MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015

This Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is based on information available to November 25, 2015 and should be read in conjunction with Madalena Energy Inc.'s ("Madalena" or the "Company") unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2015 and the accompanying notes as well as the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2014. This MD&A contains forward-looking information about the Company's current expectations, estimates, projections and assumptions. See the Advisory for information on the risk factors that could cause actual results to differ materially and the assumptions underlying the Company's forward-looking information. Madalena's Management prepared the MD&A, while the Audit Committee of the Madalena Board of Directors (the "Board") reviewed and recommended its approval by the Board. Additional information relevant to the Company's activities contained in its continuous disclosure documents, including quarterly condensed interim consolidated financial statements and the Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com and on the Company's website at www.madalenaenergy.com.

Basis of Presentation

This MD&A and the unaudited condensed interim consolidated financial statements and comparative information has been prepared in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") applying IAS 34. Unless otherwise indicated, all dollar amounts are in Canadian dollars. Production volumes are presented on a before royalties basis.

Non-GAAP Measures

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

Funds flow from operations per share is calculated using the same basic and diluted weighted average number of shares for the period, consistent with the calculations of earnings per share.

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

Introduction

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

On June 25, 2014, the Company acquired all of the outstanding shares of the Argentine business unit of Gran Tierra Energy Inc. for cash consideration of $59.2 million (including cash of $11.2 million) and 29,831,537 common shares at a fair value of $0.51 per common share (the "Acquisition"). The Acquisition significantly increased Madalena's Argentine reserves, production and undeveloped land position and added a fully functional independent business unit in Argentina, with an experienced technical and operational team. Corporate production for the three months ended September 30, 2015 was approximately 3,500 boe/d, of which approximately 97% was from Argentina.

Prior to the Acquisition, the Company's existing Argentine operations included production of approximately 400 boe/d and three concessions / blocks focused on strategic unconventional shale positions within the Neuquén basin. At September 30, 2015, Madalena currently has 12 concessions and a portfolio of attractive conventional resource plays and strategic unconventional assets in the Lower Agrio and Vaca Muerta Shales.

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

Foreign Exchange Fluctuations

The table below provides various exchange rates that illustrate the quarterly foreign exchange fluctuations between the United States dollar ("US$"), Canadian dollar and the Argentine Peso ("AR$"). The table illustrates the strengthening of the US$ against the Canadian dollar, which impacts the Company's operating results and the foreign currency translation adjustment as recorded in the condensed interim consolidated statement of comprehensive income (loss) and in the accumulated other comprehensive income (loss). Further, the continuing devaluation of the AR$ against the US$ impacts foreign exchange gains and losses in the condensed interim consolidated statement of income (loss).

	Three months ended September 30		%	Nine months ended September 30		%
Canadian $	2015	2014	Change	2015	2014	Change
Average US$ to CDN dollar	1.309	1.089	20.2%	1.260	1.094	15.1%
Average Argentine Peso to US$	0.108	0.120	(10.3%)	0.112	0.126	(11.0%)
Period end US$ to CDN dollar	1.335	1.120	19.2%	1.335	1.120	19.2%
Period end Argentine Peso to US$	0.106	0.118	(9.8%)	0.106	0.118	(9.8%)

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 therefore are classified as level 2 in the financial instrument 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 the settlement income was approximately $3.6 million in the quarter. The bonds are re-valued to market value each reporting period with gains/losses booked to other comprehensive income on the condensed interim consolidated statements of income (loss) and comprehensive income (loss). At September 30, 2015 the market value was US$ 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 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.

Sales Volumes

	Three months ended September 30		Nine months ended September 30	
	2015	**2014**	**2015**	**2014**
Argentina				
Crude oil – (bbls/d)	**2,705**	3,090	**2,817**	1,294
Natural gas – (mcf/d)	**3,843**	4,416	**4,064**	1,772
Total daily sales (boe/d)	**3,346**	3,826	**3,494**	1,590
% Oil	**81%**	81%	**81%**	81%
Canada				
Crude oil and NGLs (bbls/d)	**119**	428	**133**	423
Natural gas – (mcf/d)	**-**	2,719	**317**	2,832
Total daily sales (boe/d)	**119**	880	**186**	895
Consolidated				
Total daily sales (boe/d)	**3,465**	4,706	**3,680**	2,485

Argentina

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

Sales volumes for the the three months ended September 30, 2015 ("the Quarter") were 3,346 boe/d, which was in line with the guidance provided of 3,400 boe/d in the Q2-2015 MD&A. The decrease in the Quarter compared to Q2-2014 was a result of natural production declines. No new wells went on stream during the Quarter.

For the nine months ended September 30, 2015 ("YTD"), sales volumes increased to 3,494 boe/d from 1,590 boe/d for the YTD-2014. YTD-2014 results include the Acquisition from June 25, 2014.

Sales volumes in Argentina have remained consistent at 81% crude oil and 19% natural gas over the Quarter and YTD.

Madalena expects Q4-2015 sales volumes in Argentina to average approximately 3,200 boe/d and anticipates an exit rate of 3,400 boe/d at year end. Production is expected to increase in Q1-2016 with the addition of production from the ongoing horizontal drilling program at Coiron Amargo in the Sierras Blancas light oil development play. At this time, no production has been forecasted for the Curamhuele Yapai.x-1001 well (see Press Release dated November 12, 2015 discussing the drilling results of Yapai x-1001) pending confirmation of timing for the completion and testing of this strategic delineation well in Q1-2016.

Canada

Sales volumes for the Quarter and YTD were 119 boe/d and 186 boe/d compared to 880 boe/d and 895 boe/d for Q3-2014 and YTD-2014, respectively. Decreased production was due to the continued shut-down of the Keyera Paddle River gas plant which began on February 1, 2015. This shut-down is a direct result of the current economic conditions due to the commodity price declines impacting our Canadian operations.

Average Realized Prices

Canadian $	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Argentina				
Crude oil and NGLs - $/bbl	**99.14**	87.11	**95.41**	86.86
Natural gas – $/mcf	**7.26**	5.19	**6.28**	5.26
Total - $/boe	**88.50**	76.34	**84.22**	76.59
Canada				
Crude oil and NGLs - $/bbl	**45.94**	74.92	**45.87**	79.65
Natural gas – $/mcf	**3.21**	4.18	**2.79**	5.00
Total - $/boe	**45.92**	49.27	**37.59**	53.48
Consolidated				
Crude oil and NGLs - $/bbl	**96.90**	85.63	**93.18**	85.09
Natural gas – $/mcf	**7.25**	4.81	**6.03**	5.10
Total - $/boe	**87.03**	71.28	**81.87**	68.27

Argentina

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 Argentine prices did not keep pace. Conversely, when world prices fell sharply in the latter half of 2014, Argentina prices remained relatively stable with the domestic Argentina oil market typically fluctuating only US$ 1/bbl for every US$ 8 - 9/bbl change in Brent oil pricing on a month to month basis in 2015 year to date. As the government currently changes posted benchmark oil prices on a month to month basis, there is no certainty that oil prices will remain at current levels.

As previously described under the heading “Argentina Oil Price Incentives”, the Company has included $0.9 million and $2.8 million in crude oil revenue for the Quarter and YTD for the US$ 3.00 per barrel oil incentive program, which contributed to a $3.78 and $3.66 per barrel increase in the selling price for the Quarter and YTD, respectively. Other factors that contributed to the increase in realized oil prices for the Quarter compared to Q3–2014 was a result of the strengthening US$ against the Canadian dollar offset by a decrease in the Medanito oil price for the Quarter to US$ 76.00 per barrel from US$ 83.00 per barrel for Q3-2014. The increase in realized oil prices YTD from YTD-2014 was also a result of the strengthening US$ against the Canadian dollar offset by a slight decrease in Medanito oil prices from US$ 79.26 YTD-2014 to US$ 76.22 YTD.

The Medanito crude quality oil posting for the months of October and November have been set at US$ 75.00 per barrel. The Company’s average discount to this posting is approximately US$ 4.00 per barrel for quality and transportation differentials.

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

The price received per boe for the Quarter was $88.50, higher than the $76.34 realized in Q3-2014 as a result of the oil price incentive program, which contributed $3.06 per boe as well as a strengthening US$ against the Canadian dollar and offset by lower Medanito pricing. The price received per boe YTD was $84.22, higher than the $76.59 realized YTD-2014 as a result of the incentive payment, which contributed $2.95 per boe as well as a strengthening US$ against the Canadian dollar offset by lower Medanito pricing. The Company anticipates per boe prices of approximately $85.00 in Argentina in Q4-2015, based on a US$ to Canadian dollar exchange rate of 1.3:1.

Canada
For the Quarter, Madalena realized a 7% decrease in per boe selling price to $45.92 for the Quarter compared to $49.27 for Q3–2014 as a result of lower crude oil and natural gas prices, which were offset by an increased crude oil weighting in the Quarter.

The 30% decline in per boe selling price from $53.48 YTD-2014 to $37.59 YTD is also due to the lower crude oil and natural gas prices and an increased crude oil weighting.

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 months ended September 30, 2015 were $nil (Q3-2014 and YTD-2014 – realized losses of $0.1 and $0.2 million) 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.

Oil and Natural Gas Revenue

Canadian $000s, except per boe	Three months ended September 30 2015	Three months ended September 30 2014	Nine months ended September 30 2015	Nine months ended September 30 2014
Argentina				
Crude oil	**24,677**	24,760	**73,370**	30,696
Natural gas	**2,565**	2,109	**6,969**	2,545
	27,242	26,869	**80,339**	33,241
Canada				
Crude oil and condensate	**503**	2,945	**1,665**	9,200
Natural gas	**-**	1,046	**241**	3,868
	503	3,991	**1,906**	13,069
Consolidated	**27,745**	30,860	**82,245**	46,310
Corporate - $/ boe	**87.03**	71.28	**81.87**	68.27

Argentina
Oil and gas revenues were $27.2 million for the Quarter compared to $26.9 million for Q3–2014. Revenues for the Quarter were influenced by increased prices per boe of 16% and lower sales volumes of 13%. The 16% increase in prices was primarily a result of the strengthening US$ against the Canadian dollar. The 13% decrease in sales volumes was a result of natural production declines.

Oil and gas revenues were $80.3 million for the year compared $33.2 million for YTD–2014. The significant increase in YTD revenue was primarily due to increased production volumes from the Acquisition, and increased prices per boe resulting from the strengthening US$ against the Canadian dollar.

Canada
Oil and gas revenue was $0.5 million in the Quarter and $1.9 million YTD compared to $4.0 million in Q3–2014 and $13.1 million YTD-2014, with the decline due to lower sales volumes resulting from the Keyera Paddle River plant shut-down on February 1, 2015 and lower oil and gas prices.

Royalties

	Three months ended September 30		Nine months ended September 30	
Canadian $000s	**2015**	**2014**	**2015**	**2014**
Argentina				
Royalties	**3,969**	3,907	**13,118**	4,795
As % of revenue from Argentina	**15%**	15%	**16%**	14%
$/boe	**12.89**	11.10	**13.75**	11.05
Canada				
Royalties	**84**	462	**394**	1,537
As % of revenue from Canada	**17%**	12%	**21%**	12%
$/boe	**7.64**	5.70	**7.76**	6.29
Consolidated	**4,053**	4,369	**13,512**	6,332
Corporate - $/boe	**$ 12.71**	$ 10.09	**$ 13.45**	$ 9.33

Argentina
Royalty expenses, which also include turnover taxes of approximately 3%, were $4.0 million for the Quarter and $13.1 million YTD compared to $3.9 million in Q3–2014 and $4.8 million YTD-2014, respectively. Royalties for the Quarter were comparable to Q3-2014 as lower production volumes were offset by the strong US$. Royalties as a % of revenue in the Quarter were consistent with the comparable period in 2014 at 15%. Higher YTD production volumes as a result of the Acquisition and the settlement of a pre-acquisition dispute over royalties relating to the years 2007 – 2011 of $1.9 million resulted in the significant increase in royalties YTD as compared to YTD-2014. This resulted in YTD royalties increasing to 16% compared to 14% in YTD-2014. The Company expects royalty rates in Q4-2015 to be approximately 15%.

Canada
Royalty expenses were $0.1 million for the Quarter and $0.4 million YTD compared to $0.5 million in Q3–2014 and $1.5 million YTD-2014 due to the decline in oil and gas production volumes. The increase in royalties for both the Quarter and YTD as a % of revenue was a result of the expiry of the 5% reduced crown royalty incentive rate on one of the horizontal Ostracod oil wells.

Operating Costs

Canadian $000s, except per boe	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Argentina				
Compensation costs	**1,793**	1,262	**4,827**	1,377
Transportation and processing	**3,070**	3,113	**9,639**	3,768
Maintenance, work overs and other	**6,490**	5,536	**16,748**	6,788
	11,353	9,911	**31,214**	11,933
$/boe	**36.88**	28.16	**32.72**	27.50
Canada				
Transportation and processing	**162**	987	**1,099**	2,845
Maintenance, work overs and other	**521**	748	**1,626**	2,297
	683	1,735	**2,725**	5,142
$/boe	**62.41**	21.42	**53.75**	21.04
Consolidated	**12,036**	11,646	**33,939**	17,075
Corporate - $/boe	**37.76**	26.90	**33.78**	25.17

Argentina

Operating costs during the Quarter increased 15% to $11.4 million from $9.9 million in Q3–2014, primarily driven by a 20% increase in the US$ against the Canadian dollar. On a per boe basis, operating costs for the Quarter increased to $36.88 per boe from $28.16 per boe in Q3–2014, primarily as a result of the strong US$.

Operating costs during the YTD increased to $31.2 million from $11.9 million for 2014-YTD as a result of the Acquisition and a stronger US$. YTD, operating costs per boe increased to $32.72 per boe from $27.50 per boe for YTD-2014, primarily due to the strong US$.

Management expects operating costs to average approximately $35 per boe for Q4-2015 assuming a US$ to Canadian dollar exchange rate of 1.3:1.

Canada

Operating costs during the Quarter decreased to $0.7 million from $1.7 million in Q3–2014 as a result of lower production volumes that were offset by higher per unit costs. On a per boe basis, operating costs for the Quarter increased to $62.41 per boe from $21.42 per boe in Q3–2014 primarily as result of fixed costs related to non-producing wells.

Operating costs during the YTD decreased from $5.1 million in YTD-2014 to $2.7 million as a result of lower production volumes that were offset by higher per unit costs. On a per boe basis, operating costs for the YTD increased to $53.75 per boe from $21.04 in Q3-2014 primarily as result of 13th month adjustments in the amount of $0.4 million relating to the Keyera Paddle River plant for 2012, 2013 and 2014, as well as fixed costs related to non-producing wells.

Netbacks Summary [(1)]

Canadian $/boe	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Argentina				
Oil and gas revenue	**88.50**	76.34	**84.22**	76.59
Royalties	**(12.89)**	(11.10)	**(13.75)**	(11.05)
Operating expenses	**(36.88)**	(28.16)	**(32.72)**	(27.50)
Netbacks	**38.73**	37.08	**37.75**	38.04
Canada[(2)]				
Oil and gas revenue	**45.92**	49.27	**37.59**	53.48
Royalties	**(7.64)**	(5.70)	**(7.76)**	(6.29)
Operating expenses	**(62.41)**	(21.42)	**(53.75)**	(21.04)
Netbacks	**(24.13)**	22.15	**(23.92)**	26.15
Consolidated				
Oil and gas revenue	**87.03**	71.28	**81.87**	68.27
Royalties	**(12.71)**	(10.09)	**(13.45)**	(9.33)
Operating expenses	**(37.76)**	(26.90)	**(33.78)**	(25.17)
Netbacks	**36.56**	34.29	**34.64**	33.77

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

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

General and Administration ("G&A") Expenses

Canadian $000s	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Argentina				
Gross G&A				
Compensation costs	**1,965**	1,357	**4,873**	1,752
Other	**748**	933	**2,463**	1,299
	2,713	2,290	**7,336**	3,051
Capitalized	**(506)**	(122)	**(1,237)**	(122)
	2,207	2,168	**6,099**	2,929
Canada				
Gross G&A				
Compensation costs	**553**	883	**1,990**	2,254
Other	**944**	1,123	**2,959**	2,012
	1,497	2,006	**4,949**	4,266
Capitalized	**(193)**	-	**(654)**	-
	1,304	2,006	**4,295**	4,266
Consolidated				
Net G&A total	**3,511**	4,174	**10,394**	7,195

Argentina
Gross G&A expenses for the Quarter and YTD were $2.7 million and $7.3 million compared to $2.3 million and $3.1 million in Q3–2014 and YTD-2014, respectively. The 18% increase for the Quarter from Q3-2014 was primarily a result of the strong US$, which appreciated by 20% against the CDN$. The increase for the YTD was a combination of the Acquisition made in June 2014 and the strong US$, which appreciated 15% against the CDN$. To prudently manage the business in the current energy market environment, the Company has had a hiring freeze in Argentina since December 2014. In addition, attrition has been covered by consolidating roles and responsibilities without adding personnel wherever possible.

During the Quarter and YTD, $0.5 million (Q3-2014 – $0.1 million) and $1.2 million (YTD-2014 – $0.1 million) of directly attributable G&A costs were capitalized to property, plant and equipment.

G&A expenses for Q4-2015 for Argentina, net of amounts capitalized, are estimated at approximately $2.0 million.

Canada
Gross G&A expenses for the Quarter and YTD were $1.5 million and $4.9 million compared to $2.0 million and $4.3 million in Q3–2014 and YTD-2014, respectively.

The majority of the Canadian general and administrative expenses relates to managing a public company involved in a foreign jurisdiction. All employees in Canada, with the exception of one full- time employee and one part-time consultant, are dedicated full time to managing the Company's corporate business and Argentine business unit.

The increased Argentine operations that commenced with the Acquisition in June 2014 resulted in increased Canadian costs for the last six months of 2014 and YTD as a result of additional employees required in financial reporting, additional technical services, added professional fees and increased office expenses. The Company has reduced its Canadian staff since the end of 2014 as a result of lower Canadian operations activity as the focus of the Company has shifted to Argentina where a higher commodity price market exists and the majority of the Company's assets are located.

During the Quarter and YTD, $0.2 million and $0.7 million, respectively, of directly attributable G&A costs were capitalized to property, plant and equipment in Argentina (Q3-2014 and YTD-2014 – $nil).

G&A expenses for Q4-2015 for Canada, net of amounts capitalized, are estimated at approximately $1.5 million.

Finance Income and Expenses

	Three months ended September 30		**Nine months ended September 30**	
Canadian $000s	**2015**	**2014**	**2015**	**2014**
Argentina				
Bank charges	**786**	675	**2,089**	1,086
Foreign exchange (gain) loss - realized	**(123)**	-	**-**	(46)
Foreign exchange (gain) loss - unrealized	**126**	(23)	**78**	(23)
Accretion	**101**	48	**252**	89
Interest and other expense	**640**	46	**1,009**	42
	1,530	746	**3,428**	1,148
Canada				
Foreign exchange (gain) loss - realized	**-**	-	**2**	(1,986)
Foreign exchange (gain) loss - unrealized	**(11)**	(9)	**(205)**	(9)
Accretion	**26**	29	**79**	88
Interest and other expense	**-**	-	**-**	7
	15	20	**(124)**	(1,900)
Consolidated	**1,545**	766	**3,304**	(752)

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

Argentina
Bank Charges and Fees
Bank charges and fees relate to various forms of taxation in Argentina above and beyond royalties and income taxes. Bank charges and fees for the Quarter increased to $0.8 million from $0.7 million in Q3-2014 and from $1.1 million YTD-2014 to $2.1 million YTD-2015 as a result of increased Acquisition related transaction activity. Bank charges for Q4–2015 are estimated at approximately $0.8 million.

Foreign exchange (gain) loss – realized and unrealized
During the Quarter, as a result of transaction activity, the Company recorded a foreign exchange loss of $3,000 compared to a gain of $23,000 for Q3 – 2014. YTD, the foreign exchange loss was $78,000 compared to a gain of $69,000.

Accretion
Accretion expense was $0.1 million for the Quarter (Q3-2014 – $48,000) and $0.3 million for the YTD (YTD-2014 – $89,000).

Interest and other expense
Interest and other expense relates to interest on the Argentine loan (see heading "Credit Facilities").

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 off subsequent to quarter end.

Canada
Foreign exchange (gain) loss
During the Quarter, the Company recorded a foreign exchange gain of $11,000 compared to a gain of $9,000 for Q3 – 2014. YTD, the foreign exchange gain of $0.2 million is a reduction from the $2 million gain recorded to YTD-2014. The gains for YTD-2014 were the result of beneficial exchange rates between AR$ and the Canadian dollar that existed in the market at the time of funding the Argentina exploration and development activity from Canada.

Accretion
Accretion expense was $26,000 for the Quarter (Q3-2014 – $29,000) and $79,000 for the YTD (YTD-2014 – $88,000).

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. During the Quarter and YTD, 15.6 million options were granted to directors, officers and employees (Q3-2014 and YTD–2014 – 6.2 million). Share based compensation was $0.4 million in the Quarter and $0.9 million YTD compared to $0.5 million for Q3-2014 and $1.2 million YTD-2014.

Depletion and Depreciation ("D&D")

	Three months ended September 30		Nine months ended September 30	
Canadian $000s	2015	2014	2015	2014
Argentina	**8,400**	7,114	**24,245**	9,472
$/boe	**27.67**	20.76	**25.51**	22.42
Canada	**187**	1,318	**724**	3,525
$/boe	**17.05**	16.27	**14.27**	14.42
Consolidated	**8,587**	8,432	**24,969**	12,997
$/boe	**27.30**	19.90	**24.94**	19.49

Argentina
D&D increased to $8.4 million in the Quarter compared to $7.1 million in Q3-2014 as a result of higher depletion rates, which were partially offset by lower production. The increase on a per boe basis for the Quarter to $27.67 per boe from $20.76 per boe in Q3 – 2014 was primarily a result of the strengthening US$.

D&D increased from $9.5 million in YTD-2014 to $24.2 million for YTD as a result of the Acquisition and the strong US$. On a per boe basis, D&D for the YTD increased to $25.51 per boe from $22.42 per boe in YTD – 2014.

Canada
D&D expenses for the Quarter decreased to $0.2 million from $1.3 million in Q3-2014 and from $3.5 million in YTD-2014 to $0.7 million YTD as a result of lower production.

Impairment

At September 30, 2015, Madalena determined that there were no indications of impairment for any of its Argentine CGUs.

In assessing its Canadian CGU for impairment of its property, plant and equipment assets at 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.

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 Quarter and YTD, 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.

In assessing its Canadian CGU for impairment of its Canadian E&E 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 and reduced crown land sale prices in Alberta.

The Company recorded an impairment charge of $1.8 and $2.6 million (Q3-2014 and YTD-2014 - $0.6 million and $3.2 million) on its Canadian E&E assets for the Quarter and YTD, respectively. The Canadian E&E assets at December 31, 2014 and September 30, 2015 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 softened by 5% since July 1, 2015. 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. In addition, the Company reviewed its undeveloped land holdings in relation to current prices in the area.

Income Tax Expense (Recovery)

	Three months ended September 30		Nine months ended September 30	
Canadian $000s	**2015**	**2014**	**2015**	**2014**
Argentina				
Current	**4,334**	1,021	**7,402**	1,203
Deferred	**3,381**	271	**4,172**	270
Canada				
Deferred	**-**	(145)	**-**	(364)
Consolidated				
Current	**4,334**	1,021	**7,402**	1,203
Deferred	**3,381**	126	**4,172**	(94)

Argentina

The income tax rate in Argentina is 35%. In the event a company is not taxable, the company will be subject to minimum tax of approximately 1% of net assets. Madalena has four legal entities in Argentina, three of which have taxable income and one incurs minimum tax.

Current income tax expense for the Quarter (including minimum tax) was $4.3 million compared to $1.0 million for Q3-2014. Current income tax expense for the YTD (including minimum tax) was $7.4 million compared to $1.2 million for YTD-2014. Current income tax expense associated with other income was approximately $3.6 million and accounts for the significant increase in current tax in Q3-2015 as compared to Q1-2015 and Q2-2015.

The Company booked a deferred income tax expense of $3.4 million during the Quarter (Q3-2014 - $0.3 million) and $4.2 million YTD-2015 (YTD-2014 - $0.3 million recovery). The increase was a result of the impact of the strong US$ relative to the Canadian dollar and higher current deductions on property, plant and equipment for tax purposes when compared to accounting purposes.

Current income taxes for Q4 – 2015 are estimated at approximately $1.2 million.

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

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

	Three months ended September 30		Nine months ended September 30	
Canadian $000s	**2015**	**2014**	**2015**	**2014**
Cash flow from operating activities	**8,549**	18,866	**12,082**	**19,812**
Change in non-cash working capital	**12,127**	(10,149)	**17,987**	**(6,500)**
Change in other non-current assets	**(33)**	-	**850**	**-**
Decommissioning costs incurred	**-**	33	**-**	56
Funds flow from operations	**20,643**	8,750	**30,919**	**13,368**

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

Canadian $000s (except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2015	**2014**	**2015**	**2014**
Funds flow from operations	**20,643**	8,750	**30,919**	13,368
Per share – basic & diluted	**0.04**	0.02	**0.06**	0.03
Net income (loss)	**5,296**	(612)	**(3,347)**	(4,046)
Per share – basic & diluted	**0.01**	(0.00)	**(0.01)**	(0.01)
Comprehensive income (loss)	**13,960**	6,173	**15,405**	(6,233)

Madalena's funds flow from operations for the Quarter increased to $20.6 million from $8.8 million in Q3 – 2014. The increase in funds flow from operations for the Quarter was principally due to the Petroleo Plus credits, higher realized oil prices, lower G&A costs, offset by lower sales volumes, finance income and expenses and income taxes.

Madalena's funds flow from operations for the YTD increased to $31.0 million from $13.4 million in YTD–2014. The increase in funds flow from operations for the YTD was principally due to the Petroleo Plus credits, higher sales volumes due to the Acquisition and higher realized oil prices, offset by increased G&A, finance income and expenses and income taxes.

The net income for the Quarter was $5.3 million compared to a loss of $0.6 million in Q3-2014, primarily due to the Petroleo Plus credits, offset by increased income taxes. The net loss for the YTD was $3.3 million, down slightly from Q3-2014 and caused by the net impact of the full year results of the Acquisition net of related taxes. Although revenues increased due to increased sales volumes and the Petroleo Plus credits, they were offset by increased costs - primarily operating, G&A, depletion and income taxes.

Foreign exchange gains and losses associated with translating the Company's Argentine and Barbadian subsidiaries from US$ to Canadian dollars are accounted for through Accumulated Other Comprehensive Loss ("AOCI"). Until July 1, 2014, the impact related to AR$ versus Canadian dollar rate fluctuations, were captured in AOCI.

Commencing July 1, 2014, the impact only relates to US$ versus Canadian dollar rate fluctuations, as the functional currency of the Company's pre-existing Argentine subsidiary was changed from the AR$ to the US$ on July 1, 2014.

A summary of foreign exchange impact follows:

	Three months ended September 30		Nine months ended September 30	
Canadian $000s	2015	2014	2015	2014
Foreign currency translation adjustment	**8,848**	6,785	**18,936**	(2,187)

At September 30, 2015, the US$ exchange rate relative to the Canadian dollar increased by 6.8% since June 30, 2015, causing a $8.8 million exchange gain for the Quarter on the translation of subsidiaries with US$ functional currencies. The September 30, 2015 US$ period end exchange rate to the Canadian dollar, as compared to the December 31, 2014 period end exchange rate, appreciated by 15%, causing a $18.9 million YTD exchange gain for the YTD on the translation of subsidiaries with US$ functional currencies.

Capital Expenditures

	Three months ended September 30		Nine months ended September 30	
Canadian $000s	2015	2014	2015	2014
Argentina				
Land and associated renewal fees	**12,015**	**-**	**12,015**	**15**
Geological and geophysical	**1,023**	**121**	**1,660**	**1,857**
Drilling and completions	**4,473**	**4,081**	**19,459**	**9,562**
Well equipment and facilities	**771**	**636**	**2,161**	**931**
Other	**617**	**280**	**675**	**1,182**
Argentina total	**18,899**	**5,118**	**35,970**	**13,547**
Canada				
Land and associated renewal fees	**-**	**53**	**-**	**74**
Geological and geophysical	**-**	**70**	**-**	**111**
Drilling and completions	**32**	**6,155**	**482**	**10,219**
Well equipment and facilities	**20**	**587**	**74**	**2,681**
Other	**14**	**560**	**53**	**624**
Canada total	**66**	**7,425**	**609**	**13,709**
Consolidated	**18,965**	**12,543**	**36,579**	**27,256**

Argentina

Capital expenditures during the Quarter included the renewal of the concession at Rinconada-Puesto Morales, commencement of the re-entry at YAPAI.x-1001R at Curamhuele and the reprocessing 3D seismic and the drilling of one well at Coiron Amargo. In addition, a second well at Coiron Amargo (CAN-20h) spudded on September 21, 2015.

The Company has now drilled three wells (1.7 net) – two horizontal wells at Coiron Amargo (CAN-16(h) and CAN-19(h)) and a horizontal multi-frac well at Rinconada-Puesto Morales (PMS-1135). The CAN-16(h) was placed on production March 15, 2015 while the PMS-1135 started producing oil on April 2, 2015 with solution gas conservation commencing on April 9, 2015. The CAN-19(h) went on-stream in early October 2015. In addition to the concession renewals and seismic activities conducted during the Quarter, the Company has also completed some facility and production optimizations at Surubi.

Capital expenditures for Q3-2014 and YTD-2014 related to the drilling and casing of the CAS.x-15 vertical well and the shooting of a 75 square km 3D seismic program at Curamhuele.

Canada
There was virtually no activity in Canada during the Quarter or YTD as a result of the Company's focus being redirected to Argentina in response to reduced commodity prices realized in Canada. In 2014, activity for Q3-2014 and YTD-2014 was primarily directed to oil projects.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity, working capital and shareholders' equity

Canadian $000s	September 30 2015	December 31 2014
Working capital – Total	14,811	11,777
Working capital – Argentina	17,799	12,487
Working capital – Canada	(2,988)	(710)
Long-term bank debt	5,463	-
Shareholders' equity	152,875	135,752

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

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

The working capital balance above includes $7.3 million in current bank debt associated with this facility with the remaining balance in the amount of $5.5 million included in long-term debt.

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

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, existing credit facilities and working capital. In order to maintain or adjust the capital structure, the Company may obtain new credit facilities, adjust its capital spending to manage current and projected debt levels, farm-out existing opportunities or issue shares.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company has both capital and operating obligations in 2015. The balance of the Company's 2015 and 2016 capital expenditure budget is 100% allocated to Argentina, where the majority of the Company's reserves and production are located. 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 or 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.

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).

Share Capital Issued and Options Granted

Outstanding Share Capital

During the Quarter and YTD, 1,050,000 and 2,300,000 common shares were issued pursuant to the exercise of options for cash proceeds of $0.2 million and $0.6 million, respectively. During the Quarter and YTD, 15,563,158 options were issued to directors, officers, and employees of the Company

As at November 25, 2015, the Company had 542.1 million shares and 36.7 million options outstanding.

Financial Instruments

Other than the commodity contracts and the Petroleo Plus settlement bonds, the purpose and fair value of which were discussed earlier in this report, the Company's financial instruments comprise cash and cash equivalents, trade and other receivables, operating loan, current portion of long-term debt, trade and other payables, taxes payable and long term debt. Carrying values reflect the current fair value of the Company's financial instruments due to their short-term to maturity.

Decommissioning Obligations

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

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

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

At 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 was 2.5% (December 31, 2014 – 2.5%) in Argentina and 2.4% (December 31, 2014 –2.5%) in Canada.

Commitments and Contingencies

Development and Exploration Commitments

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

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

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

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

Curamhuele Block (90% working interest and 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 and 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 and 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 and operated)
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 and the second exploration phase expired 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

Contingencies - Other long-term liabilities
Other long-term liabilities primarily relate to a number of contingencies acquired with the Acquisition, which are considered by management to be in the normal course of business. The expected timeline for resolution is not known at this time, although all are expected to take more than one year to settle. All but one has been outstanding for over one year. As new information is obtained, amounts are adjusted to reflect management's best estimate of the amounts to be settled. During the nine months ended September 30, 2015, other long-term liabilities were reduced by $1.3 million as a result of the settlement of a contingency.

QUARTERLY FINANCIAL RESULTS

Quarterly Financial Results

Canadian $000s, unless otherwise noted	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Oil and natural gas revenues	**27,745**	30,365	24,135	26,635
Other income	**18,135**	-	-	-
Net income (loss)	**5,296**	(6,871)	(1,772)	(30,524)
Shares outstanding – millions	**542.1**	541.0	540.3	539.8
Net income (loss) per share – basic and diluted	**$ 0.01**	$ (0.01)	$ (0.00)	$ (0.07)

Canadian $000s, unless otherwise noted	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Revenues	30,860	9,144	6,306	5,633
Net income (loss)	(612)	(3,731)	297	(20,527)
Shares outstanding (‘000s)	539.8	525.0	396.9	364.0
Net income (loss) per share – basic and diluted	(0.00)	(0.01)	0.00	(0.06)

The Company’s decrease in oil and gas revenues during the Quarter can be attributed to lower sales volumes due to natural declines and no new wells coming on production during the Quarter. Q2-2015 increases were favourably impacted by successful horizontal drilling in Argentina, the US$ 3.00 per barrel oil incentive and increased production in Argentina resulting from the Acquisition. Q1-2015, Q4-2014 and Q3-2013 can be attributed to increasing production in Argentina resulting from the Acquisition.

The Company recorded $18.1 million of other income as settlement of past Petroleo Plus incentive credits in Q3-2015.

The Company recorded an impairment charge of $2.7 million in Canada in Q3-2015. The Company recorded an impairment charge of $2.4 million in Canada in Q2-2015. The Company recorded impairment charges of $28.0 million, $0.6 million, $2.6 million and $19.7 million in Q4-2014, Q3-2014, Q2-2014 and Q4-2013, respectively, impacting the net loss recognized in those periods. The Company also incurred $1.7 million and $0.2 million of business combination costs relating to the Acquisition in Q2-2014 and Q3-2014, respectively.

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

CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES

For more details regarding the Company’s critical accounting judgments, estimates and accounting policies the following should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2014.

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

Critical Accounting Judgments in Applying Accounting Policies

Critical judgments are those judgments made by Management in the process of applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements and accompanying notes for the year ended December 31, 2014. Further information on Management's critical accounting judgments in applying accounting policies can be found in the notes to the consolidated financial statements for the year ended December 31, 2014, as well as the notes to the condensed interim consolidated financial statements at September 30, 2015.

Critical accounting estimates

Critical accounting estimates are those estimates that require Management to make particularly subjective or complex judgments about matters that are inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognized in the period in which the estimates are revised. For 2015, there were no changes to the Company's key sources of estimation uncertainty. Further information on the Company's key sources of estimation uncertainty can be found in the notes to the consolidated financial statements for the year ended December 31, 2014 as well as the notes to the condensed interim consolidated financial statements at September 30, 2015.

Future Accounting Pronouncements

A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2014. In May 2014, the IASB issued IFRS 15 Revenues from Contracts with Customers ("IFRS 15"). IFRS 15 provides a single, principles based five-step model to be applied to revenue recognition from all contracts with customers and applies to an annual reporting period beginning on or after January 1, 2018. The impact of this standard on the Company has not been determined.

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

RISK MANAGEMENT

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

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

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

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.

ADVISORY

Forward Looking Statements

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

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

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

Numerical Amounts

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

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

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

ABBREVIATIONS

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

Oil and Natural Gas Liquids		**Natural Gas**	
bbl	barrel	mcf	thousand cubic feet
bbls/d	barrels per day	WI	Working interest
NGLs	Natural gas liquids		
boe	barrel of oil equivalent		
boe/d	barrel of oil equivalent per day		