MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

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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 August 26, 2015 and should be read in conjunction with Madalena Energy Inc.'s ("Madalena" or the "Company") unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2015 and the accompanying notes as well as the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2014. This MD&A contains forward-looking information about the Company's 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 the Company's 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 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 unaudited condensed interim consolidated financial statements and comparative information have been prepared in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") applying IAS 34. Unless otherwise indicated, all dollar amounts are in Canadian dollars. Production volumes are presented on a before royalties basis.

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/or reconciliation of each non-GAAP measure is presented in the Netbacks Summary and Reconciliation of Cash Flow from Operating Activities and Funds Flow from Operations 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. This incorporates a balanced approach between lower risk development and high impact exploration/delineation activities targeting 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. Production from this concession was approximately 450 boe/d and 375 boe/d for the three months ended June 30, 2014 ("Q2-2014") and for the six months ended June 30, 2014 ("YTD-2014"), respectively.

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. Corporate production for the three months ended June 30, 2015 was approximately 4,000 boe/d, of which approximately 96% was from Argentina.

All information disclosed below for the three and six months ended June 30, 2015 includes the results of the Acquisition whereas the comparable three and six months for 2014 only includes the results of six days of operations from June 25, 2014.

Argentina Oil Price Incentives

US$3.00 per Barrel Oil Incentive

On February 2, 2015 the Government of Argentina announced a new oil incentive program, effective January 1, 2015, to replace the Petroleum Plus Incentive Program. This new program is effective for all of 2015 and may be extended. To stimulate production, the Government of Argentina has set a US$3.00 per barrel royalty free bonus payment to be paid on all oil production for each company that increases its oil production or maintains it at greater than 95% of Q4-2014 volumes. This US$3.00 per barrel incentive is incremental to the regulated oil price per barrel received in Argentina's domestic oil market.

The Company has included $1.9 million in crude oil revenue for the three and six months ended June 30, 2015 pursuant to this incentive program, all of which has been received since June 30, 2015.

Petroleum Plus Program

Subsequent to June 30, 2015, the Company was notified by the Argentina Secretary of Energy that Madalena will receive US$11.1 million in publicly traded government bonds for settlement of past Petroleum Plus incentive credits. Madalena may elect from the following types of publicly traded government bond:

- A minimum of 20% and a maximum of 100% of government bonds linked to the Peso$ ("BONAD 2018"), bearing interest at 2.4%, maturing in 2018 and no selling restrictions; and
- Up to 80% of government bonds in US$ 2024 ("BONAR 2024"), bearing interest at 8.75% and maturing in 2024. Until December 31, 2016, a maximum of 2% per month of the total received in BONAR 2024 may be sold, after which no selling restrictions apply.

Revenue recognition will occur upon receipt of the bonds. Madalena cautions that it is currently assessing the terms and conditions of the bonds, including the marketability of the bonds. Although the bonds are publicly traded, no assurance can be given as to the cash proceeds that Madalena would receive if and when the bonds are monetized. The Company expects to receive the bonds prior to September 30, 2015 and if and when Madalena sells the bonds, it intends to use the net proceeds for general working capital purposes.

Sales Volumes

	Three months ended June 30		Six months ended June 30	
	2015	**2014**	**2015**	**2014**
Argentina				
Crude oil – (bbls/d)	**3,092**	468	**2,873**	382
Natural gas – (mcf/d)	**4,455**	773	**4,176**	428
Total daily production (boe/d)	**3,834**	597	**3,570**	453
Canada				
Crude oil and NGLs (bbls/d)	**132**	491	**140**	421
Natural gas – (mcf/d)	**181**	2,881	**496**	2,890
Total daily production (boe/d)	**162**	972	**223**	903
Consolidated				
Total daily production (boe/d)	**3,996**	1,569	**3,793**	1,356
% Oil & NGLs	**81%**	61%	**79%**	59%

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.

Sales volumes for the the three months ended June 30, 2015 ("the Quarter") increased to 3,834 boe/d from 597 boe/d for Q2-2014. For the six months ended June 30, 2015 ("YTD"), sales volumes increased to 3,570 boe/d from 453 boe/d for the YTD-2014. The Company's significant growth in both the Quarter and YTD can be attributed to the Acquisition and new production from the recently drilled horizontal oil well at Puesto Morales, which averaged 412 boe/d (199 bbls/d oil) during the Quarter. Sales volumes were 81% crude oil weighted in the Quarter compared to 78% crude oil weighted in Q2-2014, following a similar trend on a YTD basis of 80% crude oil weighted, compared to 84% crude oil weighted for the YTD-2014.

Madalena expects Q3-2015 sales volumes to average approximately 3,400 boe/d as a result of anticipated production declines and no new wells expected to be brought on-stream during the third quarter. Production is expected to increase in Q4-2015 with the addition of three new horizontal wells being drilled at Coiron Amargo in the Sierras Blancas light oil development play.

Canada

Sales volumes for the Quarter and YTD were 162 boe/d and 223 boe/d compared to 972 boe/d and 903 boe/d for Q2-2014 and YTD-2014, respectively. Decreased production was due to the continued shut-down of the Keyera Paddle River gas plant which began on February 1, 2015. This shut-down is a direct result of the current economic conditions due to the commodity price declines impacting our Canadian operations.

Average Realized Prices

Canadian $	Three months ended June 30 2015	Three months ended June 30 2014	Six months ended June 30 2015	Six months ended June 30 2014
Argentina				
Crude oil and NGLs - $/bbl	**96.33**	86.20	**93.62**	85.86
Natural gas – $/mcf	**6.28**	5.72	**5.83**	5.62
Total - $/boe	**84.97**	75.01	**82.18**	77.65
Canada				
Crude oil and NGLs - $/bbl	**56.96**	84.55	**45.85**	82.09
Natural gas – $/mcf	**2.12**	4.92	**2.68**	5.40
Total - $/boe	**48.74**	57.36	**34.80**	55.56
Consolidated				
Crude oil and NGLs - $/bbl	**94.72**	85.36	**91.40**	83.88
Natural gas – $/mcf	**6.11**	5.09	**5.49**	5.42
Total - $/boe	**83.50**	64.08	**79.40**	62.95

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 remained relatively stable with the domestic Argentina oil market typically fluctuating US$1/bbl for every US$8 - $9/bbl change in Brent oil pricing on a month to month basis. As the government currently changes posted benchmark oil prices on a month to month basis, there is no certainty that oil prices will remain at current levels.

As previously described under the heading "Argentina Oil Price Incentives**"**, the Company has included $1.9 million in crude oil revenue for the Quarter and YTD for the $3.00 per barrel oil incentive program, which contributed to a $6.67 and $3.61 per barrel increase in the selling price for the Quarter and YTD, respectively. Other factors that contributed to the increase in oil prices for the Quarter compared to Q2–2014 was a result of the strengthening United States dollar ("US$") against the Canadian dollar offset by a decrease in the Medanito oil price for the Quarter to US$76.33 per barrel from US$82.00 per barrel for Q2-2014. The increase in oil prices YTD from YTD-2014 was also a result of the strengthening United States dollar ("US$") against the Canadian dollar offset by a slight decrease in Medanito oil prices from US$77.40 YTD-2014 to US$76.33 YTD.

The Medanito crude quality oil posting for the month of September has been set at US$75.00 per barrel, resulting in an average price for Q3-2015 of US$76.00 per barrel. The Company's average discount to this posting is approximately US$4.00 per barrel for quality and transportation differentials.

Gas prices in Argentina are fixed by the government regulator in US$ per mmbtu. Gas prices have been set at US$5.30 per mmbtu for the Argentine winter period of May to September 2015 and at US$4.20 per mmbtu for the period from October 2015 – April 2016. Comparative prices for the prior year were US$5.20 and US$4.10, respectively.

The price received per boe for the Quarter was $84.97, higher than the $75.01 realized in Q2-2014 as a result of the oil price incentive program, which contributed $5.38 per barrel as well as a strengthening US$ against the Canadian dollar and offset by lower Medanito pricing. The price received per boe YTD was $82.18, higher than the

$77.65 realized YTD-2014 as a result of the incentive payment, which contributed $2.91 per barrel as well as a strengthening US$ against the Canadian dollar offset by lower Medanito pricing. The Company anticipates per boe prices of approximately $77.00 in Argentina in Q3-2015, based on a US$ to Canadian dollar exchange rate of 1:25:1.

Canada
For the Quarter, Madalena realized a 15% decrease in per boe selling price to $48.74 for the Quarter compared to $57.36 for Q2–2014 as a result of lower crude oil and natural gas prices, which were offset by an increased crude oil weighting in the Quarter.

The 37% decline in per boe selling price from $55.56 YTD-2014 to $34.80 YTD is also due to the lower crude oil and natural gas prices and an increased crude oil weighting.

As of June 30, 2015, the Company has the following physical oil contract in place in Canada:

Type	Period	Volume	Price Floor	Price Ceiling	Index
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 for the period ended June 30, 2015 was a net payable of $nil (December 31, 2014 – net receivable of $0.2 million. Realized gains for the three and six months ended June 30, 2015 were $nil and $0.2 million (Q2-2014 and YTD-2014 – realized losses of $0.1 million) and are included in loss on commodity contracts on the statement of loss and comprehensive loss. The commodity contracts are classified as level 2 within the fair value hierarchy.

Foreign Exchange Fluctuations

Canadian $	Three months ended June 30 2015	2014	% Change	Six months ended June 30 2015	2014	% Change
Average US$ to CDN dollar	1.23	1.09	12.8	1.24	1.10	12.6
Average Argentine Peso to US$	0.11	0.12	(10.1)	0.11	0.13	(11.4)
Period end US$ to CDN dollar	1.25	1.07	17.1	1.25	1.07	17.1
Period end Argentine Peso to US$	0.11	0.12	(11.1)	0.11	0.12	(11.1)

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

Revenue

Canadian $000s, except per boe	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
Argentina				
Crude oil	**27,103**	3,670	**48,693**	5,937
Natural gas	**2,544**	402	**4,404**	435
	29,647	4,072	**53,097**	6,372
Canada				
Crude oil and condensate	**683**	3,781	**1,162**	6,256
Natural gas	**35**	1,291	**241**	2,822
	718	5,072	**1,403**	9,078
Consolidated	**30,365**	9,144	**54,500**	15,450
Corporate - $/ boe	**83.50**	64.08	**79.40**	62.95

Argentina

Oil and gas revenues were $29.6 million and $53.1 million for the Quarter and YTD, respectively, compared to $4.1 million and $6.4 million for Q2–2014 and YTD–2014, respectively. The significant increase was primarily due to increased production volumes from the Acquisition and new production from the recently drilled horizontal oil well at Puesto Morales, the $3.00 per barrel oil price incentive program previously discussed and to a lesser extent, the strengthening US$ against the Canadian dollar.

Canada

Oil and gas revenue was $0.7 million in the Quarter and $1.4 million YTD compared to $5.1 million in Q2–2014 and $9.1 million YTD-2014, with the decline due to lower sales volumes resulting from the Keyera Paddle River plant shut-down on February 1, 2015 as well as lower oil and gas prices.

Royalties

Canadian $000s	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
Argentina				
Royalties	**5,901**	559	**9,148**	889
As % of revenue from Argentina	**20%**	14%	**17%**	14%
Canada				
Royalties	**232**	640	**310**	1,074
As % of revenue from Canada	**32%**	13%	**22%**	12%
Consolidated	**6,133**	1,199	**9,458**	1,963
Corporate - $/boe	**$ 16.87**	$ 8.41	**$ 13.78**	$ 8.00

Argentina

Royalty expenses were $5.9 million for the Quarter and $9.1 million YTD compared to $0.6 million in Q2–2014 and $0.9 million YTD-2014, respectively, due to higher production volumes as a result of the Acquisition and the settlement of a pre-acquisition dispute over royalties relating to the years 2007 – 2011, which was recorded in the statement of loss and comprehensive loss in the amount of $1.9 million for both the Quarter and YTD. This one-time charge resulted in an increase in royalties as a % of revenue to 20% in the Quarter compared to 14% in Q2-2014 and 17% YTD compared to 14% in YTD-2014. The Company expects royalty rates in Q3-2015 to be approximately 15%.

Canada

Royalty expenses were $0.2 million for the Quarter and $0.3 million YTD compared to $0.6 million in Q2–2014 and $1.1 million YTD-2014 due to the decline in oil and gas production volumes. The increase in royalties as a % of revenue was a result of gas cost allowance adjustments and the expiry of the 5% crown royalty rate on one of the horizontal Ostracod oil wells due to production performance.

Operating Costs

	Three months ended June 30		**Six months ended June 30**	
Canadian $000s, except per boe	**2015**	**2014**	**2015**	**2014**
Argentina				
Operating costs	**10,703**	1,173	**19,861**	2,024
$/boe	**30.67**	21.60	**30.74**	24.66
Canada				
Operating costs	**1,099**	1,758	**2,043**	3,407
$/boe	**74.65**	19.88	**50.66**	20.85
Consolidated	**11,802**	2,931	**21,904**	5,431
Corporate - $/boe	**32.46**	20.54	**31.91**	22.13

Argentina

Operating costs during the Quarter increased to $10.7 million from $1.2 million in Q2–2014 and from $2 million YTD-2014 to $19.9 million YTD as a result of the Acquisition, work-over/maintenance of $2.2 million on various wells at Puesto Morales and Palmar Largo that was conducted during the Quarter and represented approximately 20% of total operating costs. The Company anticipates a much lower percentage of work-over/maintenance costs for the balance of the year. Operating costs were partially offset by a favorable settlement of $1.3 million relating to a pre-acquisition contingency. On a per boe basis, operating costs for the Quarter increased to $30.67 per boe from $21.60 per boe in Q2–2014. YTD, operating costs per boe increased to $30.74 per boe from $24.66 for YTD-2014. The increase in per boe costs from prior periods relates to the higher cost per boe on the assets acquired in the Acquisition compared to the lower cost structure on the Company's existing producing assets at Coiron Amargo, coupled with the impact of the strong US$.

Management expects operating costs to average approximately $30 per boe for the balance of the year as it anticipates reduced workover costs at Puesto Morales combined with flush production from new lower cost horizontal wells at Coiron Amargo.

Canada

Operating costs during the Quarter decreased to $1.1 million from $1.8 million in Q2–2014 and from $3.4 million YTD-2014 to $2.0 million YTD-2015 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 $74.65 per boe from $19.88 per boe in Q2–2014 and from $20.85 per boe YTD-2014 to $50.66 per boe YTD-2015 primarily as result of 13th month adjustments relating to the Keyera Paddle River plant for 2012, 2013 and 2014 (approximately $30.00/boe) as well as fixed costs related to non-producing wells.

Netbacks Summary (1)

	Three months ended June 30		Six months ended June 30	
Canadian $/boe	**2015**	**2014**	**2015**	**2014**
Argentina				
Revenue	**84.97**	75.01	**82.18**	77.65
Royalties	**(16.91)**	(10.29)	**(14.16)**	(10.83)
Operating expenses	**(30.67)**	(21.60)	**(30.74)**	(24.66)
Netbacks	**37.39**	43.12	**37.28**	42.16
Canada(2)				
Revenue	**48.74**	57.36	**34.80**	55.56
Royalties	**(15.79)**	(7.25)	**(7.68)**	(6.58)
Operating expenses	**(74.65)**	(19.88)	**(50.66)**	(20.85)
Netbacks	**(41.70)**	30.23	**(23.54)**	28.13
Consolidated				
Revenue	**83.50**	64.08	**79.40**	62.95
Royalties	**(16.87)**	(8.41)	**(13.78)**	(8.00)
Operating expenses	**(32.46)**	(20.54)	**(31.91)**	(22.13)
Netbacks	**34.17**	35.13	**33.71**	32.82

(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.

(2) The majority of the Canadian production was shut-in on February 1, 2015.

General and Administration ("G&A") Expenses

Canadian $000s	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
Argentina				
Gross G&A	**2,703**	562	**4,623**	762
Capitalized	**(413)**	-	**(731)**	-
	2,290	562	**3,892**	762
Canada				
Gross G&A	**1,786**	1,609	**3,452**	2,260
Capitalized	**(212)**	-	**(461)**	-
	1,574	1,609	**2,991**	2,260
Consolidated				
Corporate G&A total	**3,864**	2,171	**6,883**	3,022

Argentina

Gross G&A expenses for the Quarter and YTD were $2.7 million and $4.6 million compared to $0.6 million and $0.8 million in Q2–2014 and YTD-2014, respectively. The increase was 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 42 office employees in Argentina compared to three in 2014. With the increase in personnel, the Company has the human resources to effectively manage complex operations. The Company continues to optimize in areas where efficiencies can be realized.

During the Quarter and YTD, $0.4 million (Q2-2014 – nil) and $0.7 million (YTD-2014 – nil) of directly attributable G&A costs were capitalized to property, plant and equipment.

G&A expenses for Q3-2015 for Argentina, net of amounts capitalized, are estimated at approximately $1.5 million.

Canada

The majority of the Canadian general and administrative expenses relates to managing a public company involved in a foreign jurisdiction. All employees in Canada, with the exception of one full- time employee and one part-time consultant, are dedicated full time to managing the Company's corporate business and Argentine business unit. The Company had reduced its Canadian staff by two employees since the end of 2014. This reduction is attributed to lower Canadian operations activity as the focus of the Company has shifted to Argentina where a higher commodity price market exists and the majority of the Company's assets are located. The increased Argentine operations have resulted in increased Canadian costs with additional employees required in financial reporting, additional technical services and added professional fees.

G&A expenses for the Quarter and YTD were $1.8 million and $3.5 million compared to $1.6 million and $2.3 million in Q2–2014 and YTD-2014, respectively.

During the Quarter and YTD, $0.2 million and $0.5 million, respectively, of directly attributable G&A costs were capitalized to property, plant and equipment in Argentina (YTD-2014 – $nil).

G&A expenses for Q3-2015 for Canada, net of amounts capitalized, are estimated at approximately $1.5 million.

Finance Income and Expenses

Canadian $000s	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
Argentina				
Bank charges and fees	**783**	339	**1,304**	518
Foreign exchange (gain) loss - realized	**276**	115	**123**	(45)
Foreign exchange (gain) loss - unrealized	**(334)**	-	**(46)**	-
Accretion	**69**	23	**151**	40
Interest and other expense (income)	**277**	18	**369**	18
	1,071	495	**1,901**	531
Canada				
Foreign exchange (gain) loss - realized	**2**	(553)	**2**	(1,986)
Foreign exchange (gain) loss - unrealized	**74**	-	**(196)**	-
Accretion	**26**	29	**52**	59
Interest and other expense (income)	**-**	(75)	**-**	(123)
	102	(599)	**(142)**	(2,050)
Consolidated	**1,173**	(104)	**1,759**	(1,519)

Finance Income and Expenses consist of bank charges, foreign exchange gains and losses, accretion of provisions and interest expense (other income).

Argentina

Bank Charges and Fees

Bank charges and fees relate to various forms of taxation in Argentina above and beyond royalties and income taxes. Bank charges and fees for the Quarter increased to $0.8 million from $0.3 million in Q2-2014 and from $0.5 million YTD-2014 to $1.3 million YTD-2015 as a result of increased Acquisition related transaction activity. Bank charges for Q3–2015 are estimated at approximately $0.7 million.

Foreign exchange (gain) loss – realized and unrealized

During the Quarter, as a result of transaction activity, the Company recorded a foreign exchange gain of $58,000 compared to a loss of $115,000 for Q2 – 2014. YTD, the foreign exchange loss was $77,000 compared to a gain of $45,000.

Accretion

Accretion expense was $69,000 for the Quarter (Q2-2014 – $23,000) and $151,000 for the YTD (YTD-2014 – $40,000).

Interest and other expense (income)

Interest and other income relates to interest on the Argentine loan.

Canada

Foreign exchange (gain) loss

During the Quarter, the Company recorded a foreign exchange loss of $76,000 compared to a gain of $0.6 million for Q2 – 2014. YTD, the foreign exchange gain of $0.2 million is a reduction from the $2 million gain recorded to YTD-2014. The gains for Q2–2014 and YTD-2014 were the result of beneficial exchange rates between AR$ and the Canadian dollar that existed in the market at the time of funding the Argentina exploration and development activity from Canada.

Accretion
Accretion expense was $26,000 for the Quarter (Q2-2014 – $29,000) and $52,000 for the YTD (YTD-2014 – $59,000).

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 $0.3 million in the Quarter and $0.5 million YTD compared to $0.3 million for Q2-2014 and $0.7 million YTD-2014.

Depletion and Depreciation ("D&D")

	Three months ended June 30		Six months ended June 30	
Canadian $000s	2015	2014	2015	2014
Argentina	**8,425**	1,330	**15,846**	2,239
$/boe	**24.14**	24.50	**24.53**	27.29
Canada	**218**	1,318	**537**	2,326
$/boe	**14.84**	14.91	**13.32**	14.24
Consolidated	**8,643**	2,648	**16,383**	4,565
$/boe	**23.77**	18.56	**23.86**	18.60

Argentina
D&D increased to $8.4 million in the Quarter compared to $1.3 million in Q2-2014 and increased from $2.2 million in YTD-2014 to $15.8 million for YTD as a result of the Acquisition. On a per boe basis, D&D for the Quarter declined to $24.14 per boe from $24.50 per boe in Q2 – 2014 and YTD declined to $24.53 per boe from $27.29 per boe in YTD – 2014.

Canada
D&D expenses for the Quarter decreased to $0.2 million from $1.3 million in Q2-2014 and from $2.3 million in YTD-2014 to $0.5 million YTD as a result of lower production. On a per boe basis, D&D for the Quarter decreased to $14.84 per boe from $14.91 per boe in Q2–2014, and decreased to $13.32 per boe YTD from $14.24 per boe in YTD-2014.

Impairment
At June 30, 2015, 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 June 30, 2015, the Company observed triggers for impairment due to the continued decline in current and forward commodity prices for oil and natural gas. The Company's testing of its Canadian CGU recoverable value, established as fair value less costs of disposal, relative to its carrying value, amounting to $8.0 million, resulted in an impairment charge of $1.7 million (Q2-2014 - $nil) for the Quarter and YTD. The recoverable values were determined through the analysis of updated price deck data, which indicated that prices have softened by approximately 10% since December 31, 2014.

The impairment test recoverable value was based on proven plus probable reserves, using a discount rate of 15% and forward commodity price estimates. The following benchmark prices were utilized, adjusted for Company differentials and transportation, from McDaniel & Associates Consultants Ltd. price forecast, effective July 1, 2015.

Year	Crude Oil Price (CANADIAN DOLLAR/bbl)	Natural Gas Price (CANADIAN DOLLAR/mcf)
2015	62.22	3.04
2016	66.55	3.42
2017	70.87	3.71
2018	74.84	3.93
2019	79.11	4.14
2020	83.38	4.41
2021	87.95	4.77
2022	89.73	5.08
2023	91.38	5.28
2024	93.12	5.39
2025	95.02	5.47
2026	96.89	5.57
2027	98.89	5.69
2028	100.83	5.70
2029	102.76	5.95
Thereafter	+2%/yr	+2%/yr

The Company recorded an impairment charge of $0.7 million on its Canadian E&E assets for the three and six months of 2015. The Canadian E&E assets at December 31, 2014 were comprised of drilling and completion costs on one exploratory well that has yet to be transferred to PP&E, pending tie-in and further proof of concept and undeveloped exploration acreage. The impairment charge for the six months ended June 30, 2015 was a result of the analysis of updated price deck data, which indicated that prices have softened by 10% since December 31, 2014. This price reduction resulted in a 25% decrease in recoverable value of the costs related to an exploration well. During 2014, the Company recorded impairment charges of $1.9 million and $2.6 million for the three and six months ended June 30, respectively.

Income Taxes

	Three months ended June 30		Six months ended June 30	
Canadian $000s	**2015**	**2014**	**2015**	**2014**
Argentina				
Current income tax expense	**1,654**	115	**3,068**	182
Deferred income tax expense (recovery)	**1,312**	-	**790**	-
Canada				
Deferred income tax expense (recovery)	**-**	(167)	**-**	(220)
Consolidated				
Current income tax expense	**1,654**	115	**3,068**	182
Deferred income tax expense (recovery)	**1,312**	(167)	**790**	(220)

Argentina
In Argentina, Madalena has four operating entities – three of which were acquired pursuant to the Acquisition. Two of the three acquired entities have taxable income and incur current income taxes. The income tax rate in Argentina is 35%. The two entities that do not have taxable income are subject to minimum taxes, which are generally taxed at 1% of net assets. Current income tax expense (which includes minimum tax) for the Quarter was $1.7 million compared to $0.1 million for Q2-2014 and increased from $0.2 million in YTD-2014 to $3.1 million for the YTD. The Company is evaluating various alternatives to consolidate its Argentina operations, 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 expense of $1.3 million during the Quarter (Q2-2014 - $nil) and $0.8 million YTD-2015 (YTD-2014 - $nil).

Current income taxes for Q3 – 2015 are estimated at approximately $1.2 million.

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, changes in non-cash working capital and changes in non-current assets.

	Three months ended June 30		Six months ended June 30	
Canadian $000s	2015	2014	2015	2014
Cash flow from operating activities	**(5,032)**	(1,543)	**3,533**	945
Change in non-cash working capital	**9,330**	2,590	**5,860**	3,648
Change in other non-current assets	**(27)**	-	**882**	-
Decommissioning costs incurred	**-**	-	**-**	23
Funds flow from operations	**4,271**	1,047	**10,275**	4,616

Funds Flow from Operations, Net Loss and Comprehensive Income (Loss)

Canadian $000s (except per share amounts)	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Funds flow from operations	**4,271**	1,047	**10,275**	4,616
Per share – basic & diluted	**0.01**	0.00	**0.02**	0.01
Net loss	**(6,870)**	(3,732)	**(8,642)**	(3,434)
Per share – basic & diluted	**(0.01)**	(0.01)	**(0.02)**	(0.01)
Comprehensive income (loss)	**(8,761)**	(6,122)	**1,447**	(12,404)

Madalena's funds flow from operations for the Quarter increased to $4.3 million from $1.0 million in Q2 – 2014, and on a year to date basis, funds flow from operations went from $4.6 million to $10.3 million. The increase in funds flow from operations was principally due to increased production volumes resulting from the Acquisition, horizontal development drilling in Argentina, higher oil prices due in part to the US$3.00 per barrel oil price incentive and offset by increased general and administration costs, finance income and expenses, income taxes and a $1.9 million one-time charge to royalties pursuant to the 2007-2011 royalty settlement related to historical production from the Puesto Morales area. Additionally, although impacting earnings, the favorable settlement of

$1.3 million relating to a pre-acquisition contingency that reduced operating costs by $1.3 million has not been included in funds flow from operations as it was a non-cash item that reduced other long-term liabilities.

The net loss for the Quarter was $6.9 million compared to a loss of $3.7 million in Q2-2014 and $8.6 million YTD compared to a loss of $3.4 million YTD-2014. Higher net lease operating income was offset by increased general and administration costs, finance income and expenses, depreciation and depletion, impairment and income taxes, resulting in increased losses.

Foreign exchange gains and losses associated with translating the Company's Argentine and Barbadian subsidiaries from US$ to Canadian dollars are accounted for through Accumulated Other Comprehensive Loss ("AOCI"). Until July 1, 2014, the impact related to AR$ versus Canadian dollar rate fluctuations, were captured in AOCI. Commencing July 1, 2014, the impact only relates to US$ versus Canadian dollar rate fluctuations, as the functional currency of the Company's pre-existing Argentine subsidiary was changed from the AR$ to the US$ on July 1, 2014.

A summary of foreign exchange impact follows:

	Three months ended June 30		Six months ended June 30	
Canadian $000s	**2015**	**2014**	**2015**	**2014**
Foreign currency translation adjustment	**(1,891)**	(2,390)	**10,089**	(8,970)

For the Quarter, the US$ decreased by 1% against the Canadian dollar, causing a $1.9 million exchange loss on translation of subsidiaries with functional currencies other than the Canadian dollar. On a year to date basis the US$ has increased by 17.1% against the Canadian dollar, resulting in a year to date gain of $10.1 million. Up to July 1, 2014, the functional currency of one of the Company's Argentine subsidiaries, Madalena Austral S.A. ("MASA"), was AR$. As a result, translation of this subsidiary meant translating from AR$ to Canadian dollars. For the quarter ended Q2-2014, the $2.4 million loss was due to the AR$ decrease of 4.9% against the Canadian dollar. For YTD-2014, the AR$ decrease of 19.5% against the Canadian dollar, resulted in a translation loss of $9.0 million.

Capital Expenditures

Canadian $000s	Three months ended June 30 2015	Three months ended June 30 2014	Six months ended June 30 2015	Six months ended June 30 2014
Argentina				
Land	-	-	**-**	15
Geological and geophysical	**508**	39	**637**	1,737
Drilling and completions	**1,922**	824	**14,986**	5,482
Well equipment and facilities	**451**	559	**1,390**	294
Other	**90**	15	**59**	902
Argentina total	**2,971**	1,437	**17,072**	8,430
Canada				
Land	**-**		**-**	22
Geological and geophysical	**-**	35	**-**	41
Drilling and completions	**57**	353	**-**	4,061
Well equipment and facilities	**18**	326	**451**	2,094
Other	**-**	13	**92**	64
Canada total	**75**	727	**543**	6,282
Consolidated	**3,046**	2,164	**17,615**	14,712

Argentina

No wells were drilled during the Quarter. The majority of capital expenditures incurred during the Quarter were pre-drilling activity at Curamhuele and facility and production optimizations at Surubi. YTD, the Company drilled two wells (1.35 net) - a horizontal well at Coiron Amargo (CAN-16(h)) and a horizontal multi-frac well at Puesto Morales (PMS-1135). The CAN-16(h) was placed on production March 15, 2015 while the PMS-1135 started producing oil on April 2, 2015 with solution gas conservation commencing on April 9, 2015.

Capital expenditures for Q2-2014 and YTD-2014 related to the drilling and casing of the CAS.x-15 vertical well and the shooting of a 75 square km 3D seismic program at Curamhuele.

Canada

There was virtually no activity in Canada during the Quarter or YTD as a result of the Company's focus being redirected to Argentina in response to reduced commodity prices realized in Canada.

Transactions with Related Parties

A director of the Company is a partner of a law firm that provides legal services to the Company. During the Quarter and the YTD, the Company incurred fees of $0.1 million (Q2-2014 - $0.5 million) and $0.2 million (YTD-2014 - $0.6 million), respectively from this firm for legal fees related to legal matters of which $0.1 million (June 30, 2014 – $0.4 million) is included in accounts payable and accrued liabilities at June 30, 2015. The costs were expensed in the statement of loss and comprehensive 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	June 30 2015	December 31 2014
Working capital	**14,208**	**11,777**
Long-term bank debt	**7,068**	**-**
Shareholders' equity	**138,154**	**135,752**

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, policies and procedures. The following outlines the Company's risk exposures and explains how these risks and its capital structure are managed.

Credit Facilities

Argentina

On May 28, 2015, Madalena Energy Argentina S.R.L (Argentina) ("MEA"), obtained an AR$90 million (June 30, 2015 - $12.6 million) credit facility with Industrial and Commercial Bank of China (Argentina) S.A. ("ICBC"). These funds will be utilized on an as needed basis to provide Madalena's Argentine business unit the necessary liquidity to execute its 2015 capital budget. The loan bears interest at the variable rate of the Buenos Aires Deposits of Large Amount Rate ("BADLAR") plus approximately 8%, resulting in a current rate of approximately 29%. Surplus funds from the ICBC facility are invested by Madalena in short-term deposits that currently are yielding approximately 22% in Argentina. The loan is repayable in seven equal quarterly instalments of AR$12.9 million ($1.78 million), starting on November 30, 2015. The working capital balance above includes $5.4 million in current bank debt associated with this facility with the remaining balance in the amount of $7.1 million included in long-term debt.

Security for this loan is provided by the assignment of MEA's receivables that arise from the sale of crude oil. The facility includes a quarterly financial covenant, whereby MEA's ratio of debt to earnings before income taxes, depletion, interest and other non-cash items must be equal to or less than 1:1. At June 30, 2015, MEA was in compliance with this covenant.

Canada

At June 30, 2015, Madalena had a credit facility in place against its Canadian based assets that included an operating demand loan and an acquisition/development demand loan. The facility is restricted to activity in Canada only and is not available for funding any of its Argentine operations. The operating demand loan credit facility is currently $7 million, of which the maximum draw is limited to $3.5 million, with interest charged at the bank's prime rate plus 1% per annum. The acquisition/development demand loan credit facility is available to a maximum of $3 million, with interest charged at the bank's prime rate plus 1.5% per annum. Both facilities are subject to a periodic review by the bank and the next review is scheduled on or before September 15, 2015. As of June 30, 2015, the Company had utilized $1.75 million (December 31, 2014 - $nil) of the operating demand loan credit facility. The acquisition/development demand loan credit facility was unutilized at June 30, 2015 and December 31, 2014.

The operating demand 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 $3.5 million. At June 30, 2015, the Company was in compliance with this covenant.

The operating demand credit facility is a demand loan and may be called at any time. There is no assurance that the credit facility will be renewed when the next scheduled review is completed. In addition, as a result of the low commodity price environment in Canada, the Company has experienced a reduction in funds generated from operations in Canada and expects this to continue until prices recover. Consequently, the Company may require access to alternative sources of funds.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages 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. In order to maintain or adjust the capital structure, the Company may obtain new credit facilities, adjust its capital spending to manage current and projected debt levels, farm-out existing opportunities or issue shares.

Liquidity risk

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 balance of the Company's 2015 capital expenditure budget is 100% allocated to Argentina, where the majority of the Company's reserves and production are located (see note 13 in the financial statements for additional details). 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.

At June 30, 2015, $15.1 million, or 99%, of Madalena's cash and cash equivalents was deposited with banks in Argentina (December 31, 2014 - $9.0 million, 67%).

At June 30, 2015, the consolidated working capital position of the Company was $14.2 million (December 31, 2014 - $11.8 million), consisting of working capital of $16.9 million (December 31, 2014 - $12.5 million) in Argentina and a working capital deficiency of $2.7 million (December 31, 2014 – working capital deficiency of $0.7 million) in Canada.

Argentine Foreign Currency Restrictions

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, these surplus funds may be repatriated to Canada. 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 in Argentina that include restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad.

During the first half of 2015, the Company repatriated $2.7 million. The Company anticipates additional repatriation of funds in the second half of 2015, subject to Central Bank approvals and availability of funds in the Argentine business unit.

Share Capital Issued and Options Granted

Outstanding Share Capital

During the Quarter, 716,666 common shares were issued pursuant to the exercise of options for cash proceeds of $226,833. No options were granted during the Quarter. For the six months ended June 30, 2015, 1,249,999 common shares have been issued pursuant to the exercise of options by former employees of the Company for cash proceeds of $381,833.

As at August 24, 2015, the Company had 541 million shares and 23.1 million options outstanding.

Financial Instruments

Other than the commodity contracts, the purpose and fair value of which were discussed earlier in this report, the Company's financial instruments comprise cash and cash equivalents, trade and other receivables, operating loan, current portion of long-term debt, trade and other payables and taxes payable. 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.

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 June 30, 2015, inflation rates of 1% and 2% were used in Argentina and Canada, respectively (December 31, 2014 – 1% and 2% for Argentina and Canada, respectively). The risk free rate used to discount the liability was 2.9% (December 31, 2014 – 2.5%) in Argentina and 2.4% (December 31, 2014 –2.5%) in Canada.

Commitments and Contingencies

Development and Exploration Commitments

Coiron Amargo Block (35% working interest)

The Coiron Amargo block (34,951 net acres) is divided into two regions called Coiron Amargo Norte (northern portion of the block) and Coiron Amargo Sur (southern portion of the block). Coiron Amargo Norte is currently held under a 25 year exploitation (development) concession until 2038 with no further firm commitments remaining on this portion of the block.

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 June 30, 2015, Madalena's remaining share of future work commitments associated with the Curamhuele block is approximately US$10.5million plus VAT.

In late July 2015, Madalena reviewed the planned work activities to satisfy the remaining commitments on the block with the Province of Neuquén and its partner Gas y Petroleo ("GyP"). The plan is to re-enter an existing wellbore on the block and drill approximately 600 additional meters to the intended target depth. Following the drilling operations, the plan is to evaluate the drilling results and plan a two zone, dual completion and fracture stimulation program to evaluate and test both the Mulichinco liquids rich gas resource play and the strategic Agrio shale play (oil) on the block. Drilling activities will commence prior to the September 2015 block commitment date and the activities outlined above are expected to satisfy the remaining commitment on the block.

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 to formalize a multi-year 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 June 30, 2015, Madalena is taking steps with its partners and the Province to move officially 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 January 22, 2016 and Madalena has taken steps over the past 10 months to enter into a formal negotiations and multi-step approval process with the Province of Rio Negro related to a new ten year contract term / block extension to allow Madalena to continue to exploit, develop and explore the Puesto Morales area.

In June 2015 Madalena signed a new 10 year exploitation concession for the Puesto Morales area after reaching an agreement with the Province of Rio Negro. Further to the signing of this agreement, the 10 year extension agreement was subject to receiving an official decree followed by Madalena proceeding through a formal public hearing and a Parliamentary vote. Since reaching an agreement on the block, Madalena has received an official decree from the Province of Rio Negro formalizing the agreement which was signed subject to Parliamentary ratification. In early August 2015, Madalena successfully proceeded through a formal public hearing and as a result a parliamentary vote was held and passed on August 21, 2015 to officially ratify and formalize the 10 year exploitation agreement.

As part of the terms and conditions of the 10 year extension, the Company has agreed to firm commitments of US$49.3 million in activities on the block over the next 10 year period. As of June 30, 2015, Madalena estimates that approximately US$5.5 million of the Company's capital spending has already qualified towards this firm commitment.

The Puesto Morales block is the Company's largest producing concession representing approximately 40% of the Madalena's current production in Argentina and is a core area of focus for Madalena. The drilling and completion activities which are included in the US$49.3 million commitment on the block are largely focused on horizontal development wells in the Loma Montosa over the new 10 year exploitation term.

Santa Victoria Block (100% working interest)

This block was part of the Acquisition and includes a 100% working interest operated property in the Noroeste Basin. The contract is currently in the second of three exploration phases, with the second exploration phase expiring in April 2015, unless extended by both parties. As at June 30, 2015, the second exploration phase required additional work commitments of US$3.75 million plus VAT. In Q1-2015, the Company submitted an application for a three year extension. Negotiations have continued through the Quarter and are currently ongoing with the Province.

Other Commitments and Contingencies

Leased Office Premises

The Company is responsible for the following rental commitments:

Canadian $000s	2015	2016	2017	2018	2019
Leased office premises	446	883	635	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. During the Quarter, other long-term liabilities were reduced by $1.3 million as a result of the settlement of a contingency.

QUARTERLY FINANCIAL RESULTS

Quarterly Financial Results

Canadian $000s, unless otherwise noted	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Revenues	**30,365**	24,135	26,635	30,860
Net loss	**(6,870)**	(1,771)	(30,524)	(2,267)
Shares outstanding – 000s	**541.0**	540.3	539.8	539.8
Net loss per share – basic and diluted	**(0.01)**	(0.00)	(0.07)	(0.00)

Canadian $000s, unless otherwise noted	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Revenues	9,144	6,306	5,633	4,840
Net income (loss)	(3,732)	297	(20,527)	(118)
Shares outstanding ('000s)	525.0	396.9	364.0	338.7
Net income (loss) per share – basic and diluted	(0.01)	0.00	(0.06)	(0.00)

Generally, the Company's increase in revenues during the Quarter, Q1-2015, Q4-2014 and Q3-2013 can be attributed to increasing oil production in Argentina resulting from the Acquisition. In addition, revenues for the Quarter were also favourably impacted by successful horizontal drilling in Argentina and the US$3.00 per barrel oil incentive.

An impairment charge of $2.4 million in Canada was recorded in the Quarter. 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 and $0.2 million of business combination costs relating to the Acquisition in Q2-2014 and Q3-2014, respectively.

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 the Company's 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. 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, as well as the notes to the condensed interim consolidated financial statements at June 30, 2015.

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 2015, there were no changes to the Company's key sources of estimation uncertainty. 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 as well as the notes to the condensed interim consolidated financial statements at June 30, 2015.

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 January 1, 2018. 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 the Company's 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 the Company's 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