

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 and six months ended June 30, 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 August 27, 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 terms "funds from operations", "funds from operations per share", "netback", and "operating netback", which are not defined under Generally Accepted Accounting Principals ("GAAP"), and may not be comparable to similar measures reported by other companies. Management considers these measures to be useful supplementary information for investors. Funds from operations, is defined as cash flow from operating activities before changes in non-cash working capital items. Operating netbacks are calculated as total petroleum and natural gas revenue less royalties, operating expenses, and transportation expenses.

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 June 30, 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 at this time. 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 three and six months ended June 30, 2007 that have materially affected, or are reasonable likely to materially affect the Company's ICFR.

HIGHLIGHTS

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006 Restated *	June 30, 2007	June 30, 2006 Restated *
<i>Financial</i>				
Gross revenues petroleum and natural gas	\$ 341,338	\$ 51,341	\$ 486,746	\$ 51,341
Interest revenues	177,874	17,303	367,930	43,823
Funds from operations	94,745	(251,919)	(39,031)	(314,432)
Funds from operations per common share - basic and diluted	0.00	(0.00)	(0.00)	(0.01)
Net income (loss) for the period	(836,521)	(411,987)	(1,946,293)	(1,360,438)
Net income (loss) per common share - basic and diluted	(0.01)	(0.02)	(0.02)	(0.02)
Capital expenditures	\$ 2,496,254	\$ 1,181,058	\$ 3,201,088	\$ 2,899,542
<i>Operations</i>				
Daily production				
Oil (bbls/d)	28.3	-	14.2	-
Natural gas (Mcf/d)	154.5	67.9	157.6	67.9
Natural gas liquids (bbls/d)	7.5	1.8	7.0	1.8
Oil equivalent (boe/d) (1)	61.6	13.1	47.5	13.1
Average sales price				
Oil (\$/bbl)	71.42	-	71.42	-
Natural gas (\$/mcf)	8.31	6.57	8.17	6.57
Natural gas liquids (\$/bbl)	58.81	65.66	54.96	65.66
Netback per boe (6:1)				
Petroleum and natural gas	\$ 60.88	\$ 43.02	\$ 56.61	\$ 43.02
Royalties	5.74	8.01	6.30	8.01
Operating expenses	12.00	7.20	14.13	7.20
Operating netback	\$ 43.14	\$ 27.81	\$ 36.18	\$ 27.81

* The three months ended June 30, 2006 have been restated to adjust errors in the calculation of stock based compensation oil and gas revenues, expenses and depletion - see Note 12 to the June 30, 2007 financial statements

Highlights of the quarter include:

- Tunisian seismic projects advance with promising opportunities.
- Continued work on additional prospects in Argentina.
- Additional production from re-designated oil well in Alberta.
- Positive funds from operations achieved in second quarter.

OVERVIEW

In the second quarter of 2007 Madalena continued the process of evaluation of seismic information on its Tunisian interests and advanced \$2,286,000 to its joint venture partner to complete 3D seismic programs on the Remada Sud and Hammamet blocks in Tunisia. Evaluation of the initial 2D seismic on Remada Sud led to an announcement in July that Madalena would participate in the drilling of an exploratory well on the Remada Sud onshore exploration block ("Block") containing over 1.2 million acres in the highly prospective Ghadames basin of southern Tunisia. Madalena spent a significant amount of time in the second quarter evaluating additional exploration and development opportunities in South America. In Alberta the Company spent approximately \$270,000 on tie-ins of existing wells and facilities with over \$100,000 of that amount spent on completing an oil well which resulted in significant increases to Madalena's production in the second quarter.

RESULTS OF OPERATIONS

Production

Madalena's daily production volumes averaged 61.6 boe/d for the three months ended June 30, 2007 and 47.5 boe/d for the six months ended June 30, 2007, compared to 13.1 boe/d for the comparable periods in 2006. Increased production in the three months ended June 30, 2007 was attributable to the start up of production from the 9-32 oil well in Brazeau, Alberta, which was tied in and started producing in April. Significant increases in production rates over 2006 reflect the early stage of development of the Company in the first six months of 2006. During this period the Company was in the process of drilling the Canadian properties which have now been tied in and are producing or have been evaluated and shut-in.

Production Revenue

Madalena received an average of \$71.42/bbl for the oil production brought on stream in the three months ended June 30, 2007 which is slightly lower than the average Edmonton par price per barrel of \$72.61 for the quarter. The Company received \$8.31 per Mcf for the three months ended and \$8.17 per Mcf for the six months ended June 30, 2007 for natural gas compared to \$6.57 per Mcf for the three and six month periods ended June 30, 2006. The increase in natural gas prices reflect increases posted for AECO spot prices for the three months ended June 30, 2007 versus the comparable period for 2006. AECO spot prices averaged \$7.06 per Mcf for the three months ended June 30, 2007 and \$6.00 per Mcf for the three months ended June 30, 2006. Gas produced from the Edson and Brazeau areas has a higher heat energy value than AECO spot prices. The Company received \$58.51 per bbl for the three months and \$54.96 per bbl for the six months ended June 30, 2007 for natural gas liquids compared to \$65.66 for the same periods in 2006. The reduction in price of natural gas liquids over 2006 reflects a drop in the average posted price of pentanes by 11% over the same production period in 2006.

Gross revenues for the three months ended June 30, 2007 were \$184,159 (54%) for oil, \$116,866 (34%) for natural gas, and \$40,317 (12%) for natural gas liquids, while gross revenues for the six months ended June 30, 2007 were \$184,159 (38%) for oil, \$233,108 (48%) for natural gas, and \$69,484 (14%) for natural gas liquids compared to \$nil for oil, \$40,604 (79%), and \$10,737 (21%) for natural gas liquids for the three and six months ended June 30, 2006.

The Company did not have any commodity pricing contracts in place at June 30, 2007.

Interest Income

Interest income for the three and six months ended June 30, 2007 amounted to \$177,874 and \$367,930 respectively compared to \$17,303 and \$43,823 for the comparative periods in 2006. The increase in interest income reflects the Company's investment of funds it received from its private placement in November 2006 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%.

Royalties

Crown royalties of \$32,208 for the three months ended, and \$54,208 for the six months ended June 30, 2007 compared to \$9,562 for the three and six months ended June 30, 2006 result in averages of \$5.74 per boe, and \$6.30 per boe for the three and six month periods ended June 30, 2007, compared to \$8.01 for the same periods in 2006. The royalty rates reflect recognition by the operator of the Edson and Brazeau wells of reduced royalty rates under the deep well royalty holiday program. The reduced rates also reflect low productivity wells and gas cost allowance reductions.

Operating expenses

Operating expenses for the three and six months ended June 30, 2007 amounted to \$50,430 and \$102,725 or \$8.99 and \$11.95 per boe compared to \$8,005 or \$6.71 per boe for the there and six months ended June 30, 2006. Higher operating expenses reflect higher industry operating cost in the Western Canada basin.

Transportation costs amounted to \$16,853 and \$18,702, or \$3.01 and \$2.18 per boe for the three and six months ended June 30, 2007 compared to \$577 or \$0.49 per boe for the three and six months ended June 30, 2006. Higher transportation costs reflect the higher cost of trucking oil from the 9-32 well compared to gas transportation costs from low production gas wells in 2006.

Operating netbacks

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

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006 Restated *	June 30, 2007	June 30, 2006 Restated *
Netback per boe (6:1)				
Petroleum and natural gas	\$ 60.88	\$ 43.02	\$ 56.61	\$ 43.02
Royalties	5.74	8.01	6.30	8.01
Operating expenses	8.99	6.71	11.95	6.71
Transportation	3.01	0.49	2.18	0.49
Operating netback	\$ 43.14	\$ 27.81	\$ 36.18	\$ 27.81

* The three months ended March 31, 2006 have been restated to reflect an error in the calculation of stock based compensation and record oil and gas revenues, expenses and depletion in the proper period

The average net back for the three and six month periods ended June 30, 2007 reflects the higher oil content of production in the second quarter of 2007 compared to mostly start up natural gas and natural gas liquids production in the same period of 2006. The Company did not have any production in the first quarter of 2006. Madalena does not operate any of its properties.

General and administrative costs

General and administrative ("G&A") costs of \$325,002, and \$718,025 were incurred for the three and six months ended June 30, 2007 compared to \$302,419 and \$391,452 for the three and six months ended June 30, 2006. The increase in G&A for 2007 over 2006 reflects that the Company had few administration expenses while it was a mining exploration Company in the first quarter of 2006. As the Company transitioned from a mining exploration Company to an international oil and gas Company, it incurred more costs for increased staff, technical and professional services, and office costs.

The Company capitalized \$42,001 and \$57,491 of G&A in the Argentina cost center for the three and six months ended June 30, 2007, and capitalized \$14,604 and \$34,240 to the Tunisia cost center for the three and six months ended June 30, 2007. There was no G&A capitalized in the comparative periods for 2006.

Stock-based compensation

Stock-based compensation ("SBC") expense amounted to \$447,671 and \$1,270,952 for the three and six months ended June 30, 2007 compared to \$130,988 and \$1,044,514 for the three and six months ended June 30, 2006. SBC expenses in 2007 include additional expenses for options granted on June 18, 2007, and a one time charge for options transferred from one director to two other directors in the first quarter of 2007. Accounting standards view this transaction as a forfeiture by the transferor, and the grant of new options for the transferees. As a result the SBC for the transferred options is left in contributed surplus as an expense, and a new expense is recorded for the 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 to amortize the expense over the correct vesting period. The Company capitalized \$8,662 and \$12,308 of SBC to foreign cost centers in the three and six months ended June 30, 2007. There was no SBC capitalized in the comparative periods for 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 June 30, 2007, the Company has approximately \$1,342,000 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 expense for the three and six months ended June 30, 2007 was \$200,000 and \$347,000 respectively compared to \$26,000 for the three and six month periods ending June 30, 2006. The increase in depletion reflects increased production from the Canadian properties in 2007.

Depletion was not recorded in Argentina or Tunisia. These cost centers are considered to be in the pre-production 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 three and six months ended June 30, 2007 was \$4,100 and was \$8,100 respectively compared to nil for the same periods in 2006, due to the acquisition of office leaseholds and furniture and fixtures.

The provision for accretion due to the change in present values of asset retirement costs was \$1,605 for the three months ended June 30, 2007, and \$3,210 for the six months ended June 30, 2007 compared to nil in 2006.

Canadian oil and gas property carrying value

At June 30, 2007 the Company 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 determined that the carrying value of its Canadian oil and gas properties exceeds the estimate of fair value of and that an impairment charge should be calculated and recorded.

At June 30, 2007 the Company calculated an estimate of impairment in the amount of \$278,000. To calculate this impairment, the Company used an estimate of net present value of the proved plus probable reserves using a 5% discount rate at December 31, 2006 (as determined by an independent group of petroleum engineers at December 31, 2006), and adjusted that value for production during the six months ended June 30, 2007, for the affect of reduced forecast prices for natural gas posted by an independent group of petroleum engineers, and for the estimated value of additional reserves of approximately 39,000 boe arising from an additional re-completion of one of the Canadian wells. The impairment of \$278,000 has been included in depletion for the three months ended June 30, 2007, resulting in a total depletion of \$478,000.

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. In the three and six months ended June 30, 2006, \$3,080 of the costs related to the discontinued operations were recorded separately in the financial statements.

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 and in the six months ended June 30, 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 three months ended June 30, 2007 amounted to \$836,521, and the net loss for the six months ended June 30, 2007 was \$1,946,293 compared to a net loss of \$411,987 and \$1,360,438 for the three and six months ended June 30, 2006. Although net revenues from oil and gas production and interest income have increased 8 to 9 times over the previous periods, depletion (including the write down of costs incurred on the Canadian properties) has eliminated that increase. In addition stock based compensation increased by 3 times in the three months ended June 30, 2007 over 2006 as additional expenses for the options granted June 18, 2007 were recorded. Over all, the Company has maintained a positive cash flow despite the charges for depletion and stock based compensation.

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 \$2,496,254 on petroleum and natural gas properties and office furniture and fixtures in the three months ended June 30, 2007 and \$3,201,088 in the six months ended June 30, 2007 compared to \$1,718,484 and \$2,899,452 in the comparative periods for 2006. The expenditures incurred in 2007 compared to 2006 are summarized in the following table:

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006
Canada:				
<i>Oil and gas properties:</i>				
Drilling and intangible completions	\$ 117,332	\$ 1,716,237	\$ 658,384	\$ 2,879,111
Tangible completion and facilities	152,767	-	280,697	-
Land	-	-	49	-
Asset retirement obligations	-	-	-	-
Office furniture and equipment	510	-	1,302	-
<i>Mining properties</i>	-	2,247	-	20,341
Argentina - prospecting costs	(75,139)	-	(59,764)	-
Tunisia - prospecting costs	2,300,784	-	2,320,420	-
Total capital expenditures	\$ 2,496,254	\$ 1,718,484	\$ 3,201,088	\$ 2,899,452

LIQUIDITY AND CAPITAL RESOURCES

Presently, Madalena has limited production and therefore limited cash flow from operations. The Company currently relies on funds from equity financing to pay for exploration activities and overhead expenses. Continuing operations and the recovery of property and equipment costs is dependent on Madalena's ability to identify commercial oil and gas reserves, generate profitable operations and obtain sufficient funds to complete development activities.

At June 30, 2007 Madalena had working capital of \$15,380,251 compared to \$5,890,005 at June 30, 2006 and \$18,309,436 at December 31, 2006. Working capital at June 30, 2007 increased compared to June 30, 2006 as a result of the issuance of common stock from private placements in November of 2006 and the issuance of shares on the exercise of stock options and warrants during 2006. In the six months ended June 30, 2007 the Company received \$238,625 on the exercise of warrants and \$60,000 on the exercise of options. The Company has no debt at June 30, 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 for 2007. The Company expects to incur an additional \$2,100,000 during 2007 on the seismic program and approximately \$3,000,000 on drilling an exploration well in early 2008. In Canada, the Company expects to spend an additional \$25,000 on re-completion of a well completions and tie-ins in the Brazeau area 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 June 30, 2007 the Company has accounts payable due to this joint venture partner of \$185,953.

The Company utilizes the services of a law firm in which one of the directors is a partner. During the three and six months ended June 30, 2007 the Company expended \$19,200 and \$74,700 respectively on services obtained from this firm.

SHARE INFORMATION

The Company has 107,368,699 common shares, 10,050,000 stock options and 14,086,940 warrants to purchase common shares outstanding at June 30, 2007. During the three months ended June 30, 2007 the Company issued 500,000 common shares pursuant to the exercise of options by a director at \$0.12 per share, granted incentive stock options to directors, officers, employees, and consultant to purchase up to 2,150,000 shares of the Company at \$0.60 per share, and had 500,000 warrants to purchase common shares at a price of \$1.25 per share expire. In the six months ended June 30, 2007, in addition to the items noted for the three months ended June 30, 2007, the Company issued 477,250 common shares at \$0.50 per share pursuant to the exercise of warrants, and had 7,500 warrants to acquire common shares at a price of \$0.50 per common share expire.

During the six months ended June 30, 2006 the Company issued 12,000,000 common shares at \$0.50 per share and 1,000,000 common shares at \$1.00 per share pursuant to private placements, 5,350,000 common shares at \$0.80 per share pursuant to warrants exercised, 1,500,000 common shares at \$0.12 per share and 200,000 common shares at \$0.41 per share pursuant to stock options exercised by departing directors.

At August 27, 2007 the Company had 107,368,699 common shares, 10,050,000 stock options and 14,086,940 outstanding.

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 June 30, 2007, including operating costs at current levels, is \$357,436 in total.

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 new accounting standards for "Accounting Changes", "Comprehensive Income", "Equity", "Financial Instruments – Recognition and Measurement", "Financial Instruments – Disclosure and Presentation", and "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 and six month periods ended June 30, 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 June 30, 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 June 30, 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 June 30, 2007. The increase in fair value has been recorded as interest income in the statement of operations for the three six months ended June 30, 2007.

As at June 30, 2007						
	Cost	Maturity Value	Yield	Fair Value at June 30, 2007	Interest Income	
Ridge Trust discount note due July 23, 2007	\$ 5,134,964	\$ 5,156,000	4.27%	\$ 5,141,089	\$ 6,125	
Care Trust discount note due July 12, 2007	1,407,235	1,413,000	4.27%	1,410,818	3,583	
Stars Trust discount note due August 15, 2007	7,664,131	7,754,000	4.28%	7,709,128	44,997	
	\$ 14,206,330	\$ 14,323,000		\$ 14,261,035	\$ 54,705	

News articles published subsequent to June 30, 2007 suggest that asset backed securities are at risk of not being paid on maturity. The above noted securities are different from the securities mentioned in the press in that they are not extendable, they are not issued by any of the financial organizations implicated and they are products of one of the major Canadian banks. The Company received full and complete payment of all of the above securities on the maturity dates noted above.

Restatement of comparative information

The comparative information for the three and six months ended June 30, 2006 has been retrospectively restated to correct errors in the calculation of stock based compensation, revenues, expenses, royalties and depletion. The stock based compensation expense failed to reflect the correct vesting period, and certain oil and gas revenues, expenses, and depletion were recorded in the wrong period. The following tables provide information on the amount of the correction for the three and six months ended June 30, 2006.

Restated amounts for the Three months ended June 30, 2006	Amount Reported For June 30, 2006	<i>Adjustments</i>	Adjusted Balance For June 30, 2006
Revenue:			
Petroleum and natural gas	\$ 32,761	18,580	\$ 51,341
Royalties	(9,488)	(74)	(9,562)
	23,273	18,506	41,779
Interest	17,303		17,303
	40,576	18,506	59,082
Expenses:			
Operating	5,555	3,027	8,582
General and administrative	333,401	(30,982)	302,419
Stock based compensation	146,730	(15,742)	130,988
Depletion, depreciation and accretion	-	26,000	26,000
	485,686	(17,697)	467,989
Loss before the undernoted	(445,110)	36,203	(408,907)
Gain on sale marketable securities	27,902	(27,902)	-
Income (loss) from continuing operations	(417,208)	8,301	(408,907)
Loss from discontinued operations (note 3)	-	(3,080)	(3,080)
Net income (loss) for the period	(417,208)	5,221	(411,987)
Deficit - beginning of the period	(4,731,839)	1,830,609	(2,901,230)
Distribution of assets (note 3)			
Dividend paid in kind	-		-
Deficit - end of period	\$ (5,149,047)	1,835,830	\$ (3,313,217)

Restated amounts for the Six months ended June 30, 2006	Amount Reported For June 30, 2006	<i>Adjustments</i>	Adjusted Balance For June 30, 2006
Revenue:			
Petroleum and natural gas	\$ 32,761	18,580	\$ 51,341
Royalties	(9,488)	(74)	(9,562)
	23,273	18,506	41,779
Interest	43,823		43,823
	67,096	18,506	85,602
Expenses:			
Operating	5,555	3,027	8,582
General and administrative	422,434	(30,982)	391,452
Stock based compensation	2,890,865	(1,846,351)	1,044,514
Depletion, depreciation and accretion	-	26,000	26,000
	3,318,854	(1,848,306)	1,470,548
Loss before the undernoted	(3,251,758)	1,866,812	(1,384,946)
Gain on sale marketable securities	55,490	(27,902)	27,588
Income (loss) from continuing operations	(3,196,268)	1,838,910	(1,357,358)
Loss from discontinued operations (note 3)	-	(3,080)	(3,080)
Net income (loss) for the period	(3,196,268)	1,835,830	(1,360,438)
Deficit - beginning of the period	(1,923,069)		(1,923,069)
Distribution of assets (note 3)			
Dividend paid in kind	(29,710)		(29,710)
Deficit - end of period	\$ (5,149,047)	1,835,830	\$ (3,313,217)
Net income (loss) per common share - basic and diluted			
Continuing operations	\$ (0.05)		\$ (0.02)
Discontinued operations	\$ -		\$ (0.00)
	\$ (0.05)		\$ (0.02)
Weighted Average number of shares:			
Basic and Diluted	62,718,187		62,718,187

Comparative information for previously issued quarterly results has been restated to reflect the above mentioned errors. A summary of the changes to net income (loss) for each period compared to previously published information is shown in the following table:

	March 31, 2006	June 30, 2006	Sept 30, 2006	Dec 31, 2006
Restated quarterly financial information				
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 in Canada.

QUARTERLY FINANCIAL INFORMATION

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

	June 30, 2007	March 31, 2007	Restated * Dec. 31, 2006	Restated * Sept 30, 2006
Sales Volumes:				
Oil (bbl/d)	28			
Natural gas (mcf/d)	155	161	198	109
Natural gas liquids (bbl/d)	8	6	7	2
Barrels of oil equivalent (boe/d)	62	33	40	20
Per unit information:				
Oil price (\$/bbl)	71.42			
Natural gas price (\$/mcf)	8.31	8.03	7.54	5.75
Natural gas liquids price (\$/bbl)	58.81	50.41	51.65	62.47
Oil equivalent price (\$/boe)	60.88	48.60	46.39	37.01
Operating net back (\$/boe)	43.14	23.15	25.11	32.57
Financial:(\$ except for share info)				
Revenue:				
Interest Income	\$ 177,874	\$ 190,056	\$ 147,948	\$ 94,762
Gain on disposal of marketable securities	-	-	-	17,429
Petroleum and natural gas revenues	341,338	145,408	171,532	67,475
Income (loss) from continuing operations	(836,521)	(1,146,773)	(2,892,752)	(352,724)
Basic and diluted per share	(0.01)	(0.01)	(0.03)	(0.00)
Net income (loss)	(836,521)	(1,146,773)	(2,895,425)	(405,633)
Basic and diluted per share	(0.01)	(0.01)	(0.03)	(0.01)
Capital expenditures	\$ 2,496,254	\$ 701,188	\$ 1,471,112	\$ 5,398,608
Shares outstanding (000's)	107,369	106,869	106,391	71,586
Working capital	\$ 15,380,251	\$ 17,713,097	\$ 18,309,436	\$ 274,561

	Restated *	Restated *		
	June 30,	March 31,	Dec. 31,	Sept 30,
	2006	2006	2005	2005
Sales Volumes:				
Natural gas (mcf/d)	68			
Natural gas liquids (bbl/d)	2			
Barrels of oil equivalent (boe/d)	13			
Per unit information:				
Natural gas price (\$/mcf)	6.57			
Oil and natural gas liquids price (\$/bbl)	65.66			
Oil equivalent price (\$/boe)	43.02			
Operating net back (\$/boe)	27.81			
Financial:(\$ except for share info)				
Revenue:				
Interest Income	\$ 17,303	26,520	\$ 18,225	\$ -
Gain on disposal of marketable securities	-	27,588	4,839	20,869
Petroleum and natural gas revenues	51,341	-	-	-
Income (loss) from continuing operations	(408,907)	(948,451)	(214,081)	20,869
Basic and diluted per share	(0.01)	(0.06)	(0.01)	0.00
Net income (loss)	(411,987)	(948,451)	(280,045)	(35,160)
Basic and diluted per share	(0.01)	(0.06)	(0.01)	(0.00)
Capital expenditures	1,718,484	1,181,058	133,108	56,782
Shares outstanding (000's)	71,471	66,521	51,421	35,471
Working capital	5,874,256	6,490,488	1,769,182	1,067,411

* The information for quarters ended in 2006 have 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*

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

OFFICERS

Kenneth L. Broadhurst
President and Chief Executive Officer

Dwayne H. Warkentin
Senior Vice President and Chief Operating Officer

Gregory J. Ford, CA
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"