MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2014

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This Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is based on information available to April 16, 2015 and should be read in conjunction with Madalena Energy Inc.'s ("Madalena" or the "Company") audited consolidated financial statements ("Consolidated Financial Statements") for the years ended December 31, 2014 and 2013 and the accompanying notes. This MD&A contains forward-looking information about our current expectations, estimates, projections and assumptions. See the Advisory for information on the risk factors that could cause actual results to differ materially and the assumptions underlying our forward-looking information. Madalena's Management prepared the MD&A, while the Audit Committee of the Madalena Board of Directors (the "Board") reviewed and recommended its approval by the Board. Additional information relevant to the Company's activities contained in its continuous disclosure documents, including our quarterly consolidated interim financial statements and the Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com and on the Company's website at www.madalenaenergy.com.

Basis of Presentation

This MD&A and the Consolidated Financial Statements and comparative information have been prepared in Canadian dollars, except where another currency has been indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB"). Production volumes are presented on a before royalties basis.

Unless otherwise indicated, tabular financial amounts, other than per share amounts, are in thousands of Canadian dollars.

Non-GAAP Measures

Certain financial measures in this document do not have a standardized meaning as prescribed by IFRS, such as funds flow from operations and netbacks and therefore are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in order to provide shareholders and potential investors with additional measures for analyzing the Company's ability to generate funds to finance its operations and information regarding its liquidity. The additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The definition and reconciliation of each non-GAAP measure is presented in the Operating Results, Financial Results and Liquidity and Capital Resources sections of this MD&A.

The reconciliation between cash flow from operating activities and funds flow from operations can be found in the MD&A. Funds flow from operations per share is calculated using the same basic and diluted weighted average number of shares for the period, consistent with the calculations of earnings per share.

The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. This equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Introduction

Madalena is a Calgary, Alberta, Canada-based junior oil and gas exploration, development and production company with operations both internationally in the Neuquén and NorOeste basins of Argentina and domestically within the greater Paddle River area of Alberta, Canada. Madalena's strategy is to create value through the generation of a portfolio of high quality oil and gas assets in proven hydrocarbon areas with significant development potential. The Company is focused on building a growth oriented, sustainable business model, deploying a balanced approach between lower risk development and high impact exploration/delineation activities across both conventional assets and unconventional resource plays.

Prior to June 25, 2014, the Company's existing Argentine operations included production from one concession at Coiron Amargo, which produced approximately 300 boe/d in the first quarter of 2014.

On June 25, 2014, the Company acquired all of the outstanding shares of the Argentine business unit of Gran Tierra Energy Inc. for cash consideration of $59.2 million (including cash of $11.2 million) and 29,831,537 common shares at a fair value of $0.51 per common share (the "Acquisition"). The Acquisition significantly increased Madalena's Argentine reserves, production and undeveloped land position and added a fully functional independent business unit in Argentina, with an experienced technical and operational team. Current Argentine production is approximately 3,800 boe/d.

All information disclosed below for the year ended December 31, 2014 includes the results of the Acquisition from June 25 – December 31, 2014.

Unless otherwise indicated, all dollar amounts are in Canadian dollars.

Sales Volumes

	Three months ended December 31		Year ended December 31	
Average daily sales volumes	**2014**	2013	**2014**	2013
Argentina				
Crude oil (Bbls/d)	**2,653**	154	**1,634**	170
Natural gas (Mcf/d)	**4,541**	117	**2,470**	126
Total daily production (boe/d)	**3,410**	173	**2,045**	191
Canada				
Crude oil and NGLs (Bbls/d)	**338**	557	**402**	359
Natural gas (Mcf/d)	**1,964**	3,249	**2,614**	3,221
Total daily production (boe/d)	**665**	1,098	**837**	895
Corporate				
Total daily production (boe/d)	**4,075**	1,271	**2,883**	1,087
% Oil & NGLs	**73%**	56%	**71%**	49%

Argentina

Madalena's primary producing concessions are at Surubi, Puesto Morales and Coiron Amargo. Other producing concessions include El Chivil, El Vinalar and Palmar Largo. All concessions produce oil and Puesto Morales and Coiron Amargo also produce natural gas. Approximately 75% of Madalena's current production comes from Surubi and Puesto Morales.

Crude oil sales volumes for the the three months ended December 31, 2014 ("the Quarter") increased to 2,653 bbls/d from 154 bbls/d in the three months ended December 31, 2013 (“Q4 - 2013”), primarily as a result of the Acquisition and increased production from successful horizontal drilling at Coiron Amargo. Natural gas sales volumes for the Quarter increased to 4,541 mcf/d from 117 mcf/d in the three months ended December 31, 2013 (“Q4 - 2013”), primarily as a result of the Acquisition.

Crude oil sales volumes for the the year ended December 31, 2014 (the “Year”) increased to 1,634 bbls/d from 170 bbls/d in the year ended December 31, 2013 (the “Year – 2013”), primarily as a result of the Acquisition and increased production from successful horizontal drilling at Coiron Amargo. Natural gas sales volumes for the Year increased to 2,470 mcf/d from 126 mcf/d in the Year – 2013, primarily as a result of the Acquisition.

Madalena expects Q1 - 2015 sales volumes to average approximately 3,250 boe/d as a result of natural declines. Current production is approximately 3,800 boe/d in Argentina.

Canada
Sales volumes during the Quarter decreased 39% to 665 boe/d from 1,098 boe/d in Q4 – 2013. Decreased production was due to natural production declines and down time in the Quarter due to workovers.

Sales volumes for the Year decreased to 837 boe/d from 895 boe/d in the Year 2013 as a result of natural production declines.

On February 1, 2015, Madalena temporarily suspended production of approximately 660 boe/d (approximately 90% of current production) as the Paddle River gas plant was shut down for a minimum period of two months due to current economic conditions and the recent commodity price declines in North America. During March, 2015 approximately 125 bbls/d was restored on a month-to-month basis. Madalena continues to review other alternative existing gas plant options in the general area to assess potential interim or long-term processing solutions. Madalena expects Q1 - 2015 sales volumes to average approximately 300 boe/d (55% oil and liquids) and is working towards restoring the majority of the remaining shut-in volumes in Canada by the end of Q2-2015.

Average Realized Prices

	Three months ended December 31		**Year ended December 31**	
Canadian $	**2014**	**2013**	**2014**	**2013**
Argentina				
Crude oil – $/bbl	**91.70**	86.05	**88.52**	81.17
Natural gas – $/mcf	**4.43**	4.66	**5.20**	4.48
Total – $/boe	**77.24**	79.53	**76.98**	75.20
Canada				
Crude oil and NGLs – $/bbl	**56.22**	64.92	**74.68**	69.06
Natural gas – $/mcf	**3.63**	3.48	**4.74**	3.12
Total - $/boe	**39.28**	43.21	**50.63**	38.90
Corporate				
Crude oil and NGLs – $/bbl	**87.69**	69.50	**85.79**	72.95
Natural gas – $/mcf	**4.19**	3.52	**4.97**	3.18
Total - $/boe	**71.05**	48.16	**69.33**	45.28

Argentina
The Government of Argentina sets the benchmark (Medanito) price for oil. Over the last few years world prices (WTI and Brent) increased sharply while the Argentine prices did not keep pace. Conversely, when world prices fell sharply in the latter half of 2014, Argentina prices remain relatively stable. Although currently Argentine prices are

approximately 30% higher than Brent pricing, there can be no assurances that prices in Argentina will remain above Brent and/or WTI.

The increase in oil prices for the Quarter compared to Q3 – 2014 was primarily a result of the strengthening United States dollar (“US$”) against the Canadian dollar.

The increase in oil and gas prices for the Year compared to Year 2013 was primarily a result of the strengthening US$ against the Canadian dollar.

The Medanito crude quality oil posting averaged US$80.35/Bbl for the Year (Year -2013 - US$77.43) and US$83.60/Bbl for the Quarter (Q4 - 2013 - US$81.03). The Medanito crude quality oil posting has averaged US$76.30/Bbl for the first three months of 2015. The posting for April is US$76.00/Bbl. The Company’s average discount to this posting is approximately US$4.00/Bbl for quality and transportation differentials. Although there are no indications of any change to the oil pricing market in Argentina, posted prices can be changed by the regulators on a month by month basis.

Gas prices in Argentina are fixed by the government regulator in US$/mmbtu. Summer prices have been set at US$4.10/mmbtu October 2014 to April 2015. For the period May to September 2015 which is the Argentine winter, the price generally increases. Last winter it was US$5.20/mmbtu.

On February 2, 2015 the Government of Argentina announced a new oil incentive program. The program runs from January 1, 2015 to December 31, 2015 but could be extended for one year. To stimulate production the government has set a US$3.00/Bbl royalty free bonus payment on all production for companies that grow their production or maintain it at 95% of Q4 - 2014 volumes. For the first quarter of 2015, Madalena believes it has qualified and is making an application for this bonus payment.

The Company anticipates Argentina prices to average $72.00 per boe during Q1 – 2015, assuming a US$ to Canadian dollar of 1.25:1.

Canada

For the Quarter, Madalena realized a 9% decrease in per boe selling price to $39.28 for the Quarter compared to $43.21 for Q4 – 2013. These price reductions were primarily a result of lower crude oil prices.

For the Year, realized crude oil prices were slightly higher than those received in the Year - 2013 while significantly higher gas prices were realized for the Year compared to the Year - 2013 as natural gas prices strengthened in the first half of the Year.

The Company anticipates Canadian prices to average $33.00 per boe during Q1 – 2015.

As of December 31, 2014, the Company has the following physical natural gas and oil contracts in place:

Type	Period	Volume	Price Floor	Price Ceiling	Index
Natural gas fixed	Nov 1, 2014 to Oct. 31, 2015	500 GJ/d	$3.52CDN	$3.52 CDN	AECO
Crude oil call options	Jan 1, 2015 to Dec. 31, 2015	50 bbl/d	-	$95.00 US	WTI

The fair value of commodity contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. The fair value of commodity contracts as at December 31, 2014 was a net receivable of $189,000 (December 31, 2013 – net liability of $90,000). Realized losses as at December 31, 2014 were $168,000 (December 31, 2013 – realized gain of $133,000) and are included in gain on commodity contracts on the statement of loss and comprehensive loss.

Effective April 1, 2015, the Company closed its natural gas hedge realizing a gain of $92,000.

Foreign Exchange Fluctuations

	Three months ended December 31			Year ended December 31		
	2014	2013	**% Change**	**2014**	2013	**% Change**
Average US$ to CDN dollar	**1.14**	1.05	**8.3**	**1.10**	1.03	**7.3**
Average Argentina Peso to US$	**0.12**	0.17	**(28.9)**	**0.12**	0.18	**(32.6)**
Period end US$ to CDN dollar	**1.16**	1.06	**9.1**	**1.16**	1.06	**9.1**
Period end Argentina Peso to US$	**0.12**	0.15	**(23.8)**	**0.12**	0.15	**(23.8)**

The table above provides various exchange rates that illustrate the quarterly and annual foreign exchange fluctuations between the Argentina peso ("peso"), Canadian dollar and the US$. The table illustrates the continuing devaluation of the Argentine peso against the US$ and the strength of the US$ against the Canadian dollar.

Revenue

	Three months ended December 31		Year ended December 31	
Canadian $000s, except per boe	**2014**	**2013**	**2014**	**2013**
Argentina				
Crude oil	**22,380**	1,219	**52,783**	5,031
Natural gas	**1,851**	50	**4,689**	206
	24,231	1,269	**57,472**	5,237
Canada				
Crude oil and NGLs	**1,748**	3,324	**10,948**	9,046
Natural gas	**657**	1,040	**4,525**	3,677
	2,405	4,364	**15,473**	12,723
Corporate Total	**26,636**	5,633	**72,945**	17,960
Corporate - $/boe	**71.05**	48.16	**69.33**	45.28

Argentina

Oil and gas revenue was $24.2 million for the Quarter compared to $1.3 million for Q4 – 2013 due to the production realized from the Acquisition, increased production from successful horizontal drilling at Coiron Amargo and improved prices from both oil and gas resulting from a strengthening US$.

Oil and gas sales were $57.5 million for the Year compared to $5.2 million for the Year - 2013 due to the Acquisition and increased oil and gas sales from the Coiron Amargo concession.

Canada

Oil and gas revenue decreased 45% to $2.4 million in the Quarter compared to $4.4 million in Q4 – 2013 due to a 39% decline in boe sales volumes and an 18% decrease in oil prices.

Oil and gas sales increased to $15.5 million for the Year compared to $12.7 million for the Year - 2013, primarily due to a 12% increase in oil production and a 52% increase in natural gas prices.

Royalties

Canadian $000s, except per boe	Three months ended December 31 2014	Three months ended December 31 2013	Year ended December 31 2014	Year ended December 31 2013
Argentina				
Royalties	**3,611**	161	**8,406**	801
As % of revenue from Argentina	**15%**	13%	**15%**	15%
Canada				
Royalties	**290**	502	**1,827**	1,574
As % of revenue from Canada	**12%**	12%	**12%**	12%
Corporate total	**3,901**	663	**10,233**	2,375
Corporate - $/boe	**10.41**	5.67	**9.73**	5.99

Argentina

Royalty expenses were $3.6 million for the Quarter compared to $0.2 million in Q4 – 2013 due to higher production volumes as a result of the Acquisition. Argentina royalties averaged 15% post Acquisition as a result of slightly higher royalty rates in certain Argentine provinces. Royalty expenses were $8.4 million for the Year compared to $0.8 million in Year – 2013 due to higher production volumes as a result of the Acquisition.

The Company expects royalty rates in 2015 to be consistent with 2014.

Canada

Royalty expenses were $0.3 million for the Quarter compared to $0.5 million in Q4 – 2013 due to the decline in oil and gas production volumes. Royalty expenses were $1.8 million for the Year compared to $1.6 million in Year – 2013, primarily due to higher natural gas prices which offset a slight decline in oil and gas production volumes.

The Company expects royalty rates in 2015 to be consistent with 2014.

Operating Costs

Canadian $000s, except per boe	Three months ended December 31 2014	Three months ended December 31 2013	Year ended December 31 2014	Year ended December 31 2013
Argentina				
Operating costs	**10,385**	640	**22,318**	2,807
$/boe	**33.11**	40.14	**29.90**	40.31
Canada				
Operating costs	**2,325**	2,362	**7,467**	6,729
$/boe	**37.99**	23.38	**24.43**	20.58
Corporate total	**12,710**	3,002	**29,785**	9,536
Corporate - $/boe	**33.90**	25.67	**28.31**	24.04

Argentina

Operating costs during the Quarter increased to $10.4 million from $0.6 million in Q4 – 2013 as a result of the Acquisition. On a per boe basis, operating costs for the Quarter declined 18% to $33.11 per boe from $40.14 per boe in Q4 – 2013, primarily as a result of the Acquisition and also a result of the construction of surface fluid handling and gas conservation facilities that were completed in early 2014 at Coiron Amargo.

Operating costs during the Year increased to $22.3 million from $2.8 million in Year – 2013 as a result of the Acquisition. On a per boe basis, operating costs for the Year declined 26% to $29.90 per boe from $40.31 per boe in Year – 2013, primarily as a result of the Acquisition and also a result of the construction of surface fluid handling and gas conservation facilities that were completed in early 2014 at Coiron Amargo.

Management expects operating costs to average approximately $30 per boe in Q1 - 2015.

Canada
Operating costs during the Quarter decreased to $2.3 million from $2.4 million in Q4 – 2013 as a result of lower production volumes that were offset by higher per unit costs. On a per boe basis, operating costs for the Quarter increased to $37.99 per boe from $23.38 per boe in Q4 – 2013, primarily as result of workovers conducted during the Quarter and a thirteenth month adjustment from a third party gas processor.

Operating costs during the Year increased to $7.5 million from $6.7 million in Year – 2013 as a result of higher per unit costs that were partially offset by lower production volumes. On a per boe basis, operating costs for the Year increased 19% to $24.43 per boe from $20.58 per boe in Year – 2013, primarily as result of workovers conducted during the Quarter and a thirteenth month adjustment from a third party gas processor.

Management expects average operating costs to average $32 per boe in Q1 - 2015.

Netbacks (1)

	Three months ended December 31		**Year ended December 31**	
Canadian $/ boe	**2014**	**2013**	**2014**	**2013**
Argentina				
Revenue	**77.24**	79.53	**76.98**	75.20
Royalties	**(11.51)**	(10.11)	**(11.26)**	(11.51)
Operating expenses	**(33.11)**	(40.14)	**(29.90)**	(40.31)
Netbacks	**32.62**	29.28	**35.82**	23.38
Canada				
Revenue	**39.28**	43.21	**50.63**	38.90
Royalties	**(4.74)**	(4.97)	**(5.98)**	(4.81)
Operating expenses	**(37.99)**	(23.38)	**(24.43)**	(20.58)
Netbacks	**(3.45)**	14.86	**20.22**	13.51
Corporate total				
Revenue	**71.05**	48.16	**69.33**	45.28
Royalties	**(10.41)**	(5.67)	**(9.73)**	(5.99)
Operating expenses	**(33.90)**	(25.67)	**(28.31)**	(24.04)
Netbacks	**26.74**	16.82	**31.29**	15.25

(1) The term "netback" is a non-GAAP measure and may not be comparable with the calculation of other entities. Netback is calculated as the average unit sales price, less royalties and operating expenses and represents the cash margin for every barrel of oil equivalent sold. The Company uses this measure to analyze operating performance and considers netback a key measure as it demonstrates its profitability relative to current commodity prices.

General and Administration ("G&A") Expenses

Canadian $000s	Three months ended December 31 2014	2013	Year ended December 31 2014	2013
Argentina				
Gross G&A	**2,098**	307	**5,282**	1,253
Capitalized	**(512)**	-	**(634)**	-
	1,586	307	**4,648**	1,253
Canada	**1,787**	1,017	**6,003**	4,112
	3,323	1,324	**10,651**	5,365

Argentina
Net G&A expenses for the Quarter increased to $1.6 million from $0.3 million in Q4 - 2013 and for the Year increased to $4.6 million from $1.3 million in Year – 2013. The increases were primarily a result of the Acquisition, which increased production tenfold and added a fully functional independent business unit in Argentina, with an experienced technical and operational team. The Company currently employs 43 office employees in Argentina compared to three in 2013. With the increase in personnel, the Company has the human resources to effectively manage complex operations. The Company intends to optimize in areas where efficiencies can be realized.

G&A expenses for Q1-2015 for Argentina, net of amounts capitalized, are estimated at approximately $1.5 million.

Canada
G&A expense for the Quarter increased to $1.8 million from $1.0 million in Q4 - 2013 and for the Year increased to $6.0 million from $4.1 million in Year – 2013. The increase was primarily a result of the Acquisition, which resulted in increased G&A in a number of areas - additional employees in financial reporting, additional consulting services, primarily in geophysical and engineering and added professional fees related to audit, tax, accounting and reserve report preparation. The Company has seven full-time employees, the same number as in 2013, and a reduction of two employees since the end of 2014. This reduction is attributed to the reduction of activity related to the Canadian operations as the focus of the Company has shifted to Argentina. The Company intends to optimize in areas where efficiencies can be realized.

No G&A costs were capitalized in Canada in 2014 or 2013.

G&A expenses for Canada for Q1 – 2015 are estimated at approximately $1.5 million.

Finance Income and Expenses

Canadian $000s	Three months ended December 31 2014	2013	Year ended December 31 2014	2013
Bank charges	**508**	173	**1,675**	633
Foreign exchange (gain) loss	**422**	(1,024)	**(1,642)**	(3,586)
Accretion	**118**	33	**281**	137
Interest and other income	**(102)**	(155)	**(221)**	(468)
	946	(973)	**93**	(3,151)

Bank Charges
In Argentina, the Company is subject to various forms of taxes in addition to royalties and income taxes. These expenses are included in Bank charges above and consist of the following:

- Bank taxes are levied on all debits and credits in bank accounts at a general rate of 0.6%, of which one third may be considered as a credit towards the payment of either income tax or minimum income tax.
- Equity taxes are levied on the net assets of a company and taxed at a rate of 1%.
- Stamp taxes are levied on the execution of public or private instruments and the applicable rate is also 1%.
- Provincial turnover charges of 1% are levied on intercompany allocations for third party services.

Bank charges for the Quarter increased to $0.5 million from $0.2 million in Q4 - 2013 as a result of increased transaction activity due to the Acquisition. Bank charges for the Year increased to $1.7 million from $0.6 million in Year - 2013 as a result of increased transaction activity due to the Acquisition. Bank charges for Q1 – 2015 are estimated at approximately $0.6 million.

Foreign exchange (gain) loss

During the Quarter, the Company realized a foreign exchange loss of $0.4 million compared to a gain of $1.0 million for Q4 – 2013. The loss for the Quarter was a result of the continuing devaluation of the Argentine peso against the US$. The gain for Q4 – 2013 was a result of beneficial exchange rates between the peso and the Canadian dollar that existed in the market at the time of funding the Argentina exploration and development activity from Canada.

During the Year, the Company realized a foreign exchange gain of $1.6 million compared to a gain of $3.6 million for the Year - 2013. The gains for both years were a result of beneficial exchange rates between the Argentine peso and the Canadian dollar that existed in the market at the time of funding the Argentina exploration and development activity from Canada. The gain for the Year was realized during the first six months of 2014 as the Argentina operations have not required any funding from Canada since the Acquisition. The loss for the last six months of 2014 was a result of the continuing devaluation of the Argentine peso against the US$.

As a result of the change in functional currency from Argentine peso to US$ for the Argentine subsidiary that was owned prior to the Acquisition, exchange rate fluctuations between the US$ and the Canadian dollar will impact other comprehensive income or loss for periods subsequent to July 1, 2014. Prior to July 1, 2014, exchange rate fluctuations between the peso to Canadian dollar impacted other comprehensive income or loss.

Accretion

Accretion expense was $118,000 for the Quarter (Q4 - 2013 – $33,000) and $281,000 for the Year (Year - 2013 – $137,000), of which $90,000 (Q4 – 2013 - $16,000) and $164,000 (Year – 2013 - $69,000) related to Argentina and $28,000 (Q4 – 2013 - $17,000) and $117,000 (Year – 2013 - $68,000) related to Canada, respectively.

Interest and other income

Interest and other income relates to interest from excess cash being invested in short-term deposits.

Business Combination Expenses

Business combination expenses relating to the Acquisition were $1.9 million for the Year, consisting primarily of legal and financial advisory fees. There were no business combination expenses in Year – 2013.

Share-based Compensation

The Company has issued stock options as incentive programs that allow officers, directors, consultants and certain employees to purchase shares in the Company. Share based compensation was $0.5 million in the Quarter (2013 - $0.5 million) and $1.7 million for the Year (2013 - $1.2 million).

Depletion and Depreciation ("D&D")

Canadian $000s, except per boe	Three months ended December 31 2014	2013	Year ended December 31 2014	2013
Argentina	**5,626**	471	**16,530**	1,983
$/boe	**18.93**	29.52	**22.14**	28.48
Canada	**1,548**	1,696	**5,090**	4,655
$/boe	**25.30**	16.79	**16.65**	14.23
Total	**7,174**	2,167	**21,620**	6,638
Total - $/boe	**19.14**	18.53	**20.55**	16.73

Argentina

With the increase to property, plant and equipment of $88.5 million as a result of the Acquisition, D&D increased significantly in the second half of 2014. D&D expenses for the Quarter increased to $5.6 million from $0.5 million in Q4 - 2013 as a result of increased production resulting from the Acquisition. On a per boe basis, D&D for the Quarter declined 36% to $18.93 per boe from $29.52 per boe in Q4 – 2013 as a result of the Acquisition.

D&D expense during the Year increased to $16.5 million from $2.0 million in Year – 2013 as a result of the Acquisition. On a per boe basis, unit costs for D&D expense for the YTD declined 22% to $22.14 per boe from $28.48 per boe in Year – 2013 as a result the Acquisition.

Canada

D&D expenses for the Quarter decreased to $1.5 million from $1.7 million in Q4 - 2013 as a result of lower production. On a per boe basis, D&D for the Quarter increased 51% to $25.29 per boe from $16.79 per boe in Q4 – 2013 as a result of disappointing drilling results.

D&D expense during the Year increased to $5.1 million from $4.7 million in Year – 2013 as a result of higher per unit costs that were partially offset by lower production volumes. On a per boe basis, unit costs for D&D for the Year increased 17% to $16.65 per boe from $14.23 per boe in Year – 2013, primarily as result of disappointing drilling results.

Impairment

At December 31, 2014, Madalena determined that there were no indications of impairment for any of its Argentine CGUs.

In assessing its Canadian CGU for impairment of its property, plant and equipment assets at December 31, 2014, the Company observed triggers for impairment due to the recent decline in current and forward commodity prices for oil and natural gas and results from two non-commercial wells that were completed in the fourth quarter. The Company's testing of its Canadian CGU recoverable value, established as value in use, relative to its carrying value revealed an impairment charge of $26 million (2013 - $5.0 million). The impairment test was based on proven plus probable reserves, using a discount rate of 15% and forward commodity price estimates. The impairment test used the following benchmark prices, adjusted for Company differentials and transportation, from McDaniel & Associates Consultants Ltd. price forecast, effective January 1, 2015.

Year	Crude Oil Price (CANADIAN DOLLAR/bbl)	Natural Gas Price (CANADIAN DOLLAR/Mcf)
2015	60.98	3.55
2016	73.53	4.02
2017	78.36	4.26
2018	83.10	4.53
2019	87.45	4.75
2020	91.70	5.07
2021	93.64	5.38
2022	95.51	5.59
2023	97.33	5.79
2024	99.24	6.00
2025	101.23	6.08
2026	103.19	6.18
2027	105.27	6.35
2028	107.39	6.35
2029	109.49	6.61
Thereafter	+2%/yr	+2%/yr

In addition, the Company has recorded an impairment charge of $5.2 million (2013 - $14.7 million) on its Canadian exploration and evaluation assets at December 31, 2014, primarily resulting from unsuccessful exploration drilling in both years.

Income Taxes

	Three months ended December 31		Year ended December 31	
Canadian $000s	**2014**	**2013**	**2014**	**2013**
Argentina				
Current income tax expense	**1,898**	187	**3,101**	319
Deferred income tax expense (recovery)	**(1,088)**	-	**(817)**	-
Canada				
Deferred income tax expense (recovery)	**(21)**	(504)	**(385)**	(613)
Total				
Current income tax expense	**1,898**	187	**3,101**	319
Deferred income tax expense (recovery)	**(1,088)**	-	**(1,202)**	(613)

Argentina

In Argentina, Madalena has four operating entities – three of which were acquired pursuant to the Acquisition. Two of the three entities acquired incur income taxes. The income tax rate in Argentina is 35%. The two entities that are not taxable are subject to minimum taxes, which are generally taxed at 1% of net assets. Current income tax expense (including minimum tax) for the Quarter and the Year was $1.9 million (Q4 – 2013 - $0.2 million) and $3.1 million (Year 2013 - $0.3 million), respectively. The Company only paid minimum tax in 2013 and did not incur income taxes. The Company is evaluating various alternatives to consolidate its Argentina operations into one entity, which are anticipated to result in potential tax savings. Tax implications will likely defer any benefit until 2016 or 2017.

The Company booked a deferred income tax recovery of $1.1 million during the Quarter (Year – 2013 – nil) and $0.8 million for the Year (Year - 2013 – nil).

Income taxes for Q1 – 2015 are estimated at approximately $0.8 million.

Canada
The deferred income tax recovery relates to the flow-through shares issued by the Company in 2013.

As at December 31, 2014, the Company has, subject to confirmation by income tax authorities, cumulative income tax deductions of approximately $95 million (2013 - $77 million). Accordingly, the Company does not anticipate the Canadian operations being taxable in the foreseeable future.

Reconciliation of Cash Flow from Operating Activities and Funds Flow from Operations

As detailed previously in this MD&A, funds flow from operations is a term that does not have any standardized meaning under GAAP. Madalena's method of calculating funds flow from operations may differ from that of other companies, and accordingly, may not be comparable to measures used by other companies. Funds flow from operations is calculated as cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital.

	Three months ended December 31		**Year ended December 31**	
Canadian $000s	**2014**	2013	**2014**	2013
Cash flow from (used) in operating activities	**4,894**	2,053	**24,706**	1,968
Change in non-cash working capital	**(715)**	(560)	**(7,214)**	1,860
Decommissioning costs incurred	**173**	-	**229**	92
Funds flow from operations	**4,352**	1,493	**17,721**	3,920

Funds flow from operations, Net Loss and Comprehensive Loss

Canadian $000s (except per share amounts)	**Three months ended December 31**		**Year ended December 31**	
	2014	2013	**2014**	2013
Funds flow from operations	**4,352**	1,493	**17,721**	3,920
Per share - basic & diluted	**0.01**	0.00	**0.04**	0.01
Net loss	**(30,526)**	(20,529)	**(36,004)**	(23,285)
Per share – basic & diluted	**(0.07)**	(0.06)	**(0.08)**	(0.07)
Comprehensive loss	**(27,350)**	(24,016)	**(35,052)**	(32,006)

Madalena's funds flow from operations for the Quarter increased to $4.4 million from $1.5 million in Q4 - 2013. The increase in funds flow from operations was principally due to the Acquisition.

Madalena's funds flow from operations for the Year increased to $17.7 million from $3.9 million in Year - 2013. The increase in funds flow from operations was principally due to the Acquisition.

The net loss for the Quarter was $30.5 million (Q4 - 2013 – $20.5 million), predominately due to an impairment charge relating to the Canadian operations in the amount of $28.0 million (2013 – $19.7 million). Net lease operating income increases generated from the Acquisition were offset by business combination costs, increased general and administration costs, impairment losses, increased depletion and income taxes.

The net loss for the Year was $36.0 million (Year - 2013 – $23.3 million), predominately due to an impairment charge relating to the Canadian operations in the amount of $31.2 million (2013 – $19.7 million). Net lease operating income increases from the Acquisition were offset by business combination costs, impairment losses, increased depletion and income taxes.

On July 1, 2014, the Company changed its functional currency for Madalena Austral S.A. from the peso to the US$, resulting in all of the Company's subsidiaries having a US$ functional currency.

Foreign exchange gains and losses are accounted for through Accumulated Other Comprehensive Loss. Until July 1, 2014, the impact related to Peso versus Canadian dollar rate fluctuations. Commencing July 1, 2014, the impact related to US$ versus Canadian dollar rate fluctuations.

A summary of foreign exchange impact follows:

	Three months ended December 31		**Year ended December 31**	
Canadian $000s	**2014**	2013	**2014**	2013
Foreign currency translation adjustment	**3,177**	(3,487)	**952**	(8,721)

For the Quarter, the US$ increased by 3.6% against the Canadian dollar causing a $3.2 million exchange gain on translation of foreign currencies (Q4 - 2013 - $3.5 million loss). For the Year, the Company had a $1.0 million gain (Year - 2013 - $8.7 million loss). The impact on other comprehensive income for the YTD is due to a 24% decline of the Argentine peso against the Canadian dollar for the first six months of 2014 which was then offset by the 8.7% increase in the US$ against the Canadian dollar in the last half of the Year.

Capital Expenditures

	Three Months ended December 31		**Year ended December 31**	
Canadian $000s	**2014**	**2013**	**2014**	**2013**
Argentina				
Land	**-**	1,763	**15**	2,899
Geological and geophysical	**218**	52	**2,111**	1,232
Drilling and completions	**5,057**	4,057	**14,071**	7,561
Well equipment and facilities	**1,616**	615	**2,903**	1,740
Other	**178**	458	**1,515**	1,577
Argentina Total	**7,069**	6,945	**20,615**	15,009
Canada				
Land	**110**	(15)	**185**	152
Geological and geophysical	**10**	16	**16**	62
Drilling and completions	**5,338**	4,561	**15,557**	22,400
Well equipment and facilities	**171**	1,526	**2,851**	5,343
Other	**584**	65	**1,313**	330
Canada total	**6,213**	6,153	**19,922**	28,287
Total Capital Expenditures	**13,282**	13,098	**40,537**	43,296

Argentina
The execution of any activity in Argentina involves considerable advance planning. Services are not as readily available to producing companies as they are in Canada. Accordingly, minimal capital was spent on the Acquisition assets in the final six months of the year as a plan was developed for the 2015 capital budget and the services required to execute the budget were secured. No wells were drilled on the Acquisition assets in the last six months of the Year.

Capital expenditures for the Quarter were primarily related to drilling activities at Coiron Amargo and work-overs at Puesto Morales, where new zones were perforated on four wells.

Activity during the Year related to drilling activity at Coiron Amargo, workovers at Puesto Morales and the shooting of a 75 square km 3D seismic program at Curamhuele.

Canada
Capital expenditures for the Quarter involved drilling and completion activities on two Ostracod wells that were non-commercial and impaired. In Canada, activity during the Year was primarily directed to the Ostracod and Nordegg oil projects.

Transactions with Related Parties

A former director and current Secretary of the Company is a partner of a law firm that provides legal services to the Company. During the Quarter and the Year, the Company incurred fees of $67,000 (2013 - $120,000) and $604,000 (2013 - $551,000), respectively from this firm for legal fees related to legal matters of which $67,000 (2013 – $35,000) is included in accounts payable and accrued liabilities at December 31, 2014. The costs were expensed in the Statement of Loss and Comprehensive Loss.

A director of one of the Company's subsidiaries provides legal and consulting services to the Company. During the Quarter and Year, the Company incurred fees of $35,000 (2013 - $22,000) and $41,000 (2013 - $261,000), respectively for these services which related to concession extensions and other legal matters, of which $35,000 (2013 - $22,000) was included in accounts payable and accrued liabilities at December 31, 2014. The costs related to the concession extensions were incurred in 2013 and were recorded in PP&E and E&E assets and the costs related to other legal matters were expensed in profit and loss.

The transactions arose during the normal course of business and have been recorded at the exchange amounts, which are the amounts agreed upon by the related parties.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity, working capital and shareholders' equity

Canadian $000s	December 31 2014	December 31 2013
Working capital	**11,777**	7,631
Shareholders' equity	**135,752**	79,003

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company has both capital and operating obligations in 2015. The Company manages its liquidity risk through its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, existing credit facilities and working capital.

The Company's 2015 capital expenditure budget is 100% allocated to Argentina. This budget is reviewed monthly and updated as necessary depending on varying factors including current and forecast prices, actual capital deployment and general industry conditions. Funding for the Company's 2015 capital budget is expected to come from existing working capital, funds generated from operations in 2015 and a combination of new credit facilities and/or equity, if available to the Company on terms acceptable to the Company. An adverse outcome of obtaining new financing on a timely basis could result in a failure to comply with certain spending requirements under the terms of an existing concession agreement (see Commitments and Contingencies). While the Company believes that it will be able to obtain the necessary financing to meet these commitments, this outcome cannot be guaranteed. The net book value of E&E assets of approximately $16.4 million are subject to these uncertainties.

At December 31, 2014, Madalena had a credit facility in place against its Canadian based assets. There were no credit facilities in place in Argentina, where the majority of the Company's reserves and production are located.

At December 31, 2014, the Company had available to it, a Canadian revolving operating demand loan credit facility with the National Bank of Canada up to a maximum of $10 million with interest charged at the bank's prime rate plus 1.0% per annum. When drawn, security for this facility is provided by way of a charge over the Canadian petroleum and natural gas assets of the Company. The facility includes a working capital ratio covenant, whereby the working capital deficiency (excluding working capital from any of its Argentina subsidiaries and any unrealized hedging gains or losses) may not exceed $10 million. At December 31, 2014, the consolidated working capital position of the Company was $11.8 million (2013 - $7.6 million), consisting of working capital of $12.5 million (2013 – working capital deficiency of $1.1 million) in Argentina and a working capital deficiency of $0.7 million (2013 – working capital of $8.7 million) in Canada.

The facility is restricted to activity in Canada only and is not available for funding of its Argentine operations. Standby fees associated with the facility are 0.25% per annum on the undrawn portion.

In addition, the Company has available a Canadian acquisition/development demand loan credit facility with the National Bank of Canada, up to a maximum of $3 million, with interest charged at the bank's prime rate plus 1.5% per annum.

Subsequent to the year-end, in conjunction with the annual review, the operating demand loan credit facility was reduced to $7 million, of which the maximum draw is currently limited to $3.5 million. The acquisition / development demand loan credit facility remains available to a maximum of $3 million. Both facilities are subject to a periodic review by the bank and the next review is scheduled on or before June 30, 2015. The facilities were both unutilized at December 31, 2014 and 2013.

As the credit facility is a demand loan, it may be called at any time. Accordingly, there is no assurance that the credit facility will be renewed when the next scheduled review is completed. Should the bank not extend the loan, the Company would need to seek alternative forms of debt or equity financing or dispose of certain assets to repay any outstanding indebtedness.

As a result of shut in production and the low commodity price environment in Canada, the Company anticipates a reduction in funds generated from operations in Canada. This reduction may require that alternative sources of funds be accessed to enable the Company to meet all of its 2015 Canadian operating obligations.

The Company also has access to repatriate cash generated from operations in Argentina to Canada in order to fund its Canadian working capital deficiency. As described below in the "Argentine Foreign Currency Restrictions" section, future repatriation of funds is subject to approvals from the Argentine Central Bank. The Company recognizes that the timing and amounts to be approved for repatriation are ultimately controlled by the Argentine Central Bank, which could impact the Company's ability to meet its future Canadian obligations.

Argentine Foreign Currency Restrictions

Prior to the fourth quarter of 2014, Madalena had never repatriated funds from Argentina as the Company did not generate sufficient funds from operations to support its ongoing capital requirements. As a result of the Acquisition, depending on the amount of inflows and outflows of cash, the Company may have surplus funds on hand in Argentina.

As part of the Company's cash management, during the Quarter and to date in 2015, the Company repatriated US$2.7 million and US$1.8 million, respectively. The Company's ability to repatriate funds from Argentina is controlled by the Argentina government through the Central Bank. There are currently a number of monetary and currency exchange control measures that include restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad. While the Company has repatriated funds successfully as described above, future repatriations of cash is dependent on approvals obtained from the Argentine Central Bank.

At December 31, 2014, $9.0 million, or 67%, of our cash and cash equivalents was deposited with banks in Argentina.

Share capital issued and options granted

Outstanding Share Capital

In the first quarter of 2014, the Company issued 32,857,225 common shares at a price of $0.70 per common share, including 4,285,725 common shares issued pursuant to the exercise of the over-allotment option in full by the Underwriters, for aggregate gross proceeds of $23.0 million.

In June 2014, the Company issued 98,100,000 common shares at a price of $0.51 per common share for aggregate gross proceeds of $50.0 million.

In June 2014, the Company issued 29,831,537 common shares at a price of $0.51 per common share, pursuant to the Acquisition.

On July 7, 2014, the Company closed the over-allotment option in full of its previously announced bought deal, short-form prospectus offering, issuing 14,715,000 common shares of the Company at a price of $0.51 per common share for gross proceeds of $7.5 million.

During the period ended December 31, 2014, 7,000,000 options (December 31, 2013 – 7,260,000) were granted to certain employees, consultants and directors of the Corporation and its subsidiaries, of which 5,000,000 were granted to employees in Argentina as a result of the Acquisition, 1,300,000 were granted to employees in Canada and 700,000 were granted to two new directors added to the board of directors. The options have an average exercise price of $0.50 per share and are exercisable for a period of five years from the date of grant.

As at April 14, 2015, the Company had 540.3 million shares and 25.9 million options outstanding.

Financial Instruments

Other than the commodity contracts discussed earlier in this report, the Company's financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables. Carrying values reflect the current fair value of the Company's financial instruments due to their short-term to maturity.

Decommissioning Obligations

Decommissioning obligations result from net ownership interests in property, plant and equipment and involve critical accounting estimates. There are significant uncertainties related to the estimated costs and the timing of settlement of decommissioning obligations, and the impact on the financial statements could be material. The main factors that can cause expected decommissioning obligations to change are changes to laws and regulations, construction of new facilities, changes in reserve estimates and lives, and changes in technology.

Argentina

The business combination in Argentina added a significant number of producing wells and with this expanded operating portfolio, the Company expects that decommissioning obligations for its Argentina portfolio will be settled in US$.

Madalena's estimates of decommissioning, restoration and similar liabilities could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the provision. Madalena's estimates are reviewed at the end of each reporting period for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

At December 31, 2014, inflation rates of 1% and 2% were used in Argentina and Canada, respectively (December 31, 2013 – 10.9% and 2% for Argentina and Canada, respectively). The risk free rate used to discount the liability was 2.5% (December 31, 2013 – 17.2 %) in Argentina and up to 2.8% (December 31, 2013 – up to 3.0%) in Canada.

The significant change in rates relating to the Argentine entities is due to the fact that prior to the Acquisition and the change in functional currency for one of the Argentine subsidiaries, the peso was the settlement currency, and therefore discount and inflation rates used were those attributable to Argentina. Subsequently, the US$ is now the obligation settlement currency, and therefore the rates attributable to the US$ are now used.

Commitments and Contingencies

Development & Exploration Commitments

Coiron Amargo Block (35% working interest)

In October 2013 the exploration period for Coiron Amargo Sur was extended until November 8, 2014 based on a work commitment program for the southern portion of the block. The Company drilled a vertical Vaca Muerta shale well in late 2014 which satisfied the last of the work commitments prior to entering into a new contract phase.

On April 16, 2015, the Company received a three year evaluation phase contract from the Province of Neuquén for Coiron Amargo Sur. The Company's share of the work commitment is US$17.5 million and must be incurred by November 8, 2017. Following this three year evaluation phase contract, Madalena is eligible to enter into a further exploitation (development) concession and/or enter into additional evaluation phase periods to further explore and appraise the Coiron Amargo Sur block.

Curamhuele Block (90% working interest)

The Curamhuele Block is operated by Madalena. In September 2013 the first exploration period was extended until November 8, 2014 by the Province of Neuquén. On December 19, 2014, the Province officially granted an extension to September 2015 to satisfy the remaining work commitments on the block.

At December 31, 2014, Madalena's future work commitments associated with the Curamhuele block were approximately US$12.0 million plus VAT. To satisfy this remaining work commitment, Madalena is preparing to conduct a 2 well re-entry program prior to September 2015. After satisfying these remaining work commitments, Madalena expects to either convert certain areas of the acreage into an exploitation (development) concession and/or enter into a new exploration period(s) or unconventional evaluation phase to further appraise the Curamhuele block. The Company. has posted a performance bond for amounts committed under this concession agreement. The assets of Madalena Austral S.A., a subsidiary of the Company, are held as security for the bond.

Cortadera Block (37.8% working interest)

On January 15, 2014, Madalena and its working interest partners signed an amended contract agreement for the extension of the initial exploration period and inclusion of subsequent exploration periods.

In 2014, Madalena and its working interest partners satisfied all of its remaining commitments related to the first exploration period on the Cortadera block and now have the option to enter into a second exploration period extending to October 25, 2018 and a third exploration period extending to October 25, 2021, or extend acreage at Cortadera through potential further evaluation and/or exploitation phases. As of April 2015, Madalena is taking steps with its partners and the Province to move into a second exploration period.

Puesto Morales Block (100% working interest)
The Company acquired its interest in the 31,254 acre block in the Neuquén Basin as part of the Acquisition. The block produces oil and natural gas from the Sierras Blancas and Loma Montosa formations. The exploitation permit expires on Jan 22, 2016. An application for block extension has been submitted to the Province of Rio Negro and the Company expects an approval for a ten year extension to be granted in 2015.

Santa Victoria Block (100% working interest)
This block was part of the recent Acquisition and includes a 100% working interest operated property covering 516,846 gross acres in the NorOeste Basin. The contract is currently in the second of three exploration phases. This phase requires a minimum commitment of US$3.75 million plus VAT to be conducted by April 2015. Madalena is currently in discussions with the Province to obtain an extension for the current commitment on the block.

Leased Office Premises
The Company has the following office premises:

Canadian $000s	2015	2016	2017	2018	2019
Leased office premises	854	853	623	470	480

Contingencies - Other long-term liabilities
Other long-term liabilities primarily relate to a number of contingencies acquired with the Acquisition which are considered by management to be in the normal course of business. The expected timeline for resolution is not known at this time, although all are expected to take more than one year to settle. All but one has been outstanding for over one year. As new information is obtained, amounts are adjusted to reflect management's best estimate of the amounts to be settled. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and their outcome could have a significant effect on the Company's assets, liabilities, business, financial condition and results of operations.

ANNUAL AND QUARTERLY FINANCIAL RESULTS

Annual Financial Results

As at December 31 Canadian $000s	**2014**	2013	2012
Revenues	**72,945**	17,960	5,545
Net loss	**(36,004)**	(23,285)	(8,865)
Net loss per share – basic and diluted	**(0.08)**	(0.07)	(0.03)
Total assets	**196,664**	96,286	109,016
Shareholder equity	**135,752**	79,003	92,386

Revenues in 2014 increased as a result of the Acquisition. Revenues in 2013 increased as a result of the acquisition of Online Energy. The Company recorded an impairment charge in 2014 and 2013 of $31.2 million and $19.7 million, respectively, impacting the net loss recognized.

Quarterly Financial Results

	Q4	Q3	Q2	Q1

Canadian $000s, unless otherwise noted	2014	2014	2014	2014
Revenues	**26,635**	30,860	9,144	6,306
Net income (loss)	**(30,524)**	(2,267)	(3,510)	297
Shares outstanding – 000s	**539.8**	539.8	525.0	396.9
Net income (loss) per share – basic and diluted	**(0.07)**	(0.00)	(0.01)	0.00

Canadian $000s, unless otherwise noted	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenues	5,633	4,840	3,877	3,610
Net loss	(20,527)	(118)	(320)	(2,320)
Shares outstanding ('000s)	364.0	338.7	316.8	316.1
Net loss per share – basic and diluted	(0.06)	(0.00)	(0.00)	(0.01)

Generally, the Company's increase in revenues during the Quarter and Q3-2014 can be attributed to increasing oil production in Argentina resulting from the Acquisition and successful horizontal drilling in Argentina.

The Company recorded impairment charges in of $28.0 million, $0.6 million, $2.6 million and $19.7 million in Q4-2014, Q3-2014, Q2-2014 and Q4-2013, respectively impacting the net loss recognized. The Company also incurred $1.7 million of business combination costs relating to the Acquisition in Q2-2014.

The Company issued 32.8 million shares during Q1 2014 for gross proceeds of $23.0 million, issued 128.2 million shares during Q2 2014 for gross proceeds and partial consideration for the Acquisition, which totalled $65.3 million and 14.7 million shares for gross proceeds of $7.5 million during Q3-2014.

CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES

For more details regarding the Company's critical accounting judgments, estimates and accounting policies the following should be read in conjunction with the Company's Consolidated Financial Statements for the year ended December 31, 2014.

Management is required to make judgments, estimates and assumptions in the application of accounting policies that could have a significant impact on our financial results. Actual results may differ from those estimates and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. The Company's critical accounting policies and estimates are reviewed annually by the Audit Committee of the Board. Further details on the basis of presentation and significant accounting policies can be found in the Company's notes to the Consolidated Financial Statements for the year ended December 31, 2014.

Critical Accounting Judgments in Applying Accounting Policies

Critical judgments are those judgments made by Management in the process of applying accounting policies that have the most significant effect on the amounts recognized in the Company's Consolidated Financial Statements and accompanying notes for the year ended December 31, 2014. On January 1, 2014, as required, the Company adopted the amendments to IAS 32 and IFRIC 21. See discussion below under Accounting Changes for details. Further information on Management's critical accounting judgments in applying accounting policies can be found in the notes to the Consolidated Financial Statements for the year ended December 31, 2014.

Critical accounting estimates

Critical accounting estimates are those estimates that require Management to make particularly subjective or complex judgments about matters that are inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognized in the period in which the estimates are revised. For 2014, there have been no changes to the Company's key sources of estimation uncertainty, although with the Acquisition, the Company had to review those estimates in light of this business combination. Further information on the Company's key sources of estimation uncertainty can be found in the notes to the Consolidated Financial Statements for the year ended December 31, 2014.

Accounting Changes

The IASB issued International Financial Reporting Interpretations Committee Interpretation ("IFRIC") 21, "Levies" which was adopted by the Company on January 1, 2014. The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs. The adoption of this interpretation did not impact Consolidated Financial Statements.

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, "Financial Instruments: Presentation" ("IAS 32"). The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. IAS 32 did not impact the Consolidated Financial Statements.

Effective July 1, 2014, the functional currency of one of Madalena's subsidiaries, Madalena Austral S.A., changed from the Peso to the US$. The change coincides with the Acquisition along with the evolving business activities in this subsidiary and the economic environment in Argentina that has become more influenced by the US$ over time. This change in accounting treatment is applied prospectively. The assets, liabilities and equity were translated from Peso to US$ at the exchange rate on the date of change into the new functional currency, the US$. As a result, as at December 31, 2014, the US$ is the functional currency of all subsidiaries.

The functional and presentation currency of the consolidated company, Madalena, is the Canadian dollar.

Future Accounting Pronouncements

A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2014. In May 2014, the IASB issued IFRS 15 Revenues from Contracts with Customers ("IFRS 15"). IFRS 15 provides a single, principles based five-step model to be applied to revenue recognition from all contracts with customers and applies to an annual reporting period beginning on or after 1 January 2017. The impact of this standard on the Company has not been determined.

In July 2014, the IASB issued IFRS 9, Financial Instruments, which is effective January 1, 2018 and is available for early adoption. The impact of this standard on the Company has not been determined.

RISK MANAGEMENT

For a full understanding of the risks that impact the Company, the following discussion should be read in conjunction with the Company's Consolidated Financial Statements for the year ended December 31, 2014.

The Company is exposed to a number of risks through the pursuit of its strategic objectives. Some of these risks impact the oil and gas industry as a whole and others are unique to its operations and its involvement in Argentina. Actively managing these risks improves the Company's ability to effectively execute its business strategy. The factors that impact the Company's exposure to liquidity risk, safety risk, capital project execution and operating risk, reserves replacement risk, environmental risk and regulatory risk has not changed substantially since December 31, 2014. For a further and more in-depth discussion of our risk management see the Company's

Consolidated Financial Statements for the year ended December 31, 2014.

A description of the risk factors and uncertainties affecting the Company can be found in the Advisory and a full discussion of the material risk factors affecting the Company can be found in our Annual Information Form for the year ended December 31, 2014.

ADVISORY

Forward Looking Statements

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

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

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

Reserves and Other Oil and Gas Disclosure

Any references in this MD&A to test rates, flow rates, initial and/or final raw test or production rates, early production, test volumes behind pipe and/or "flush" production rates are useful in confirming the presence of hydrocarbons, however, such rates are not necessarily indicative of long-term performance or of ultimate recovery. Such rates may also include recovered "load" fluids used in well completion stimulation. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Madalena. In addition, the Vaca Muerta and Agrio shales are unconventional resource plays which may be subject to high initial decline rates.

Analogous Information

Certain information in this MD&A may constitute "analogous information" as defined in National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), including, but not limited to, information relating to areas, assets, wells, industry activity and/or operations that are in geographical proximity to or believed to be on-trend with lands held by Madalena. Such information has been obtained from public sources, government sources, regulatory agencies or other industry participants. Management of Madalena believes the information may be relevant to help define the reservoir characteristics within lands on which Madalena holds an interest and such information has been presented to help demonstrate the basis for Madalena's business plans and strategies. However, management cannot confirm whether such analogous information has been prepared in accordance with NI 51-101 and the Canadian Oil and Gas Evaluation Handbook and Madalena is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor. Madalena has no way of verifying the accuracy of such information. There is no certainty that the results of the analogous information or inferred thereby will be achieved by Madalena and such information should not be construed as an estimate of future production levels or the actual characteristics and quality Madalena's assets. Such information is also not an estimate of the reserves or resources attributable to lands held or to be held by Madalena and there is no certainty that such information will prove to be analogous in the future. The reader is cautioned that the data relied upon by Madalena may be in error and/or may not be analogous to such lands to be held by Madalena.

Numerical Amounts

The reporting and the measurement currency is the Canadian dollar. Natural gas reserves and volumes are converted to barrels of oil equivalent (boe) on the basis of six thousand cubic feet (mcf) of gas to one barrel (bbl) of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

This MD&A uses the term "netback" which is a term that does not have standardized meanings under GAAP and this non-GAAP measurement may not be comparable with the calculation of other entities. The Company uses this measure to analyze operating performance.

The term "netback", which is calculated as the average unit sales price, less royalties and operating expenses, represents the cash margin for every barrel of oil equivalent sold. The Company considers this a key measure as it demonstrates its profitability relative to current commodity prices. This term does not have any standardized meaning prescribed by GAAP and, therefore, might not be comparable with the calculation of a similar measure for other companies.

ABBREVIATIONS

The following is a summary of the abbreviations used in this MD&A:

Oil and Natural Gas Liquids

Bbl	barrel
Bbls/d	barrels per day
NGLs	Natural gas liquids
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day

Natural Gas

Mcf	thousand cubic feet
WI	Working interest