CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(UNAUDITED)

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

Canadian $000s	Note	As at September 30 2015	As at December 31 2014
Assets			
Current assets			
Cash and cash equivalents	14	**11,236**	13,425
Available for sale securities	8	**18,308**	-
Trade and other receivables		**25,100**	19,861
Inventory		**2,529**	2,875
Other current assets		**1,306**	1,183
		58,479	37,344
Property, plant and equipment	3	**131,861**	113,084
Exploration and evaluation assets	4	**51,400**	43,879
Other non-current assets		**1,555**	2,357
		243,295	196,664
Liabilities			
Current liabilities			
Operating loan	5	**2,850**	-
Current portion of long-term debt	5	**7,284**	-
Trade and other payables		**27,868**	21,761
Taxes payable		**5,666**	3,806
		43,668	25,567
Long-term debt	5	**5,463**	-
Other long-term liabilities	12	**3,857**	4,984
Deferred income tax liability		**10,068**	5,004
Decommissioning obligations	6	**27,364**	25,357
		90,420	60,912
Shareholders' Equity			
Share capital	7	**250,431**	249,717
Contributed surplus		**15,307**	14,303
Accumulated other comprehensive income (loss)		**2,610**	(16,142)
Deficit		**(115,473)**	(112,126)
		152,875	135,752
		243,295	196,664

Commitments and Contingencies (Note 12)

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

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

		Three months ended September 30		Nine months ended September 30	
Canadian $000s (except per share amounts)	Note	2015	2014	2015	2014
			(Note 2)		(Note 2)
Revenues					
Oil and natural gas revenues	8	**27,745**	30,860	**82,245**	46,310
Royalties		**(4,053)**	(4,369)	**(13,512)**	(6,332)
Other income	8	**18,135**	-	**18,135**	-
		41,827	26,491	**86,868**	39,978
Gain (loss) on commodity contracts	14	**-**	298	**-**	(180)
		41,827	26,789	**86,868**	39,798
Expenses					
Operating		**12,036**	11,646	**33,939**	17,075
General and administrative		**3,511**	4,174	**10,394**	7,195
Business combination expenses		**-**	126	**-**	1,851
Finance (income) and expenses	10	**1,545**	766	**3,304**	(752)
Share-based compensation	9	**437**	514	**935**	1,208
Depletion and depreciation	3	**8,587**	8,432	**24,969**	12,997
Impairment	3,4	**2,700**	596	**5,100**	3,161
		28,816	26,254	**78,641**	42,735
Income (Loss) before income taxes		**13,011**	535	**8,227**	(2,937)
Income tax (expense) recovery					
Current		**(4,334)**	(1,021)	**(7,402)**	(1,203)
Deferred		**(3,381)**	(126)	**(4,172)**	94
		(7,715)	(1,147)	**(11,574)**	(1,109)
Net Income (Loss)		**5,296**	(612)	**(3,347)**	(4,046)
Foreign currency translation adjustment		**8,848**	6,785	**18,936**	(2,187)
Available for sale investments	8	**(184)**	-	**(184)**	-
Comprehensive Income (Loss)		**13,960**	6,173	**15,405**	(6,233)
Net Income (Loss) per share					
Basic and diluted	13	**0.01**	(0.00)	**(0.01)**	(0.01)

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 (Loss)	Deficit	Total Equity
	(Note 7)				
Balance at December 31, 2014	**249,717**	**14,303**	**(16,142)**	**(112,126)**	**135,752**
Net loss	**-**	**-**	**-**	**(3,347)**	**(3,347)**
Foreign currency translation adjustment	**-**	**-**	**18,936**	**-**	**18,936**
Stock options exercised	**714**	**(112)**	**-**	**-**	**602**
Share-based compensation	**-**	**1,116**	**-**	**-**	**1,116**
Available for sale investments (note 8)	**-**	**-**	**(184)**	**-**	**(184)**
Balance at September 30, 2015	**250,431**	**15,307**	**2,610**	**(115,473)**	**152,875**

Balance at December 31, 2013	159,574	12,645	(17,094)	(76,122)	79,003
Net loss (note 2)	-	-	-	(4,046)	(4,046)
Foreign currency translation adjustment	-	-	(2,187)	-	(2,187)
Gross proceeds from financings	80,536	-	-	-	80,536
Share issue costs	(5,661)	-	-	-	(5,661)
Issued on business combination	15,214	-	-	-	15,214
Stock options exercised	30	-	-	-	30
Share-based compensation	24	1,190	-	-	1,214
Balance at September 30, 2014	249,717	13,835	(19,281)	(80,168)	164,103

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

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

		Three months ended September 30		Nine months ended September 30	
Canadian $000s	Note	2015	2014	2015	2014
			(Note 2)		(Note 2)
Cash provided by (used in):					
Operating					
Net income (loss)		**5,296**	(612)	**(3,347)**	(4,046)
Items not affecting cash:					
Depletion and depreciation	3	**8,587**	8,432	**24,969**	12,997
Impairment	3,4	**2,700**	596	**5,100**	3,161
Accretion	6	**127**	77	**331**	177
Unrealized (gain) loss on commodity contracts	13	**-**	(383)	**189**	(35)
Share-based compensation	9	**437**	514	**935**	1,208
Deferred income tax (recovery) expense		**3,381**	126	**4,172**	(94)
Unrealized (gain) loss on foreign exchange	10	**115**	-	**(127)**	-
Non-cash reduction of contingent liability	12	**-**	-	**(1,303)**	-
Change in other non-current assets		**33**	-	**(850)**	-
Change in non-cash working capital	11	**(12,127)**	10,149	**(17,987)**	6,500
Decommissioning costs incurred	6	**-**	(33)	**-**	(56)
Cash flow from operating activities		**8,549**	18,866	**12,082**	19,812
Investing					
Property, plant and equipment additions	3	**(17,317)**	(9,376)	**(32,461)**	(15,234)
Evaluation and exploration assets additions	4	**(1,648)**	(3,167)	**(4,118)**	(12,022)
Business combination, net of cash acquired		**-**	-	**-**	(48,114)
Change in other non-current assets		**171**	(1,821)	**1,907**	(2,433)
Change in non-cash working capital	11	**3,925**	(6,655)	**2,647**	(9,973)
Net cash used in investing activities		**(14,869)**	(21,019)	**(32,025)**	(87,776)
Financing					
Issue of common shares	7	**221**	7,507	**602**	80,566
Share issue costs		**-**	(465)	**-**	(5,661)
Bank loan proceeds		**-**	-	**12,284**	-
Change in non-cash working capital	11	**-**	(276)	**-**	30
Net cash from financing activities		**221**	6,766	**12,886**	74,935
Change in cash and cash equivalents		**(6,099)**	4,613	**(7,057)**	6,971
Cash and cash equivalents, beginning of period[1]		**13,551**	16,854	**13,425**	14,835
Impact of foreign exchange on cash balances		**934**	809	**2,018**	470
Cash and cash equivalents, end of period[1]		**8,386**	**22,276**	**8,386**	**22,276**

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

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 November 25, 2015.

Change in Functional Currency

On July 1, 2014, the Company changed the functional currency for one of its subsidiaries, Madalena Austral S.A. (“MASA”), from the Argentine Peso (“AR$”) to the United States Dollar (“US$”), as disclosed in the December 31, 2014 financial statements. The result of this meant that the functional currency of all Argentine operations was established as the US$ effective July 1, 2014. Judgements made by management in determining the appropriate functional currency included an analysis of primary and secondary indicators that influenced our determination, as follows:

(a) Primary indicators of functional currency included the review of the currency that mainly influences sales prices; the currency whose competitive forces and regulations mainly determine sales price; and the currency that mainly influences labour, material and other costs. Specific relevant factors that management considered included:

- the government of Argentina sets the benchmark price for oil and natural gas in US$ per barrel and although the benchmark prices do not always follow world oil price changes in a predictable manner, the government is aware of and takes into consideration world prices when establishing the benchmark;
- although settled in AR$, all oil and gas sales are invoiced in US$ and various credits and incentives that the Company is entitled to through the government of Argentina are denominated in US$;
- the Company’s budget is prepared and managed in US$;
- the majority of anticipated spending in the next 3 – 5 year horizon is expected to be weighted to US$ denominated expenditures, mainly as a result of the anticipated capital spending budgets in Argentina, although influenced as well by US$ denominated operating costs. The size of the expenditures being made will result in the engagement of international companies that will require US$ as the invoicing currency; and
- MASA had evolved over a period of time up to July 1, 2014 from a company with minimal production to one with more meaningful production, making sales a more relevant factor in the determination of functional currency. As the plans for MASA evolved, the capital investment growth, together with the Acquisition on June 24, 2014, meant that the use of international vendors became prevalent, with those vendors demanding US$ invoicing.

(b) Secondary indicators of functional currency determination include the currency in which funds from financing are generated; the currency in which funds from operations are retained; the degree of autonomy of the foreign operation; the frequency of the transactions with the reporting entity; the cash flow impact on the reporting entity and the ability of the foreign operation to finance its own activities. Relevant indicators considered in management’s assessment included:

- as the expectation of growth existed, the anticipated financing currency was and still is the US$. Although AR$ loans are available, given the Company’s planned growth, any financing of significance is expected to be US$ denominated;
- funds retained in Argentina are in AR$, therefore this would favour AR$ as a functional currency.

Management concluded that once the above factors were collectively considered, it was appropriate to change the functional currency to the US$ on July 1, 2014.

Jointly Controlled Operations and Assets

Of the concessions owned by Madalena in Argentina, six are governed by a Union Transitoria de Empresas ("UTE"), which is an agreement entered into between two or more parties with the purpose of gathering human, technological and economic resources temporarily, in order to develop or execute a project, render a service or provide a specific supply. The UTE parties maintain at all times their legal and economic independence. The UTE is not a separate legal entity and no separate legal entities are established by the parties of the UTE to conduct business on behalf of the UTE.

The Company's working interest in the UTEs are as follows:

- Surubi (85%)
- Valle Morado (97%)
- Palmar Largo (14%)
- Coiron Amargo (35%)
- Curamhuele (90%)
- Cortadera (38%)

Comparative Information

Certain numbers in the comparative year have been reclassified to conform with current year presentation. This included aggregating bank charges, foreign exchange gains and losses, accretion and interest and other income into finance and other income on the condensed interim consolidated statements of income (loss) and comprehensive income (loss) (note 10).

Business Combination

As outlined in note 5 of the Company's December 31, 2014 consolidated financial statements, the initial Gran Tierra purchase price equation on June 25, 2014 was adjusted in the fourth quarter of 2014 to reflect the final determination of fair value of the assets acquired and liabilities assumed in the business acquisition. The September 30, 2014 comparative figures in these interim financial statements have been changed from those previously filed to reflect these adjustments as though they had been recorded at June 25, 2014. For the three and nine month periods ending September 30, 2014, net loss decreased by $1.7 million and $1.4 million, respectively, compared to amounts previously filed. The adjustment related primarily to depletion and accretion.

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

Canadian $000s	Oil and Natural Gas Assets	Corporate and Office	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	30,298	919	31,217
Effect of change in foreign exchange rates	19,570	141	19,711
At September 30, 2015	**224,662**	**2,582**	**227,244**

Canadian $000s	Oil and Natural Gas Assets	Corporate and Office	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	(24,467)	(396)	(24,863)
Impairment	(2,550)	-	(2,550)
Effect of change in foreign exchange rates	(4,736)	(2)	(4,738)
At September 30, 2015	**(94,674)**	**(709)**	**(95,383)**

Canadian $000s			
Net book value			
At December 31, 2014	111,873	1,211	113,084
At September 30, 2015	**129,988**	**1,873**	**131,861**

At September 30, 2015, Madalena determined that there were no indications of impairment for any of its Argentine CGUs. At September 30, 2014, no impairment was recorded for the Argentine CGUs for the three or nine months then ended.

In assessing its Canadian CGU for impairment of its property, plant and equipment assets at September 30, 2015, the Company observed triggers for impairment due to the continued decline in current and forward commodity prices for oil and natural gas.

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

The Company's testing of its Canadian CGU recoverable value, established as fair value less costs of disposal, relative to its carrying value, amounted to $9.0 million, resulting in an impairment charge of $0.9 million (Q3-2014 - $nil) and $2.6 million (YTD-2014 – $nil) for the three and nine months ended September 30, 2014, respectively.

Fair value less costs of disposal was determined through a review of the external December 31, 2014 reserve report, adjusted internally based on analysis of updated price deck and forward commodity price estimates, taking into consideration Company differentials and transportation. This review indicated a decrease in prices of 5% since July 1, 2015 and a decrease in prices of 15% since December 31, 2014. Management recognizes that forward commodity price estimates are subject to a high degree of uncertainty and changes to these estimates would directly impact the amount of impairment recorded.

The Company based its estimates of recoverable value on proven plus probable reserves, using a discount rate of 15%. The same discount rate was used in June 2015 and December 2014. The following benchmark prices were utilized, adjusted for Company differentials and transportation, from McDaniel & Associates Consultants Ltd. price forecast, effective October 1, 2015.

Year	Oil Price (CAD/bbl)	Natural Gas Price (CAD/mcf)
2015	54.05	2.94
2016	59.57	3.37
2017	64.70	3.66
2018	68.61	3.88
2019	71.03	4.04
2020	75.32	4.31
2021	79.80	4.52
2022	84.47	4.78
2023	89.28	5.08
2024	90.93	5.19
2025	92.74	5.27
2026	94.62	5.37
2027	96.53	5.49
2028	98.38	5.50
2029	100.31	5.69
Thereafter	+2%/yr	+2%/yr

Had a discount rate of 10% been used, the impairment charge would have decreased by $1.7 million for the nine months ended September 30, 2015. Similarly, had a 20% discount rate been used, the impairment charge would have increased by $0.8 million for the nine months ended September 30, 2015.

As noted above, there has been a 15% price deck decrease from December 31, 2014 to October 1, 2015. An additional 1% decrease in the price deck would have increased the impairment charge by $0.3 million for the nine months ended September 30, 2015.

At September 30, 2015, the net book value of the Argentine and Canadian PP&E assets were $121.9 million (December 31, 2014 - $100.4 million) and $10 million (December 31, 2014 - $12.7 million), respectively.

The depletion expense calculation at September 30, 2015 included $93.1 million and $13.0 million for Argentina and Canada, respectively (September 30, 2014 - $51.2 million and $11.9 million) for estimated future development costs associated with proved and probable reserves.

During the three and nine months ended September 30, 2015, approximately $0.7 and $1.9 million (2014 – QTD and YTD $0.1 million) of directly attributable general and administration costs were capitalized to property, plant and equipment in Argentina. In addition, share-based compensation amounting to $0.1 and $0.2 million were capitalized for the three and nine months ended September 30, 2015 (2014 - $nil).

There was no remaining Value Added Tax ("VAT") capitalized to PP&E assets in Argentina at September 30, 2015 (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	4,115
Impairment	(2,550)
Effect of change in foreign exchange rates	5,956
At September 30, 2015	**51,400**

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 September 30, 2015, the net book value of the Argentine and Canadian E&E assets were $48.1 million (December 31, 2014 - $38.1 million) and $3.3 million (December 31, 2014 - $5.8 million), respectively.

Amounts capitalized as Argentina E&E assets at September 30, 2015 included $5.3 million of VAT (December 31, 2014 - $4.9 million).

The Company recorded an impairment charge of $1.8 million and $2.6 million on its Canadian E&E assets for the three and nine months of 2015, respectively (2014 - $0.6 million and $3.2 million). 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 Quarter was a result of the analysis of updated price deck data, which indicated that prices have decreased by 5% since July 1, 2015 (note 3). In addition, the Company reviewed its undeveloped land holdings in relation to current prices in the area and determined that recent crown land prices had fallen significantly.

The impairment charge for the YTD was a result of the analysis of updated price deck data, which indicated that prices have decreased by 15% since December 31, 2015 (note 3). In addition, the Company reviewed its undeveloped land holdings in relation to current prices in the area and determined that recent crown land prices had fallen significantly.

No impairment of E&E was booked on the Argentine operations during 2015 or 2014.

5. Operating Loan and Long-Term Debt

Canadian $000s	September 30 2015	December 31 2014
Argentina		
Credit facility - ICBC	**12,747**	-
Canada		
Operating loan - National Bank	**2,850**	-
	15,597	-
Current	**10,134**	-
Long-term	**5,463**	-
	15,597	-

Argentina

On May 28, 2015, Madalena Energy Argentina S.R.L (Argentina) ("MEA"), obtained an AR$ 90 million ($12.3 million) credit facility with Industrial and Commercial Bank of China (Argentina) S.A. ("ICBC"). These funds will be utilized on an as needed basis to provide Madalena's Argentine business unit the necessary liquidity to execute its 2015 capital budget. The loan bears interest at the variable rate of the Buenos Aires Deposits of Large Amount Rate ("BADLAR") plus approximately 8%, resulting in a current rate of approximately 29%. Surplus funds from the ICBC facility are invested in Argentina by Madalena in short-term deposits that currently are yielding approximately 22% in Argentina. The loan is repayable in seven equal quarterly instalments of AR$ 12.9 million ($1.78 million), starting on November 30, 2015.

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 September 30, 2015, MEA was in compliance with this covenant.

Canada

At September 30, 2015, Madalena had a credit facility in place against its Canadian based assets that included the availability of a $3.5 million operating demand loan and a $3.0 million acquisition/development demand loan. As of September 30, 2015, the Company had utilized $2.9 million (December 31, 2014 - $nil) of the operating demand loan credit facility. The acquisition/development demand loan credit facility was unutilized at September 30, 2015 and December 31, 2014.

Subsequent to September 30, 2015, the operating demand loan credit facility was paid out in full and both the components of the credit facility were closed.

6. Decommissioning Obligations

Canadian $000s	Nine months ended September 30 2015	Year ended December 31 2014
Balance, beginning of period	**25,357**	4,947
Assumed in business combination	**-**	17,898
Incurred from development activities (note 3)	**112**	359
Incurred from exploration activities (note 4)	**-**	156
Accretion expense (note 10)	**331**	281
Revision of estimates	**(1,359)**	602
Obligations settled	**-**	(229)
Effect of change in foreign exchange rates	**2,923**	1,343
Balance, end of period	**27,364**	25,357

The total undiscounted and inflated amount of cash flows required to settle Madalena's decommissioning obligations at September 30, 2015 is approximately $34.3 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 September 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 at September 30, 2015 was 2.5% (December 31, 2014 – 2.5%) in Argentina and 2.4% (December 31, 2014 - 2.5%) in Canada. The majority of the Argentine decommissioning obligations are expected to be invoiced in US$ and settled in AR$.

7. 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	2,300	714
Balance at September 30, 2015	**542,083**	**250,431**

2015

On March 13, 2015, 533,333 common shares were issued at a price of $0.29 per common share pursuant to the exercise of options for cash proceeds of $0.2 million.

On April 16, 2015, 250,000 common shares were issued at a price of $0.35 per common share pursuant to the exercise of options for cash proceeds of $0.1 million.

On May 22, 2015, 400,000 and 66,666 common shares were issued at a price of $0.29 and $0.35, respectively, pursuant to the exercise of options for cash proceeds of $0.1 million.

In September 2015, 1,050,000 common shares were issued at a price of $0.21 per common share pursuant to the exercise of options for cash proceeds of $220,500.

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 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 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.

8. Argentina Oil Price Incentives

Petroleo Plus Settlement Bonds

On November 25, 2008, the government of Argentina introduced the Petroleo Plus program to reward producers who materially increase oil reserves and production through drilling and development by issuing export tax incentive credits. These credits were transferable and could be sold for cash to other domestic oil exporters. Madalena had not previously recognized the credits as revenue due to the uncertainty of the ability to sell the credits. On July 13, 2015, the government terminated the Petroleo Plus program effective December 31, 2014 and granted eligible companies the right to receive Argentina issued government bonds as full settlement of any outstanding export tax incentive credits, subject to certain conditions.

In September 2015, the Company received par value US$ 11.1 million Argentina issued government bonds for settlement of these past credits. Two different bonds, which are traded on the Buenos Aires Stock Exchange, were received in equal amounts – the BONAD 2018 and the BONAR 2024. The BONAD 2018 is linked to the US$, bears interest at 2.4%, matures in 2018 and has no selling restrictions. The BONAR 2024 is linked to the in US$, bears interest at 8.75% and matures 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. In the event more than 2% per month is sold prior to this date, a penalty payment equal to 10% of the then market value of the bonds received will be incurred.

As no receivable or revenue had previously been recorded in the Company's financial statements, the benefits from the settlement of past Petroleo Plus program incentive credits were included in the September 30, 2015 financial statements. Upon receipt, the fair value of the bonds was determined based on quoted market prices, net of anticipated penalties and costs to dispose, and are therefore classified as level 2 in the fair value hierarchy. A pre-tax amount of US$ 13.9 million ($18.1 million) was recorded in the condensed interim consolidated statements of income (loss) and comprehensive income (loss) under the heading other income, with a corresponding amount recorded in available for sale securities on the condensed interim consolidated statement of financial position. Current income tax expense associated with other income was approximately $3.6 million. As financial instruments that are available for sale, the bonds are re-valued to market value each reporting period with gains/losses booked to other comprehensive income on the condensed interim consolidated statements of income (loss) and comprehensive income (loss). At September 30, 2015 the market value was US$ 13.7 million ($18.3 million), resulting in a loss of $0.2 million which was booked to other comprehensive income. It is the Company's intention to dispose of these bonds within the next year as funds are required to execute its capital program and, accordingly, these bonds are recorded as current assets.

Subsequent to September 30, 2015, the Company liquidated approximately 47% of the bonds for cash proceeds of US$ 6.5 million.

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 Petroleo Plus 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 $0.9 million and $2.8 million in oil and natural gas revenues on the condensed interim consolidated statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2015, respectively, pursuant to this incentive program.

9. 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 for those options exercised during the nine months ended September 30, 2015 was $0.34.

During the three and nine months ended September 30, 2015, 15,563,158 options were issued to directors, officers, and employees of the Company. 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
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
Granted	15,563	0.30
Exercised	(2,300)	0.26
Forfeited	(1,887)	0.39
Expired or cancelled	(560)	0.40
Outstanding at September 30, 2015	**36,696**	**0.38**
Exercisable at September 30, 2015	**13,374**	**0.47**

Share-based compensation expense arising from the issuance of stock options recognized for the three and nine months ended September 30, 2015 was $0.4 and $0.9 million (2014 - $0.5 and $1.2 million) with an offsetting credit to contributed surplus.

10. Finance Income and Expenses

Finance Income and Expenses are made up of the following:

	Three months ended September 30		Nine months ended September 30	
Canadian $000s	2015	2014	2015	2014
Bank charges	**786**	675	**2,089**	1,086
Foreign exchange loss (gain)	**(8)**	(32)	**(125)**	(2,064)
Accretion (note 6)	**127**	77	**331**	177
Interest and other expense	**640**	46	**1,009**	49
	1,545	766	**3,304**	(752)

Foreign Exchange Gain / (Loss)

Canadian $000s	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Realized foreign exchange (gains)/losses	**(123)**	-	**2**	(2,032)
Unrealized foreign exchange (gains)/losses	**115**	(32)	**(127)**	(32)
Total	**(8)**	(32)	**(125)**	(2,064)
Currency exchange rate at period end:				
$1 Canadian = US$	**0.75**	0.89	**0.75**	0.89
$1 Canadian = Argentine Peso	**7.03**	7.56	**7.03**	7.56

11. Supplemental Cash Flow

Changes in non-cash working capital

Canadian $000s	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Trade and other receivables	**2,366**	5,904	**(2,140)**	7,683
Available for sale securities	**(18,138)**		**(18,138)**	-
Other current assets, including inventory	**650**	7,130	**352**	719
Trade, tax and other payables	**7,430**	(9,173)	**4,800**	(11,795)
Impact of foreign exchange on working capital	**(510)**	(643)	**(214)**	(50)
Change in non-cash working capital(1)	**(8,202)**	3,218	**(15,340)**	(3,443)
Attributable to:				
Operating activities	**(12,127)**	10,149	**(17,987)**	6,500
Investing activities	**3,925**	(6,655)	**2,647**	(9,973)
Financing activities	**-**	(276)	**-**	30
	(8,202)	3,218	**(15,340)**	(3,443)

(1) Change in non-cash working capital excludes the current portion of long-term debt, as the proceeds of this debt are shown as a cash inflow in the financing section of the consolidated statements of cash flows

Other cash flow information

Canadian $000s	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Interest paid	**1,117**	117	**1,715**	124
Interest received	**455**	25	**588**	148
Taxes paid	**1,223**	688	**5,225**	1,022

12. Commitments and Contingencies

Development and Exploration Commitments

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

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 - operated)

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.

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 was to re-enter an existing wellbore on the block (the Yapai.x-1001) and drill approximately 600 additional meters to the intended target depth. Following the drilling operations, the plan was 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. At September 30, 2015, Madalena's remaining share of future work commitments associated with the Curamhuele block is approximately US$ 10.5 million plus VAT.

Subsequent to September 30, 2015, Madalena successfully deepened the Yapai.x-1001 well to evaluate the Lower Agrio shale and the Mulichinco tight sand. Madalena is currently designing a completion program to test and co-mingle production from the Mulichinco with the Lower Agrio shale through a four stage unconventional hydraulic fracture treatment. Due to the complexities and logistics with this type of completion, the Company anticipates it will complete the well early in 2016.

Following the drilling of the Yapai.x-1001 well, the Company is currently in discussions to extend the first exploration period allowing the Company and partner GyP to execute the completion and testing of the Yapai.x-1001 well in 2016.

Following the completion and testing of the Yapai.x-1001 well, 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 (38% working interest – non-operated)

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 September 30, 2015, Madalena, with its partners, is evaluating moving into a second exploration period.

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

In June 2015 Madalena signed a new 10 year exploitation concession for the Rinconada-Puesto Morales area after reaching an agreement with the Province of Rio Negro. 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 capital commitments of US$ 49.3 million on the block over the next 10 year period which includes the drilling of new wells, re-entry activities and contract renewal fees. As of September 30, 2015, Madalena estimates that capital expenditures of approximately US$ 14.5 million have qualified towards this commitment.

The Rinconada-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. As at September 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 to reach a multi-year extension agreement.

Other Commitments and Contingencies

Leased office premises
The Company is responsible for the following rental commitments:

Canadian $000s	**Q4 2015**	**2016**	**2017**	**2018**	**2019**
Leased office premises	223	883	635	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 have 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 nine months ended September 30, 2015, other long-term liabilities were reduced by $1.3 million as a result of the settlement of one of the contingencies.

13. Net Income (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 September 30		Nine months ended September 30	
Canadian $000s	2015	2014	2015	2014
Weighted average number of common shares				
Basic – 000s	**541,333**	538,822	**540,658**	442,955
Diluted – 000s	**544,273**	538,822	**540,658**	442,955

For the three months ended September 30, 2015 certain share options were included in the calculation of diluted earnings per share, as their effect is dilutive. For the nine months ended September 30, 2015 all share options were excluded from the calculation of diluted earnings per share, as their effect is anti-dilutive.

14. 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. Argentina recently elected a new President, while Canada elected a new Prime Minister and the Province of Alberta elected a new Premier. The impact on Madalena of these recent changes is currently unknown. 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 (see note 5) 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 15). 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 September 30, 2015, $10.3 million, or 91%, of Madalena's cash and cash equivalents was deposited with banks in Argentina (December 31, 2014 - $9.0 million, 67%), and held in Argentine Pesos.

At September 30, 2015, the consolidated working capital position of the Company was $14.8 million (December 31, 2014 - $11.8 million), consisting of working capital of $17.8 million (December 31, 2014 - $12.5 million) in Argentina and a working capital deficiency of $3.0 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 Quarter and YTD, the Company repatriated $3.5 million and $5.9 million, respectively. Since September 30, 2015, the Company has repatriated $4.2 million of additional funds. Additional repatriations are anticipated prior to year-end, subject to the approval of the Argentine Central Bank.

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 recent years, prior to the last half of 2014, 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. 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.

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.

As of September 30, 2015, the Company had a physical oil contract in place which was settled subsequent to September 30, 2015 at no cost to the Company.

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 September 30, 2015 was a net payable of $nil (December 31, 2014 – net receivable of $0.2 million). Realized gains for the three and nine month periods ended September 30, 2015 were $nil (three and nine month periods ended September 30, 2014 – realized losses of $0.1 and $0.2 million) and are included in loss on commodity contracts on the condensed interim consolidated statements of income (loss) and comprehensive income (loss). The commodity contracts are classified as level 2 within the fair value hierarchy.

Interest rate risk

Had the BADLAR interest rate associated with the Argentine ICBC loan increased by 5%, associated interest expense would have increased by $0.1 million for the quarter and year to date September 30, 2015. A decrease of 5% on BADLAR would result in a decrease in associated interest expense of $0.3 million for the quarter and year to date. The change amounts vary due to the multipliers in the interest rate formula.

A similar calculation was not completed for the Canadian operating facility, as it was paid in full subsequent to quarter end.

Foreign currency exchange rate risk

The majority of the Company's exploration and development activities are conducted in Argentina and the majority of the Company's cash and cash equivalents are denominated in AR$. Consequently, the Company is exposed to foreign currency exchange risk on a substantial portion of its financial assets. To actively manage this risk, Madalena is repatriating funds to Canada and continues to manage the timing of liquidation of its US$ indexed Petroleo Plus settlement bonds which account for a substantial portion of the Company's $17.8 million in working capital in Argentina.

A 10% change in exchange rates to the Canadian dollar at September 30, 2015 would have changed the Foreign Currency Translation Adjustment by $11.3 million at the quarter end (Q3-2014 - $12.9 million).

15. 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. 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.

	As at and for nine months ended September 30, 2015		
Canadian $000s	**Argentina**	**Canada**	**Total**
Total assets	228,281	15,014	243,295
Total liabilities	80,489	9,931	90,420
Oil and natural gas revenues	80,339	1,906	82,245
Other income	18,135	-	18,135
Depletion, depreciation and amortization	24,245	724	24,969
Impairment	-	5,100	5,100
Operating expenses	31,214	2,725	33,939
General & administrative expenses	6,099	4,295	10,394
Current income tax expense	7,402	-	7,402
Net income (loss)	7,681	(11,028)	(3,347)
Capital expenditures(1)	35,970	609	36,579

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

	As at and for nine months ended September 30, 2014		
Canadian $000s	Argentina	Canada	Total
Total assets	178,142	50,012	228,154
Total liabilities	52,252	11,798	64,050
Oil and natural gas revenues	33,241	13,069	46,310
Depletion, depreciation and amortization	9,456	3,541	12,997
Impairment	-	3,161	3,161
Operating expenses	11,933	5,142	17,075
General & administrative expenses	2,929	4,266	7,195
Current income tax expense (recovery)	(1,203)	-	(1,203)
Net loss	(214)	(3,832)	(4,046)
Capital expenditures(1)	16,403	10,852	16,403

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

16. Supplemental disclosure

Madalena's condensed interim consolidated statements of income (loss) and comprehensive income (loss) is prepared primarily by nature of expense, 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 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 income (loss).

	Three months ended September 30		Nine months ended September 30	
Canadian $000s	2015	2014	2015	2014
Operating costs				
Compensation costs	**1,793**	1,262	**4,827**	1,377
Transportation and processing	**3,232**	4,102	**10,737**	6,613
Maintenance, workovers and others	**7,011**	6,282	**18,375**	9,085
	12,036	11,646	**33,939**	17,075
G&A expenses				
Compensation costs	**2,518**	2,240	**6,863**	4,006
Other	**993**	1,934	**3,531**	3,189
	3,511	4,174	**10,394**	7,195
Total compensation costs	**4,311**	3,502	**11,690**	5,383