oil and gas properties and compared it to the carrying value of these properties. As a result of this estimate of value, the Company has determined that the estimate of fair value of the properties is equal to or exceeds the carrying value at March 31, 2007 and that no impairment charge is required.

At December 31, 2006 the Company compared the estimated fair value of its Canadian oil and gas properties (as determined by an independent group of petroleum engineers based on the proven properties of the Company using a 0% discount rate) to the carrying cost of those properties, and determined that the carrying amount exceeded the estimated fair value. The Company prepared a ceiling test calculation in which the net present value of the proved plus probable reserves using a 5% discount rate was determined by the same group of independent engineers. The 5% discount rate was estimated to be the Company's risk free rate of return. As a result of this calculation, the Company determined that the carrying cost of the Canadian oil and gas properties had to be written down to their estimated value of \$6,455,000 and expensed \$2,480,341 in the fourth quarter of 2006. There was no ceiling test write down in the first quarter of 2006.

Loss from discontinued operations, distribution of assets, dividends, and gain on sale of marketable securities

In 2006 the Company decided to focus on International oil and gas exploration and development opportunities. In August of 2006 the Company received final approval to complete a plan of arrangement to distribute the mining exploration business, and marketable securities related to that business, to its shareholders. In the year ended December 31, 2006 the company identified \$58,662 of legal costs relating to the plan of arrangement that were removed from G&A and shown separately as a loss from discontinued operations. There were no costs incurred in the first quarter of 2007 or in the first quarter of 2006 that related to the discontinued operations.

On November 15, 2004 the Company declared a dividend in specie with respect to shares of Planet Exploration Inc. ("Planet"). Each shareholder of the Company at November 15, 2004 became entitled to receive 0.675 Planet shares for each Madalena share owned at November 15, 2004, subject to the shareholder fulfilling certain conditions. During 2006, and prior to the completion of the plan of arrangement, the Company distributed 96,963 Planet shares to shareholders that had fulfilled the conditions. The fair market value of the shares at the date of the distribution (determined from the trading value of the shares on the TSX Venture exchange) is recorded as dividends paid in kind, and any gain or loss on the disposition of the Planet shares is recorded as a gain on sale of marketable securities. During the year ended December 31, 2006 the Company recorded

\$51,716 of dividends in kind and \$45,016 of gain on sale of marketable securities. \$29,710 of dividends in kind and \$27,588 of gain on sale of marketable securities were recorded in the first quarter of 2006. At August 22, 2006 any Planet shares that had not been distributed by the Company were transferred to Great Bear Resources Ltd. who assumed the obligation to distribute the shares if the shareholders fulfilled the commitment specified in the dividend in specie.

Net loss from operations

The net loss for the first quarter of 2007 was \$1,146,773, compared to net loss of \$ 948,451 in the first quarter of 2006. The increase in the net loss for 2007 reflects higher G&A and depletion costs as discussed above, offset by higher oil and gas net revenues and interest income.

Income taxes

The Company has no provision for income taxes in 2007 or 2006. At December 31, 2006 the Company has tax pools available to deduct against income as follows:

Non capital loss carryforwards	3,567,983
Share issue costs	1,399,715
Asset retirement obligations	80,262
Property and equipment	7,596,680
ACRI	45,354

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's tax basis of its assets exceeds its accounting carrying costs which results in a net future tax asset. The benefit of the future tax assets of the Company have not been recognized in the Company as it is not more likely than not that the benefit of the assets will be realized in the carry forward period.

Capital Expenditures

Madalena spent \$704,833 on petroleum and natural gas properties and office furniture and fixtures in the first quarter of 2007 compared to \$1,181,058 in the first quarter of 2006. The expenditures incurred in Q1 of 2007 compared to Q1 of 2006 are summarized in the following table:

	Three months ended March 31, 2007	Three months ended March 31, 2006
<u>Canada:</u>		
<i>Oil and gas properties:</i>		
Drilling and intangible completions	\$ 541,052	\$ 1,162,874
Tangible completion and facilities	127,930	-
Land	49	-
Asset retirement obligations	-	-
Office furniture and equipment	792	-
<i>Mining properties</i>	-	18,184
<u>Argentina</u> – oil and gas exploration costs	15,375	-
<u>Tunisia</u> – oil and gas exploration costs	19,636	-
<u>Total capital expenditures</u>	<u>\$ 704,833</u>	<u>\$ 1,181,058</u>

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2007 Madalena had working capital of \$17,713,097 compared to \$6,544,488 at March 31, 2006 and \$ 18,309,436 at December 31, 2006. Working capital increased significantly over the first quarter of 2007 as a result of the issuance of common stock from private placements in May and November of 2006 for gross proceeds of \$21,124,200, and the issuance of shares on the exercise of stock options and warrants during 2006. In the first quarter of 2007 the Company issued common shares on the exercise of warrants in the amount of \$238,625. The Company has no debt at March 31, 2007. Capital expenditures in the first quarter of 2007 were funded entirely from working capital.

The Company is committed to a seismic exploration program in Tunisia in which it expects to incur \$4,700,000 during 2007. In Canada, the Company expects to spend \$1,208,000 on follow up wells, completions and tie-ins in the Edson and Brazeau areas in 2007. All expected expenditures will be funded from the Companies existing working capital.

TRANSACTIONS WITH RELATED PARTIES

Two directors of the Company are also directors of a public exploration company with which Madalena is in engaged in joint venture operations. All of the Company's oil and gas revenues, royalties and operating expenses are derived from this joint venture. At March 31, 2007 the Company has accounts payable due to this joint venture partner of \$271,943.

The Company utilizes the services of a law firm in which one of the directors is a partner. During the quarter ended March 31, 2007 the Company expended \$55,000 on services obtained from this firm.

SHARE INFORMATION

The Company has 106,868,699 common shares, 8,400,000 stock options and 14,586,940 warrants to purchase common shares outstanding at March 31, 2007. During the first quarter of 2007 the Company issued 477,250 shares pursuant to the exercise of warrants, compared to 12,000,000 shares issued pursuant to a private placement, 1,100,000 shares issued pursuant to stock options exercised, and 2,000,000 shares issued pursuant to warrants exercised in the first quarter of 2006.

At May 28, 2007 the Company had 107,368,699 common shares, 7,900,000 stock options and 14,086,940 outstanding. Subsequent to March 31, 2007 a director exercised 500,000 options to purchase 500,000 common shares at \$0.12 per share, and 500,000 warrants to purchase common shares at \$1.25 expired.

BUSINESS RISKS

The oil and gas industry involves inherent risks which include but are not limited to the uncertainty of the exploration process and finding new reserves, securing markets for production from existing reserves, commodity price fluctuations, exchange rate fluctuations, interest rate changes, and changes in government regulations related to pricing, royalties, taxes, land fees, allowable production volumes, and environmental requirements. The oil and natural gas industry is intensely competitive and the Company competes with a number of companies that may have better access to capital.

The Company's ability to increase reserves in the future will depend on its ability to select and acquire suitable prospects and the funds required to develop those prospects in a timely fashion. The ability of equity or debt financing is affected by many factors, some of which are not controllable by the Company.

The Company is focused on the international oil and gas exploration market. Conducting oil and gas exploration and development activities in foreign jurisdictions creates inherent risks in addition to oil and gas exploration risks which include but are not limited to currency instability, potential civil disturbances, currency and funds

movement controls, price controls, political instability, changes in foreign ownership restrictions, and potential expropriation of property.

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

CONTRACTUAL OBLIGATIONS

The Company has committed to a lease for office premises terminating on June 15, 2010. The estimated obligation at March 31, 2007, including operating costs at current levels, is \$387,223. The Company is also committed to a lease for its photocopier until December 15, 2010. The estimated obligation at March 31, 2007 is \$13,958.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies used by Madalena are disclosed in note 2 to the December 31, 2006 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.

CHANGES IN ACCOUNTING POLICIES

In 2007 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1506 "Accounting Changes", 1530 "Comprehensive Income", 3251 "Equity", 3855 "Financial Instruments – Recognition and Measurement", 3861 "Financial Instruments – Disclosure and Presentation", and 3865 "Hedges". Financial statements for prior periods have not been restated as a result of the adoption of these policies except as described below. For a detailed discussion of the accounting policies adopted please refer to Note 2 of the financial statements for the three month period ended March 31, 2007.

Financial Instruments

The Company's financial instruments consist of cash, asset backed debt securities, guaranteed investment certificates, accounts receivable, accounts payable, and accrued liabilities. At March 31, 2007, the carrying value of the cash, guaranteed investment certificates, accounts receivable, accounts payable, and accrued liabilities, approximated their fair value due to their short-term nature. The Company has no bank indebtedness.

The Company has designated its investments in asset backed debt securities, which are included in cash and cash equivalents, as held-for-trading financial assets at January 1, 2007. The fair value of these assets has been determined at March 31, 2007 based on trading prices for these instruments. The following table provides information on the fair value, carrying value, maturity value, maturity date, and interest yield of the asset backed debt securities at March 31, 2007. The increase in fair value has been recorded as interest income in the statement of operations for the period ended March 31, 2007.

Asset backed securities As at March 31, 2007	Cost	Maturity Value	Yield	Fair Value at March 31, 2007	Interest Income
Ridge Trust discount note due April 18, 2007	\$ 5,060,122	\$ 5,098,000	4.27%	\$ 5,086,504	\$ 26,382
Care Trust discount note due May 2, 2007	3,577,776	3,592,000	4.27%	3,577,830	54
Stars Trust discount note due May 7, 2007	7,583,298	7,644,000	4.27%	7,629,129	45,831
	\$ 16,221,196	\$ 16,334,000		\$ 16,293,462	\$ 72,267

Accounting Changes

On January 1, 2007 the Company adopted the new Canadian accounting standard for "Accounting Changes". The standard provides expanded disclosures for changes in accounting policies, accounting estimates and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or when the change results in more relevant and reliable information. During the period ended March 31, 2007 there were no changes in accounting policies, or accounting estimates that have a material impact on the Company's financial statements.

The Company has applied the new standard for correction of errors to the comparative information for the three months ended March 31, 2006 and for the summary of quarterly results provided in this MD&A. The comparative information for the three months ended March 31, 2006 has been retrospectively restated to correct an error in the calculation of the Company's stock based compensation. The original calculation failed to reflect the correct vesting period for recognition of the stock based compensation expense. The following table provides information on the amount of the correction for the March 31, 2006 comparative information.

Restated March 31, 2006 amounts	Amount Reported For March 31, 2006	<i>Adjustments</i>	Adjusted Balance For March 31, 2006
Stock based compensation	\$ 2,744,135	(1,830,609)	\$ 913,526
Loss before the undernoted	\$ (2,806,648)	1,830,609	\$ (976,039)
Net income (loss) for the period	\$ (2,779,060)	1,830,609	\$ (948,451)
Deficit - end of period	\$ (4,731,839)	1,830,609	\$ (2,901,230)
Net income (loss) per common share - basic and diluted			
Continuing operations	\$ (0.16)	(0.10)	\$ (0.06)

Comparative information for previously issued quarterly results has been restated to reflect the above mentioned error in stock based compensation, as well as adjust the comparative information for revenues, royalties, operating expenses, and depletion recorded in Q3 which should have been recorded in Q2. A summary of the changes to net income (loss) for each period compared to previously published information is shown in the following table:

Restated quarterly financial information	March 31, 2006	June 30, 2006	Sept 30, 2006	Dec 31, 2006
Net income (loss) previously reported	\$ (2,779,060)	(417,208)	(416,154)	(2,796,247)
Adjustments to previously stated amounts in net income (loss)				
Stock based compensation	1,830,609	15,742	-	(99,178)
Petroleum and natural gas revenues	-	18,580	(18,580)	-
Royalties	-	(74)	74	-
Operating expenses	-	(3,027)	3,027	-
Depreciation	-	(26,000)	26,000	-
Restated net income (loss)	\$ (948,451)	(411,987)	(405,633)	(2,895,425)

OUTLOOK

For the remainder of 2007, the Company will focus on pursuing oil and gas exploration activities in Argentina, completing its commitments for seismic exploration activities in Tunisia, and evaluating drilling and completion activities presented to it by the operator of the Edson and Brazeau area wells.

QUARTERLY FINANCIAL INFORMATION

The following table summarizes certain information for the previous eight quarters. For the periods ended March 31, 2006, December 31, 2005, September 30, 2005, and June 30, 2005 there was no production and therefore sales volumes and per unit information has not been shown.

		Restated *	Restated *	Restated *
	March 31,	Dec. 31,	Sept 30,	June 30,
	2007	2006	2006	2006
Sales Volumes:				
Natural gas (mcf/d)	161	198	109	68
Oil and natural gas liquids (bbl/d)	6	7	2	2
Barrels of oil equivalent (boe/d)	33	40	20	13
Per unit information:				
Natural gas price (\$/mcf)	8.03	7.54	5.75	6.57
Oil and natural gas liquids price (\$/bbl)	50.41	51.65	62.47	65.66
Oil equivalent price (\$/boe)	48.60	46.39	37.01	43.02
Operating net back (\$/boe)	23.15	25.11	32.57	27.81
Financial:(\$ except for share info)				
Revenue:				
Interest Income	\$ 190,056	\$ 147,948	\$ 94,762	\$ 17,303
Gain on disposal of marketable securities	-	-	17,429	-
Petroleum and natural gas revenues	145,408	171,532	67,475	51,341
Income (loss) from continuing operations	(1,146,773)	(2,892,752)	(352,724)	(408,907)
Basic and diluted per share	(0.01)	(0.03)	(0.00)	(0.01)
Net income (loss)	(1,146,773)	(2,895,425)	(405,633)	(411,987)
Basic and diluted per share	(0.01)	(0.03)	(0.01)	(0.01)
Capital expenditures	\$ 701,188	\$ 1,471,112	\$ 5,398,608	\$ 1,718,484
Shares outstanding (000's)	106,869	106,391	71,586	71,471
Working capital	\$ 17,713,097	\$ 18,309,436	\$ 274,561	\$ 5,874,256
	Restated *			
	March 31,	Dec. 31,	Sept 30,	June 30,
	2006	2005	2005	2005
Financial:(\$ except for share info)				
Revenue:				
Interest Income	\$ 26,520	18,225	\$ -	\$ 1,937
Gain on disposal of marketable securities	27,588	4,839	20,869	69,784
Petroleum and natural gas revenues	-	-	-	-
Income (loss) from continuing operations	(948,451)	(214,081)	20,869	71,721
Basic and diluted per share	(0.06)	(0.01)	0.00	0.00
Net income (loss)	(948,451)	(280,045)	(35,160)	23,021
Basic and diluted per share	(0.06)	(0.01)	(0.00)	0.00
Capital expenditures	1,181,058	133,108	56,782	-
Shares outstanding (000's)	66,521	51,421	35,471	35,471
Working capital	6,490,488	1,769,182	1,067,411	1,182,369

* The information for quarters ended in 2006 have all been restated to reflect adjustments noted in the Accounting Changes information above.

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
*Director,
Cork Exploration Inc.*

Michael J. Lock
*President,
Upsilon Holdings Ltd.*

J. G. (Jeff) Lawson
*Partner,
Burnet, Duckworth and Palmer LLP*

OFFICERS

Kenneth L. Broadhurst
President and Chief Executive Officer

Dwayne H. Warkentin
Senior Vice President and Chief Operating Officer

Gregory J. Ford
Vice President Finance and Chief Financial Officer

HEAD OFFICE LOCATION

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

LEGAL COUNSEL

Burnet, Duckworth and Palmer LLP
Calgary, Alberta

BANKERS

BMO Bank of Montreal

AUDITORS

KPMG LLP
Calgary, Alberta

INDEPENDENT ENGINEERS

GLJ Petroleum Consultants

REGISTRAR AND TRANSFER AGENT

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:
Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: "MVN"