Madalena energy inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(UNAUDITED)

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

Canadian $000s	Note	As at March 31 2015	As at December 31 2014
Assets			
Current assets			
Cash		**13,949**	13,425
Trade and other receivables		**18,517**	19,861
Inventory		**2,577**	2,875
Other current assets		**1,847**	1,183
		36,890	37,344
Property, plant and equipment	3	**127,912**	113,084
Exploration and evaluation assets	4	**47,868**	43,879
Other non-current assets		**4,105**	2,357
		216,775	196,664
Liabilities			
Current liabilities			
Bank debt		**2,450**	-
Trade and other payables		**27,673**	21,761
Taxes payable		**3,580**	3,806
		33,703	25,567
Other long-term liabilities		**5,280**	4,984
Deferred income tax liability		**4,931**	5,004
Decommissioning obligations	5	**26,506**	25,357
		70,420	60,912
Shareholders' Equity			
Share capital	6	**249,984**	249,717
Contributed surplus		**14,432**	14,303
Accumulated other comprehensive loss		**(4,164)**	(16,142)
Deficit		**(113,897)**	(112,126)
		146,355	135,752
		216,775	196,664

Commitments and contingencies (Note 11)

Subsequent Event (Note 13)

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

Canadian $000s	Note	Three months ended March 31 2015	2014
Revenues			
Oil and natural gas revenues		**24,135**	6,306
Royalties		**(3,325)**	(764)
		20,810	5,542
Loss on commodity contracts	13	**(2)**	(352)
		20,808	5,190
Expenses			
Operating		**10,102**	2,500
General and administrative		**3,017**	849
Finance (income) and expenses	8	**587**	(1,396)
Share-based compensation	7	**241**	349
Depletion and depreciation	3	**7,740**	1,918
Impairment	4	**-**	658
		21,687	4,878
Income (loss) before income taxes		**(879)**	312
Current income tax expense		**(1,414)**	(67)
Deferred tax recovery		**522**	52
		(892)	(15)
Net income (loss)		**(1,771)**	297
Foreign currency translation adjustment		**11,978**	(6,580)
Comprehensive income (loss)		**10,207**	(6,283)
Income (loss) per share			
Basic and diluted	12	**(0.00)**	0.00

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements.

Condensed Interim Consolidated Statements of Equity
(Unaudited)

Canadian $000s	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
	(Note 6)				
Balance at December 31, 2014	**249,717**	**14,303**	**(16,142)**	**(112,126)**	**135,752**
Net loss	-	-	-	(1,771)	(1,771)
Other comprehensive income	-	-	11,978	-	11,978
Exercise of stock options	267	(112)	-	-	155
Share based payments	-	241	-	-	241
Balance at March 31, 2015	**249,984**	**14,432**	**(4,164)**	**(113,897)**	**146,355**
Balance at December 31, 2013	159,574	12,645	(17,094)	(76,122)	79,003
Net income	-	-	-	297	297
Other comprehensive loss	-	-	(6,580)	-	(6,580)
Gross proceeds from financings	23,000	-	-	-	23,000
Share issue costs	(1,724)	-	-	-	(1,724)
Share based payments	-	354	-	-	354
Balance at March 31, 2014	**180,850**	**12,999**	**(23,674)**	**(75,825)**	**94,350**

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

Canadian $000s	Note	Three months ended March 31 2015	2014
Cash provided by (used in):			
Operating			
Net income (loss)		**(1,771)**	297
Items not affecting cash:			
Depletion and depreciation	3	**7,740**	1,918
Impairment	4	**-**	658
Accretion	5	**108**	47
Unrealized loss on commodity contracts	13	**191**	352
Share-based compensation	7	**241**	349
Deferred income tax recovery		**(522)**	(52)
Unrealized loss on foreign exchange	8	**19**	-
Change in other non-current assets		**(909)**	-
Change in non-cash working capital	10	**3,469**	(1,058)
Decommissioning costs incurred	5	**-**	(23)
Cash flow from operating activities		**8,566**	2,488
Investing			
Property, plant and equipment additions	3	**(14,118)**	(3,744)
Evaluation and exploration assets additions	4	**(450)**	(8,804)
Change in other non-current assets		**(598)**	(636)
Change in non-cash working capital	10	**3,253**	1,135
Net cash used in investing activities		**(11,913)**	(12,049)
Financing			
Issue of common shares	6	**155**	23,000
Share issue costs		**-**	(1,724)
Net cash from financing activities		**155**	21,276
Change in cash and cash equivalents		**(3,192)**	11,715
Cash and cash equivalents, beginning of period		**13,425**	14,835
Impact of foreign exchange on cash balances		**1,266**	(302)
Cash and cash equivalents, end of period[(1)]		**11,499**	26,248

(1) Cash and cash equivalents net of current bank debt

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements.

1. Reporting Entity

Madalena Energy Inc. (the "Company" or "Madalena") is involved in the exploration, development and production of oil and natural gas in Argentina and in Alberta, Canada and its principal place of business is Suite 3200, 500 – 4th Avenue S.W., Calgary, Alberta, T2P 2V6.

Prior to June 25, 2014, the condensed interim consolidated financial statements were comprised of the results of the Company and the following wholly-owned subsidiaries in the indicated legal jurisdictions:

- Madalena Austral S.A. (Argentina)
- Madalena Ventures International Holding Company Inc. (Barbados)
- Madalena Ventures International Inc. (Barbados)

On June 25, 2014, the Company acquired the Argentine business unit of Gran Tierra Energy Inc. (the "Acquisition") and the condensed interim consolidated financial statements include the results from June 25, 2014 of the following wholly-owned subsidiaries:

- Madalena Petroleum Ltd. (Canada)
- Madalena Petroleum Holdings Limited (Barbados)
- Madalena Petroleum Americas Limited (Barbados)
- Madalena Energy Argentina S.R.L (Argentina)
- Pet-Ja S.A. (Argentina)

2. Basis of Preparation

These condensed interim consolidated financial statements have been prepared on the basis that the Company is a going concern and will realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. Although the Company has generated significant cash flow from operations, the Company's ability to pay for exploration and development activity is dependent on the price of oil worldwide, the regulated oil and gas prices in Argentina and its ability to access capital from time to time, either through debt or equity, on terms acceptable to the Company. Further, the Company's ability to continue operations is dependent on identifying commercial oil and gas reserves or resources, generating profitable operations for reinvestment and accessing sufficient capital to complete planned exploration and development activities while satisfying block commitments in Argentina. The outcome of these matters cannot be predicted at this time.

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and are presented in Canadian Dollars, unless otherwise indicated. These condensed interim consolidated financial statements follow the same accounting policies and method of computation as the annual consolidated financial statements for the year ended December 31, 2014. The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014, which have been prepared in accordance with International Financial Reporting Standards.

The condensed interim consolidated financial statements were approved and authorized for issue by the Company's Board of Directors on May 28, 2015.

Comparative Information

Certain numbers in the comparative year have been reclassified to conform with current year presentation.

3. Property, Plant and Equipment ("PP&E")

Canadian $000s	Oil and Natural Gas Assets	Corporate	Total
Cost			
At December 31, 2013	54,150	270	54,420
Additions	23,465	679	24,144
Transferred from E&E assets (Note 4)	4,215	-	4,215
Acquired on business combination	87,944	536	88,480
Effect of change in foreign exchange rates	5,020	37	5,057
At December 31, 2014	174,794	1,522	176,316
Additions	12,878	401	13,279
Effect of change in foreign exchange rates	11,420	66	11,486
At March 31, 2015	**199,092**	**1,989**	**201,081**

Canadian $000s	Oil and Natural Gas Assets	Corporate	Total
Accumulated depreciation and depletion			
At December 31, 2013	(15,178)	(180)	(15,358)
Depreciation and depletion	(21,485)	(135)	(21,620)
Impairment	(26,000)	-	(26,000)
Effect of change in foreign exchange rates	(258)	4	(254)
At December 31, 2014	(62,921)	(311)	(63,232)
Depreciation and depletion	(7,661)	(112)	(7,773)
Effect of change in foreign exchange rates	(2,179)	15	(2,164)
At March 31, 2015	**(72,761)**	**(408)**	**(73,169)**

Canadian $000s			
Net book value			
At December 31, 2014	111,873	1,211	113,084
At March 31, 2015	**126,331**	**1,581**	**127,912**

At March 31, 2015, the net book value of the Argentine and Canadian PP&E assets were $115.0 million (December 31, 2014 - $100.4 million) and $12.9 million (December 31, 2014 - $12.7 million), respectively.

The depletion expense calculation for the three months ended March 31, 2015 included $95.3 million (December 31, 2014 – $97.9 million) for estimated future development costs associated with proved and probable reserves.

During the three months ended March 31, 2015, approximately $0.6 million (2014 - $nil) of directly attributable general and administration costs were capitalized to property, plant and equipment in Argentina.

The amounts capitalized as PP&E assets in Argentina at March 31, 2015 includes $1.2 million of Value Added Tax (“VAT”) (December 31, 2014 - $1.5 million). VAT is payable on goods and services supplied and the Company retains VAT on any sales that it collects to the extent of the VAT recorded and paid on previous expenditures.

4. Exploration and Evaluation Assets (“E&E”)

Canadian $000s	
Cost	
At December 31, 2013	35,745
Additions	17,510
Acquired on business combination	3,134
Transfer to PP&E assets (Note 3)	(4,215)
Impairment	(5,208)
Effect of change in foreign exchange rates	(3,087)
At December 31, 2014	43,879
Additions	486
Effect of change in foreign exchange rates	3,503
At March 31, 2015	**47,868**

E&E assets consist of the Company’s intangible exploration projects in Argentina and Canada pending determination of proven or probable reserves. Additions represent the Company’s share of costs incurred on E&E assets during the period. E&E assets are not depreciated or depleted.

At March 31, 2015, the net book value of the Argentine and Canadian E&E assets were $42.0 million (December 31, 2014 - $38.1 million) and $5.9 million (December 31, 2014 - $5.8 million), respectively.

Amounts capitalized as Argentina E&E assets at March 31, 2015 included $5.2 million of VAT (December 31, 2014 - $4.9 million).

The Company recorded an impairment charge of $0.7 million in 2014 on its Canadian E&E assets relating to two wells abandoned during the first quarter of 2014. No impairments were recorded in the first three months of 2015.

5. Decommissioning Liabilities

Canadian $000s	Three months ended March 31 2015	Year ended December 31 2014
Balance, beginning of period	**25,357**	4,947
Acquired through business combination	**-**	17,898
Incurred from development activities (Note 3)	**55**	359
Incurred from exploration activities (Note 4)	**-**	156
Accretion expense (Note 8)	**108**	281
Revision of estimates	**(858)**	602
Obligations settled	**-**	(229)
Effect of change in foreign exchange rates	**1,844**	1,343
Balance, end of period	**26,506**	25,357

The total undiscounted and inflated amount of cash flows required to settle Madalena's decommissioning obligations at March 31, 2015 is approximately $33.1 million (December 31, 2014 – $31.7 million) with the majority of the costs to be incurred between 2018 and 2030. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability.

At March 31, 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 at March 31, 2015 was 2.3% (December 31, 2014 – 2.5%) in Argentina and 2.4% (December 31, 2014 - 2.5%) in Canada. The Argentina liability is expected to be settled through payment in United States Dollars ("US$").

6. Share Capital

The Company is authorized to issue an unlimited number of common shares. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share.

Share Capital

	Number of Shares 000s	Share Capital $000s
Balance at December 31, 2013	364,029	159,574
Shares issued pursuant to financing	145,672	80,536
Share issue costs	-	(5,661)
Flow through share liability	29,832	15,214
Stock options exercised	250	54
Balance at December 31, 2014	539,783	249,717
Stock options exercised	533	267
Balance at March 31, 2015	**540,316**	**249,984**

2015

On March 13, 2015, 533,333 common shares were issued pursuant to the exercise of options for cash proceeds of $155,000. Subsequent to the end of the Quarter, 716,666 common shares were issued pursuant to the execise of options for cash proceeds of $226,833.

2014

On February 11, 2014, the Company closed a bought deal financing of 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.

On June 24, 2014, the Company closed a bought deal financing of 98,100,000 common shares at a price of $0.51 per common share, for aggregate gross proceeds of $50.0 million.

On June 25, 2014, in connection with the Acquisition, the Company issued 29,831,537 common shares to Gran Tierra at a price of $0.51 per common share for partial consideration in the Acquisition totaling $15.2 million.

On July 7, 2014, the Company closed the over-allotment option in full of the $50 million bought deal described above, 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.

7. Share Based Compensation

Under the Company's stock option plan, directors, officers, employees and certain consultants are eligible to receive options to acquire common stock of the Company. The exercise price of the granted options is no less than the closing trading price per share on the last day preceding the date of the grant. Total options granted cannot exceed 10% of the issued and outstanding common shares of the Company. Options granted to directors, officers, employees and consultants may vest immediately or over three years on each anniversary of the grant date. Options expire three to five years from the grant date. There are no cash settlement alternatives for employees under the Company's stock option plan.

The weighted average share price of the Company's common shares on the exercise date during the three months ended March 31, 2015 was $0.34.

During the period ended March 31, 2015, no options were granted to any officers, employees, consultants or directors of the Company and its subsidiaries. Movements in the number of stock options outstanding and their related weighted average exercise prices are summarized as follows:

	Number of options 000s	Weighted average exercise price CDN$
Outstanding at December 31, 2013	19,530	0.40
Granted	7,000	0.47
Exercised	(250)	0.13
Forfeited	(353)	0.50
Expired or cancelled	(47)	0.11
Outstanding at December 31, 2014	25,880	0.42
Exercised	(533)	0.29
Forfeited	(1,182)	0.33
Outstanding at March 31, 2015	**24,165**	**0.44**
Exercisable at March 31, 2015	**11,197**	**0.36**

Share based compensation expense arising from the issuance of stock options recognized for the period ended March 31, 2015 was $0.2 million (2014 - $0.3 million) with an offsetting credit to contributed surplus.

8. Finance Income and Expenses

Finance Income and Expenses are made up of the following:

	Three months ended March 31	
Canadian $000s	2015	2014
Bank charges	**521**	180
Foreign exchange (gain)/loss	**(134)**	(1,593)
Accretion (Note 5)	**108**	47
Interest expense (other income)	**92**	(30)
	587	(1,396)

<u>Foreign Exchange Gain / (Loss)</u>

	Three months ended March 31	
Canadian $000s	2015	2014
Realized foreign exchange (gains)/losses	**(153)**	(1,593)
Unrealized foreign exchange (gains)/losses	**19**	-
Total	**(134)**	(1,593)
Currency exchange rate at period end:		
$1 Canadian = US$	**$0.79**	$0.91
$1 Canadian = Argentine Peso	**6.95**	6.87

9. 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 three months ended March 31, 2015, the Company incurred fees of $0.1 million (March 31, 2014 - $0.1 million) from this firm for legal fees related to legal matters. All legal fees from this firm are included in general and administrative costs in the statement of income (loss) and comprehensive income (loss) and are included in trade and other payables at March 31, 2015.

10. Supplemental Cash Flow

Changes in non-cash working capital

Canadian $000s	Three months ended March 31 2015	 2014
Trade and other receivables	**2,999**	(675)
Other current assets, including inventory	**(26)**	(342)
Trade, tax and other payables	**3,820**	1,094
Impact of foreign exchange on working capital	**(71)**	-
Change in non-cash working capital	**6,722**	77
Attributable to:		
Operating activities	**3,469**	(1,058)
Investing activities	**3,253**	1,135
	6,722	77

11. Commitments and Contingencies

Development and 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 March 31, 2015, Madalena's remaining share of future work commitments associated with the Curamhuele block is approximately US$12 million plus VAT. To satisfy this remaining work commitment, Madalena is preparing to conduct a two 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 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 April 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 Corporation 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 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 March 31, 2015, the second exploration phase required additional work commitments of US$3.75 million plus VAT. In March 2015, the Company submitted an application for a three year extension. Negotiations are currently ongoing with the Province.

Leased office premises

The Company is responsible for the following rental commitments:

Canadian $000s	**2015**	**2016**	**2017**	**2018**	**2019**
Leased office premises	671	890	637	470	480

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.

12. Net Loss Per Share

The following table reconciles the weighted average number of common shares used in the basic and diluted net loss per share calculations:

Basic and diluted loss per share

	Three months ended March 31 2015	2014
Weighted average number of common shares:		
Basic - 000s	**539,895**	381,917
Diluted - 000s	**539,895**	398,520

For the three months ended March 31, 2015 all share options were excluded from the preceding calculation of diluted earnings per share, as their effect is anti-dilutive. For the three months ended March 31, 2014, a total of 16,603,333 share options were included in the calculation of diluted earnings per share as they were dilutive.

13. Financial Instruments and Risk Management

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.

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 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 11 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 March 31, 2015, $11.2 million, or 80%, of Madalena's cash on hand was deposited with banks in Argentina (December 31, 2014 - $9.0 million, 67%).

At March 31, 2015, the consolidated working capital position of the Company was $3.2 million (December 31, 2014 - $11.8 million), consisting of working capital of $5.1 million (December 31, 2014 - $12.5 million) in Argentina and a working capital deficiency of $1.9 million (December 31, 2014 – working capital deficiency of $0.7 million) in Canada.

Argentine Debt Facility

As at March 31, 2015, there were no credit facilities in place in Argentina. On May 28, 2015, one of Madalena's Argentine subsidiaries, Madalena Energy Argentina S.R.L ("MEA"), closed a 90 million Argentine Peso ("AR$") ($12.5 million) loan with Industrial and Commercial Bank of China (Argentina) S.A. ("ICBC"), which were advanced on closing and 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 11%, resulting in a current rate of approximately 32%. Surplus funds from the ICBC facility are expected to be invested by Madalena in short-term deposits that currently are yielding approximately 22% in Argentina. The loan principal is repayable in seven equal quarterly instalments, starting on the sixth month after the funds are advanced.

Security for this loan is provided by the assignment of MEA's receivables resulting from the sale of crude oil. The facility includes an annual financial covenant for MEA whereby their ratio of debt to earnings before income taxes, depletion, interest and other non-cash items must be equal to or less than 1:1.

Canadian Debt Facility

At March 31, 2015, Madalena had a credit facility in place against its Canadian based assets. The facility is restricted to activity in Canada only and is not available for funding any of its Argentine operations. Subsequent to the March 31, 2015, 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, with interest charged at the bank's prime rate plus 1% per annum. The acquisition/development demand loan credit facility, with interest charged at the bank's prime rate plus 1.5% per annum, 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. As of March 31, 2015, the Company had utilized $2.5 million (December 31, 2014 - $nil) of the operating demand loan credit facility and had cash on hand in Canada in the amount of US$2.1 million. The acquisition/development demand loan credit facility was unutilized at March 31, 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 March 31, 2015, the Company is 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 anticipates a reduction in funds generated from operations in Canada. Consequently, the Company may require access to alternative sources of funds.

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 quarter of 2015 and to year date in 2015, the Company repatriated US$0.8 million and US$1.9 million, respectively. Based on the current budget and anticipated inflows and outflows of cash, no additional repatriation of funds are contemplated for the second quarter.

(Tabular amounts are stated in thousands of Canadian dollars, except per share amounts and as otherwise noted)

Market risk

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net earnings and in the fair value of its financial assets and liabilities.

Commodity price risk

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 Argentina prices did not keep pace. Conversely, when world prices fell sharply in the latter half of 2014, Argentina prices remained relatively stable. Although currently Argentina prices are currently approximately 30% higher than Brent pricing, there can be no assurances that prices in Argentina will remain above Brent and/or WTI.

Gas prices in Argentina are fixed by the Government regulator in US$/mmbtu. Summer prices have been set at US$4.10/mmbtu for the period of October 2014 to April 2015. For the period May to September 2015, which is the Argentine winter, prices have been set at US$5.30/mmbtu. Last winter they were US$5.20/mmbtu.

As of March 31, 2015, the Company has the following physical oil contract in place:

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 March 31, 2015 was a net payable of $2,000 (December 31, 2014 – net receivable of $189,000). Realized gains for the period ended March 31, 2015 were $189,000 (December 31, 2014 – realized losses $168,000) and are included in loss on commodity contracts on the statement of income (loss) and comprehensive income (loss). The commodity contracts are classified as level 2 within the fair value hierarchy.

On March 23, 2015, the Company monetized its natural gas contract, realizing a gain of $92,000, which is included in loss on commodity contracts as discussed above.

Foreign currency exchange rate risk

The majority of the Company's exploration and development activities are conducted in Argentina and a portion of the Company's cash and cash equivalents are denominated in AR$. Consequently, the Company is exposed to foreign currency exchange risk on a substantial portion of its financial assets. The Company has not entered into derivative exchange rate contracts to mitigate this risk.

A 10% change in exchange rates to the Canadian dollar at March 31, 2015 would have changed Foreign Currency Translation Adjustment by $13.4 million for the quarter (2014 - $3.8 million).

14. Segmented information

Madalena is engaged primarily in the exploration and development of oil and gas. The Company's reportable segments are based on geographic areas and comprise Canada and Argentina. The Company's operations in Barbados are not a reportable segment and are included in the Argentina segment because the level of activity in Barbados was not significant at March 31, 2015 or March 31, 2014.

	As at and for three months ended March 31, 2015		
Canadian $000s	**Canada**	**Argentina**	**Total**
Total assets	21,991	194,784	216,775
Total liabilities	(10,404)	(60,016)	(70,420)
Revenues	685	23,450	24,135
Net loss	1,666	105	1,771
Capital expenditures[(1)]	470	14,098	14,568

	As at and for three months ended March 31, 2014		
Canadian $000s	**Canada**	**Argentina**	**Total**
Total assets	65,767	46,345	112,112
Total liabilities	(10,022)	(7,740)	(17,762)
Revenues	4,006	2,300	6,306
Net income	196	101	297
Capital expenditures[(1)]	5,555	6,993	12,548

(1) Capital expenditures include cash additions to PP&E and E&E.