



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

(UNAUDITED)



Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

USD 000s	Note	As at March 31 2016	As at December 31 2015
Assets			
Current assets			
Cash and cash equivalents		5,188	3,912
Available for sale securities	8	624	5,361
Trade and other receivables		16,636	17,882
Inventory		2,027	2,415
Other current assets		1,360	622
		25,835	30,192
Property, plant and equipment	3	85,504	89,365
Exploration and evaluation assets	4	47,600	43,767
Other long-term assets		1,043	593
		159,982	163,917
Liabilities			
Current liabilities			
Current portion of long-term debt	5	3,499	3,944
Trade and other payables		23,542	23,216
Taxes payable		2,123	2,570
		29,164	29,730
Long-term debt	5	875	1,972
Other long-term liabilities		1,364	1,575
Deferred income tax liability		11,869	9,906
Decommissioning obligations		21,487	20,641
		64,759	63,824
Shareholders' Equity			
Share capital	6	238,758	238,758
Contributed surplus		15,121	14,520
Accumulated other comprehensive loss		(30,699)	(32,062)
Deficit		(127,957)	(121,123)
		95,223	100,093
		159,982	163,917

Going concern (note 2)

Commitments and contingencies (note 11)

Subsequent event (note 15)

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



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

USD 000s	Note	Three months ended	
		March 31	
		2016	2015
Revenues			
Oil and natural gas revenues		15,105	19,445
Royalties		(2,351)	(2,679)
		12,754	16,766
Expenses			
Operating	14	6,332	8,139
General and administrative	14	2,816	2,420
Finance (income) and expenses	9	1,611	(1,396)
Share-based compensation	7	470	195
Depletion and depreciation	3	6,044	5,686
		17,273	15,044
Income (loss) before income taxes		(4,519)	1,722
Income tax (expense) recovery			
Current		(353)	(1,139)
Deferred		(1,962)	420
Total income tax expense		(2,315)	(719)
Net income (loss)		(6,834)	1,003
Foreign currency translation adjustment		1,419	(2,783)
Available for sale investments		(56)	-
Comprehensive loss		(5,471)	(1,780)
Net income (loss) per share			
Basic and diluted	6	(0.01)	0.00

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



Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

USD 000s	Share Capital (note 6)	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at December 31, 2015	238,758	14,520	(32,062)	(121,123)	100,093
Net loss	-	-	-	(6,834)	(6,834)
Foreign currency translation adjustment	-	-	1,419	-	1,419
Share-based compensation	-	601	-	-	601
Available for sale investments (note 8)	-	-	(56)	-	(56)
Balance at March 31, 2016	238,758	15,121	(30,699)	(127,957)	95,223
Balance at December 31, 2014	237,928	13,555	(27,049)	(107,418)	117,016
Net income	-	-	-	1,003	1,003
Foreign currency translation adjustment	-	-	(2,783)	-	(2,783)
Stock options exercised	215	(90)	-	-	125
Share-based compensation	-	195	-	-	195
Balance at March 31, 2015	238,143	13,660	(29,832)	(106,415)	115,556

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



Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

USD 000s	Note	Three months ended	
		March 31	
		2016	2015
Cash provided by (used in):			
Operating			
Net income (loss)		(6,834)	1,003
Items not affecting cash:			
Depletion and depreciation	3	6,044	5,686
Accretion	9	84	87
Unrealized loss on commodity contracts		-	154
Share-based compensation	7	470	195
Deferred income tax expense (recovery)		1,962	(420)
Unrealized (gain) loss on foreign exchange	9	1,237	(1,984)
Change in other long-term assets		(450)	(728)
Change in non-cash working capital	10	3,947	3,074
Cash flow from operating activities		6,460	7,067
Investing			
Property, plant and equipment additions	3	(1,181)	(11,374)
Evaluation and exploration assets additions	4	(3,680)	(363)
Change in other long-term assets		-	(481)
Change in non-cash working capital	10	443	2,686
Net cash used in investing activities		(4,418)	(9,532)
Financing			
Issue of common shares	6	-	125
Bank loan repayment		(846)	-
Net cash from financing activities		(846)	125
Change in cash and cash equivalents		1,196	(2,340)
Cash and cash equivalents, beginning of period		3,912	11,572
Impact of foreign exchange on cash balances		80	(153)
Cash and cash equivalents, end of period⁽¹⁾		5,188	9,079

(1) Cash and cash equivalents net of Canadian operating loan

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



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

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

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.

The condensed interim consolidated financial statements include the results of the following wholly-owned subsidiaries:

- Madalena Petroleum Ltd. (Canada)
- Madalena Austral S.A. (Argentina)
- Madalena Energy Argentina S.R.L. (Argentina)
- Madalena Petroleum Americas Limited (Barbados)
- Madalena Petroleum Holdings Limited (Barbados)
- Madalena Ventures International Holding Company Inc. (Barbados)
- Madalena Ventures International Inc. (Barbados)
- 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 continue to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As at March 31, 2016, the Company had a working capital deficit of approximately \$3.3 million and significant future capital commitments to develop its properties. Further, in January 2016, the Argentina government reduced the benchmark oil price by 10% from \$75.00 to \$67.50 per barrel. Forecasted cash flow from operating activities will not be sufficient to fund the 2016 and 2017 anticipated capital commitments as outlined in note 11.

The Company's business is capital intensive and additional capital is required on a periodic basis. As part of its business plan, the Company regularly evaluates sources of funding. The current world-wide economic environment relating to the oil and gas industry has made access to capital challenging for many companies, Madalena included. As a result, although the Company continues with a largely unleveraged balance sheet, the Company continues to face liquidity challenges.

The ability of the Company to continue as a going concern is dependent upon the Company's ability to access additional funding to meet its anticipated 2016 and 2017 capital commitments and/or opportunities to monetize its assets. Potential additional sources of capital include: (i) credit facilities on acceptable terms; (ii) proceeds from the sale of non-core assets; (iii) proceeds from equalization payments, if any, received from a possible partner at Curamhuele; and (iv) the issuance of equity on acceptable terms. There is no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern.

The need to raise capital to fund ongoing operations creates a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. These condensed interim consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the condensed interim consolidated statements of financial position classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

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

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 United States Dollars (“USD”), 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, 2015. 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, 2015, which have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IASB”).

The condensed interim consolidated financial statements were approved and authorized for issue by the Company’s Board of Directors on May 16, 2016.

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

USD 000s	Oil and Natural Gas Assets	Corporate	Total
Cost			
At December 31, 2014	150,669	1,312	151,981
Additions	30,851	810	31,661
Effect of change in foreign exchange rates	(7,586)	(130)	(7,716)
At December 31, 2015	173,934	1,992	175,926
Additions	1,752	27	1,779
Effect of change in foreign exchange rates	2,658	46	2,704
At March 31, 2016	178,344	2,065	180,409

USD 000s	Oil and Natural Gas Assets	Corporate	Total
Accumulated depreciation and depletion			
At December 31, 2014	(54,237)	(268)	(54,505)
Depreciation and depletion	(25,981)	(388)	(26,369)
Impairment	(11,651)	-	(11,651)
Effect of change in foreign exchange rates	5,918	46	5,964
At December 31, 2015	(85,951)	(610)	(86,561)
Depreciation and depletion	(5,964)	(120)	(6,084)
Effect of change in foreign exchange rates	(2,233)	(27)	(2,260)
At March 31, 2016	(94,148)	(757)	(94,905)



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

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

USD 000s

Net book value

At December 31, 2015	87,983	1,382	89,365
At March 31, 2016	84,196	1,308	85,504

At March 31, 2016 and March 31, 2015, Madalena determined there were no triggers for impairment for any of its Argentine or Canadian CGUs.

At March 31, 2016, the net book value of the Argentine and Canadian PP&E assets were \$78.8 million (December 31, 2015 - \$83.0 million) and \$6.7 million (December 31, 2015 - \$6.4 million), respectively.

The depletion expense calculation for the three months ended March 31, 2016 included \$92.7 million and \$8.3 million for Argentina and Canada respectively (December 31, 2015 - \$92.7 million and \$7.8 million), for estimated future development costs associated with proved and probable reserves.

During the three months ended March 31, 2016, approximately \$0.4 million (2015 - \$0.5 million) of directly attributable general and administration costs were capitalized to property, plant and equipment in Argentina.

4. Exploration and Evaluation Assets ("E&E")

USD 000s

Cost

At December 31, 2014	37,824
Additions	8,716
Impairment	(2,107)
Effect of change in foreign exchange rates	(666)
At December 31, 2015	43,767
Additions	3,680
Effect of change in foreign exchange rates	153
At March 31, 2016	47,600

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, 2016, the net book value of the Argentine and Canadian E&E assets were \$45.2 million (December 31, 2015 - \$41.6 million) and \$2.4 million (December 31, 2015 - \$2.2 million), respectively.

At March 31, 2016 and March 31, 2015, Madalena determined there were no triggers for impairment.

5. Long-Term Debt

Argentina

The amount outstanding at March 31, 2016 was \$4.4 million and is repayable in five equal quarterly instalments of ARS 12.9 million (\$0.9 million using the March 31, 2016 exchange rate) with the next payment due on May 31, 2016.



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

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

Security for the Argentine loan is provided by the assignment of the receivables of Madalena Energy Argentina S.R.L. (Argentina) (“MEA”) 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. The earnings before income taxes, depletion, interest and other non-cash items is calculated on a four quarter rolling basis. At March 31, 2016, MEA was in compliance with this covenant at 0.26, and is expected to be for the remainder of the year.

6. Share Capital

The Company is authorized to issue an unlimited number of common shares and preferred shares. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share. No preferred shares were outstanding at March 31, 2016 or December 31, 2015.

2016

No common shares were issued for the three month period ended March 31, 2016.

2015

On March 13, 2015, 533,333 common shares were issued pursuant to the exercise of options for cash proceeds of \$125,000.

Net Income (Loss) Per Share

There is no dilutive impact to the weighted average number of common shares at March 31, 2016 or March 31, 2015. All share options were excluded from the calculation of diluted earnings per share as their effect is anti-dilutive. The following table provides the weighted average number of common shares used in the per share calculations:

USD 000s	Three months ended March 31	
	2016	2015
Weighted average number of common shares - basic & diluted – 000s	542,083	539,895
Net income (loss)	(6,834)	1,003
Per share – basic & diluted (\$/share)	(0.01)	0.00

7. Share-based Compensation

There were no options exercised during the Quarter (Q1-2015 – 533,333). The weighted average share price of the Company’s common shares on the exercise date for the options exercised during the three months ended March 31, 2015 was CAD \$0.34.

During the three months ended March 31, 2016, 8,650,000 options were granted to certain employees and directors of the Company at an exercise price of CAD \$0.27 per share. No options were granted during the three months ended March 31, 2015. There were 300,000 options that expired at an exercise price of CAD \$0.96 for the three months ended March 31, 2016, leaving 43.2 million options outstanding at a weighted average exercise price of CAD \$0.33.

The fair value of options granted was estimated at the period end date using the Black-Scholes valuation model, resulting in a per option fair value of CAD \$0.16 (2015 – nil) with weighed average assumptions as follows:



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

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

Inputs used to fair value share options granted

	Three months ended March 31	
	2016	
Share price (CAD \$)		0.27
Exercise price (CAD \$)		0.27
Expected Volatility (%)		76
Forfeiture rate (%)		9.8
Option life (years)		4.35
Risk-free interest rate (%)		0.63

Share-based compensation arising from the issuance of stock options recognized for the three months ended March 31, 2016 was \$0.6 million (2015 - \$0.2 million) with an offsetting credit to contributed surplus. During the three months ended March 31, 2016, \$0.1 million of share-based compensation was capitalized to PP&E (2015 – nil), leaving \$0.5 million (2015 - \$0.2 million) as share-based compensation expense.

8. Available for Sale Securities

During the three months ended March 31, 2016, proceeds of \$5.1 million were received for the available for sale securities that were disposed of during the quarter, resulting in a net gain of \$0.5 million. The net gain of \$0.5 million, which was reduced for penalties of \$0.5 million, was recorded in finance (income) and expenses on the condensed interim consolidated statements of income (loss). The remaining bonds have a fair value of \$0.6 million at March 31, 2016 (December 31, 2015 - \$5.4 million).

9. Finance (Income) Expenses

Finance (Income) and Expenses are made up of the following:

USD 000s	Three months ended March 31	
	2016	2015
Bank charges	271	420
Foreign exchange (gain)/loss	1,237	(1,984)
Accretion	84	87
Interest and other (income) expense	19	81
	1,611	(1,396)

Foreign Exchange (Gain) / Loss

USD 000s	Three months ended March 31	
	2016	2015
Unrealized foreign exchange (gains)/losses	1,237	(1,984)
Total	1,237	(1,984)
Currency exchange rate at period end:		
\$1 USD = CAD	\$1.30	\$1.27
\$1 USD = ARS	14.61	8.83



Notes to the Condensed Interim Consolidated Financial Statements
 As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)
 (Tabular amounts are stated in thousands of United States dollars, except per share amounts and as otherwise stated)

10. Supplemental Cash Flow Information

Changes in non-cash working capital

USD 000s	Three months ended March 31	
	2016	2015
Available for sale securities	4,737	-
Trade and other receivables	1,246	2,501
Other current assets, including inventory	(347)	5
Trade, tax and other payables	(121)	2,635
Impact of foreign exchange on working capital	(1,125)	619
Change in non-cash working capital	4,390	5,760
Attributable to:		
Operating activities	3,947	3,074
Investing activities	443	2,686
	4,390	5,760

Other cash flow information

USD 000s	Three months ended March 31	
	2016	2015
Interest paid	486	93
Taxes paid	487	741

11. Commitments and Contingencies

Development and Exploration Commitments

Coiron Amarqo Block (35% working interest – non-operated)

USD 000s	2016	2017	Beyond
Concession commitments	-	17,500	nil

Curamhuele Block (90% working interest-operated)

In December 2015, Madalena further ratified an extension of its second exploration term with the Province of Neuquén to September 9, 2016, after which a further extension is available.

At March 31, 2016, the remaining work commitment relating to the existing Curamhuele block concession agreement was fulfilled by completing the Yapai.x 1001 well in the Mulichinco and Lower Agrío shales.

Discussions have commenced with the Province of Neuquén and Madalena expects to extend the exploration period to further appraise the Curamhuele block.



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

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Cortadera Block (38% working interest – non-operated)

In 2014, Madalena and its working interest partner satisfied the remaining commitments related to the first exploration period on the block and have the option to enter into a second exploration period extending to October 25, 2018 and potentially a third exploration period extending to October 25, 2021.

Madalena and its partner have submitted an application to the province of Neuquén requesting that the block pass into the second exploration period with the relinquishment of approximately 50% of the block and a commitment to shoot 3D seismic on a portion of the remainder of the block. As of May 16, 2016, Madalena has not received confirmation of approval of this application.

Rinconada-Puesto Morales Block (100% working interest-operated)

USD 000s	2016	2017	Beyond
Concession commitments	4,400	13,300	14,800

Santa Victoria Block (100% working interest - operated)

The contract is currently in the second of three exploration phases, with the second exploration phase having expired in April 2015. Negotiations continue and are currently ongoing with the province of Salta to reach a multi-year extension agreement.

As at March 31, 2016 the second exploration phase required additional work commitments of \$3.75 million of which no qualifying expenditures had been made.

12. 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.

Liquidity risk

Although the Company has a largely unleveraged balance sheet at March 31, 2016, it does have a working capital deficit of \$3.3 million, and continues to face liquidity challenges. Unless the Company is able to raise additional capital or renegotiate its commitments, it does not expect that forecasted cash flows from operating activities will be sufficient to meet its anticipated 2016 and 2017 capital commitments. The Company is actively pursuing alternative sources of capital, including potential debt and equity financing and ways to monetize its assets, including, without limitation, asset sales or swaps, joint ventures or other transactions with industry partners, all with a view to enhancing liquidity to execute on its business plan.

At March 31, 2016, \$4.4 million, or 86%, of Madalena's cash and cash equivalents was deposited with banks in Argentina (December 31, 2015- \$2.1 million, 54%), and held in ARS.

At March 31, 2016, the consolidated working capital deficit of the Company was \$3.3 million (December 31, 2015 – positive working capital of \$0.5 million), consisting of working capital deficiency of \$2.0 million (December 31, 2015 - \$0.4 million) in Argentina and a working capital deficiency of \$1.3 million (December 31, 2015 – positive working capital of \$0.9 million) in Canada.

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.



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

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

Commodity price risk

The Government of Argentina sets the benchmark (Medanito) price for oil. Medanito crude oil averaged \$67.50 per barrel for the three months ended March 31, 2016 (2015 - \$76.33). In early 2016, the government regulator in Argentina advised that 2016 oil pricing will be set at \$67.50 per barrel for Medanito crude quality oil. There can be no certainty that the oil price will not be further adjusted within the year.

Gas prices in Argentina are subject to seasonal demand and are negotiated between the producer and the buyer. Summer prices have been set at \$4.20/mmbtu for the period from October 2015 to April 2016. For the period May to September 2016, which is the Argentine winter, the price has been set at \$5.35. Winter prices in 2015 were \$5.30/mmbtu. Further, pricing for the period from October 2016 to April 2017 have been set at \$4.30/mmbtu.

13. Segmented information

The Company is engaged in the exploration and development of oil and gas. The Company's reportable segments are based on geographic areas and comprise Canada and Argentina. Corporate level expenses primarily comprise general and administrative costs in Canada. No other segmented categories are significant in relation to corporate head office. The Company does not have separate operations in Barbados. Barbados entities hold a direct interest in the Argentine businesses and the chief operating decision maker views Barbados as an extension of the Argentine operations. Together they collectively comprise the Argentina operating segment.

USD 000s	As at and for the three months ended March 31, 2016			
	Argentina	Canada	Intersegment Eliminations	Total
Total assets	149,370	32,961	(22,349)	159,982
Total liabilities	79,972	7,136	(22,349)	64,759
Oil and natural gas revenues	14,811	294	-	15,105
Operating expenses	5,926	406	-	6,332
General & administrative expenses	1,170	1,646	-	2,816
Depletion and depreciation	5,870	174	-	6,044
Current income tax expense	353	-	-	353
Net loss	(3,420)	(3,414)	-	(6,834)
Capital expenditures ⁽¹⁾	4,861	-	-	4,861



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

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

USD 000s	As at and for the three months ended March 31, 2015			
	Argentina	Canada	Intersegment Eliminations	Total
Total assets	164,335	35,088	(28,272)	171,151
Total liabilities	75,655	8,214	(28,272)	55,597
Oil and natural gas revenues	18,893	552	-	19,445
Operating expenses	7,379	760	-	8,139
General & administrative expenses	1,290	1,130	-	2,420
Depletion and depreciation	5,429	257	-	5,686
Current income tax expense	1,139	-	-	1,139
Net income	640	363	-	1,003
Capital expenditures ⁽¹⁾	11,359	378	-	11,737

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

Intersegment eliminations relate to intercompany loans between Canada and Argentina.

14. Supplemental disclosure

Madalena's condensed interim consolidated statements of income (loss) and comprehensive loss are prepared primarily by nature of expenses, with the exception of employee compensation costs which are included in both the operating and general and administrative expense line items on the condensed interim consolidated statements of income (loss) and comprehensive loss. The following table details the amount of total employee compensation costs included in the operating and general and administrative expense line items in the condensed interim consolidated statements of income (loss) and comprehensive loss.

USD 000s	Three months ended March 31	
	2016	2015
Operating expenses		
Compensation costs	1,077	1,067
Transportation and processing	1,685	2,403
Maintenance, workovers and others	3,570	4,669
	6,332	8,139
General & Administrative expenses⁽¹⁾		
Compensation costs	1,917	1,622
Other	899	798
	2,816	2,420

(1) Includes severance and retracted financing costs of \$1.0 million.



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

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

15. Subsequent Event

Sale of Non-Core Canadian Assets

On February 8, 2016, First Mountain Exploration Inc. ("First Mountain"), Point Loma Energy Ltd. ("Point Loma") and Madalena entered into a non-binding letter of intent pursuant to which, among other things, it is proposed that Point Loma will acquire Madalena's non-core Canadian oil and gas assets for a deemed aggregate purchase price of approximately \$4.0 million (CAD \$5.5 million).

Proceeds to the Company will consist of 14,522,823 common shares of Point Loma, with a deemed value of \$1.8 million (CAD \$2.5 million), as well as a five-year \$2.2 million (CAD \$3 million) secured convertible debenture, bearing interest at 3% per annum, payable at the end of the debenture term. The effective date is May 1, 2016, with closing expected in early June 2016, subject to certain terms and conditions, including the successful acquisition (the "Acquisition") of Point Loma by First Mountain. The Acquisition will involve an exchange of publicly traded First Mountain common shares (TSXV: FMX) for all of the outstanding common shares of Point Loma including those received by Madalena.