Madalena Ventures Inc.

Management's Discussion & Analysis

For the Three months and year Ended December 31, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2012

This Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is based on information available to April 26, 2013 and should be read in conjunction with Madalena Venture Inc.'s ("Madalena" or the "Company") audited consolidated financial statements for the year ended December 31, 2012 and the accompanying notes. This MD&A contains forward-looking information about our 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 our 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 our quarterly and the Annual Information Form ("AIF") is available on SEDAR at www.sedar.com.

Basis of Presentation

This MD&A and the Consolidated Financial Statements and comparative information have been prepared in Canadian dollars, except where another currency has been indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. 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 cash 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 our ability to generate funds to finance our operations and information regarding our liquidity. The additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The definition and reconciliation of each non-GAAP measure is presented in the Operating Results, Financial Results and Liquidity and Capital Resources sections of this MD&A.

INTRODUCTION AND OVERVIEW OF MADALENA VENTURES INC.

Overview

Madalena is an independent, Canadian-based, international upstream oil and gas company whose main business activities include exploration, development and production of crude oil, natural gas liquids and natural gas. The Corporation was focused exclusively on exploration and production operations internationally until late 2012 when the Corporation acquired Online Energy Inc. ("Online") and established exploration and production operations domestically.

Internationally, Madalena holds 278,000 gross (135,000 net) acres on three large blocks within the prolific Neuquén basin in Argentina where it is focused on the delineation of petroleum in-place shale and unconventional resources in the Agrio, Mulichinco, Quintuco and Vaca Muerta shales. The Company is also developing its conventional oil play in the Sierras Blancas formation. The three blocks include Coiron Amargo (35,027 net acres), Curamhuele (50,400 net acres) and Cortadera (49,600 net acres).

Domestically, Madalena's core area of operations is located in the Greater Paddle River area of west-central Alberta, Canada where the company holds approximately 200 gross (150 net) sections of land encompassing multiple light oil and liquids-rich gas resource plays.

The Company's strategy

Madalena's strategy is to create value through the generation of a portfolio of high quality oil and gas assets in proven hydrocarbon areas characterized by competitive fiscal terms and significant development potential.

The Corporation has a portfolio of exploration and development opportunities within the Neuquén Basin of Argentina focused on both multi-stacked conventional targets and unconventional shale plays. The Neuquén Basin is a highly prolific oil and gas producing basin in Central Western Argentina. The portfolio consists of three highly prospective blocks, each comprised of large acreage positions on trend with known discoveries and supported by extensive 2D and 3D seismic coverage and offsetting well data. The basin has extensive pipeline and facility infrastructure and a developed service industry. The basin remains relatively underexplored and underdeveloped and includes multiple emerging unconventional shale plays alongside various conventional zones of interest.

Madalena's Canadian assets were acquired through the acquisition of Online Energy on November 1, 2012. Online's assets include 154 net sections of land in the greater Paddle River area of central Alberta across multiple light oil and liquids-rich gas resource plays. The acquisition of Online provided entry into the domestic E&P space with the opportunity to increase production and cash flow from lower risk development programs while continuing to develop and grow its international assets & business plan.

2012 HIGHLIGHTS

Coiron Amargo Block

- At Coiron Amargo Norte, the northern portion of the block, the Company drilled the CAN 5 development well located within the CAN X-1 Sierras Blancas structure, drilled the CAN 7 development well located within the CAN X-3 Sierras Blancas structure and cased the CAN-8 development well located 800 meters south east of the existing CAN 7 oil producer on the northern portion of the block. The Can 5 and CAN 7 wells went on-stream during the summer of 2012.
- CAN-8 well encountered oil and gas in both the unconventional Vaca Muerta shale and the conventional Sierras Blancas zones with completion and testing in the Sierras Blancas formation to commence in early 2013;
- At Coiron Amargo Sur, the southern portion of the block, the Company drilled and cased the CAS X-4 well approximately nine kilometers south east of the CAS X-1 discovery well drilled in 2011 and drilled and cased the CAS X-2 vertical exploration well. At CAS X-4, a full diameter core was taken through most of the Vaca Muerta shale formation interval which will be used to optimize future wells in the Vaca Muerta formation and assess the overall quality of the Vaca Muerta shale on the block.
- In March 2012, an application by the Coiron Amargo joint venture to convert the northern 108 km^2 of the 404 km^2 block to a 25 year exploitation concession (Coiron Amargo Norte) was approved by the Province of Neuquén. In addition, the exploration period for the remainder of the block (Coiron Amargo Sur) was extended to November 8, 2013 with the option to extend the exploration period for an additional year.

Curamhuele Block

- At the Cur X-1 well the Company mobilized a service rig in the second quarter of 2012 for its planned three stage fracture stimulation of the Lower Agrio shale formation which is oil saturated and an estimated 590 feet in thickness. After an unsuccessful attempt to remove certain down-hole equipment in order to install casing for the fracture stimulation, operations were suspended with the potential to come back to this location at a later date to conduct further operations on the well.
- In March 2012 the exploration period for the block was extended to November 8, 2013. The extension of the block required additional work commitments of US$ 17.6 million (Madalena share – US$ 17.6 million of which approximately US $13.7 million plus VAT remains outstanding). The exploration block qualifies for an additional one year extension after November 13, 2013. In December 2012, Madalena initiated the process to qualify the Curamhuele block for an additional one year extension. Throughout the first quarter of 2013, the Company has made steady progress with respect to this application and is currently in the advanced stages of the approval process.

Cortadera Block

- In March 2012 Apache completed a two stage hydraulic fracture stimulation of the Vaca Muerta formation in the CorS X-1 vertical exploration well. Further work to assess the Vaca Muerta and/or uphole formations (i.e. Quintuco, Mulichinco, and Agrio zones) is required to fully evaluate this deep exploration test.
- The initial exploration period for the Cortadera Block in the Province of Neuquén had an initial expiry of October 26, 2011. A new proposal was made by the joint venture to formalize an extension of the initial exploration period based on a proposed work plan for the block. As of December 31, 2012, the original proposal was yet to be finalized and discussions between the Province of Neuquen and the joint venture were recently reopened resulting in the decision to submit a new proposal. During the first quarter of 2013, the joint venture submitted a revised proposal and is currently working towards approval of an agreed upon work program for the block. As at December 31, 2012 the Company had incurred cumulative costs of approximately $2.4 million with respect to this block. A delay or rejection of the extension terms may result in an impairment of these costs.

Bought Deal Financing

- The Company issued 54,000,000 Common Shares at an issue price of $1.25 per Common Share, resulting in aggregate gross proceeds of $67,500,000.

Acquisition of Online Energy Inc. and Entry into the Domestic E&P Sector in Canada

- On November 1, 2012 the Company acquired all of the common shares of Online for a total purchase price of approximately $16.1 million plus the assumption of debt in the amount of approximately $5.5 million. The acquisition of Online provided entry into the domestic E&P space with 154 net sections of land in the greater Paddle River area of central Alberta across multiple light oil and liquids-rich gas resource plays.

SUMMARY RESULTS OF OPERATIONS

Summary Financial and Operational Results

$CDN	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
Financial				
Oil and gas revenue	**3,011,804**	609,340	**5,545,294**	2,598,503
Net loss	**(5,075,119)**	(1,585,520)	**(8,865,201)**	(16,136,543)
Per share – basic and diluted	**(0.02)**	(0.01)	**(0.03)**	(0.06)
Capital expenditures				
Business combination	**16,090,000**	-	**16,090,000**	-
Capital expenditures	**6,309,521**	4,082,646	**22,851,417**	20,034,093
Working capital	**30,025,431**	14,442,910	**30,025,431**	14,442,910
Equity outstanding				
Common shares	**314,307,185**	260,020,517	**314,307,185**	260,020,517
Stock options	**22,333,699**	13,977,034	**22,333,699**	13,977,034
Operating				
Average Daily Production				
Crude oil and condensate – Bbls/d	**327**	84	**177**	108
Natural gas – Mcf/d	**1,377**	-	**369**	-
NGLs – Bbls/d	**78**	-	**20**	-
Total - boe /d(1)	**634**	84	**258**	108
Average Sales Prices				
Crude oil and condensate - $/Bbl	**74.75**	69.26	**75.23**	60.58
Natural gas - $/Mcf	**3.35**	-	**3.41**	-
NGLs - $/Bbl	**48.04**	-	**48.04**	-
Total - $/boe(1)	**51.66**	62.96	**59.86**	60.58
Operating Netbacks				
$/boe(1)	**13.49**	12.99	**18.18**	17.25

(1) Refer to - "Oil, Natural Gas Liquids and Natural Gas Conversions to boe's" in Advisories.

FINANCIAL RESULTS

Net Loss and Comprehensive Loss

$CDN	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
Net loss	**(5,075,119)**	(1,585,520)	**(8,865,201)**	(16,136,543)
Comprehensive loss	**(6,360,960)**	(3,873,395)	**(12,076,282)**	(19,636,638)
Net loss Per share – basic & diluted	**(0. 02)**	(0.01)	**(0. 03)**	(0.06)

The net loss for the three months ended December 31, 2012 (the "Quarter") was $5.1 million (2011 – $1.6 million) primarily as a result of transaction costs relating to the acquisition of Online which were included in general and administration, plus non-cash charges relating to depletion and depreciation, impairment and stock based compensation.

The net loss of $8.9 million (2011 – $16.1 million) for the year ended December 31, 2012 (the "YTD") resulted primarily from non-cash charges relating to depletion and depreciation, impairment and stock based compensation.

Production

Average daily production	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
Argentina				
Crude oil (Bbls/d)	**195**	84	**144**	108
Natural gas (Mcf/d)	**132**	-	**55**	-
Total daily production (boe/d)	**217**	84	**153**	108
Canada				
Crude oil and condensate (Bbls/d)	**132**	-	**33**	-
Natural gas (Mcf/d)	**1,245**	-	**314**	-
Natural gas liquids (Bbls/d)	**78**	-	**20**	-
Total daily production (boe/d)	**417**	-	**105**	-
Corporate				
Total daily production (boe/d)	**634**	84	**258**	108
% Oil & Ngls	**64%**	100%	76%	100%

Argentina
The Company produced oil, with a small amount of solution gas, from six wells (2.1 net) in the Coiron Amargo Norte block. Increased oil production in Argentina was predominately a result of the CAN 5 and CAN 7 wells, which commenced production in July 2012 offset by natural declines from the other producing wells. The difference between Madalena's Argentinean production and sales of crude oil is the result of crude oil wellhead production as measured in the field versus revenue recognition as measured through oil shipments. The portion of crude oil production from the field not shipped and remaining stored in tanks at each reporting date is reported as inventory.

Canada
Production from the Canadian operations for the last two months of 2012 was a result of the acquisition of Online. The Company had 12 (7.5 net) producing oil wells and 23 (16.5 net) producing gas wells as at December 31, 2012. The per day data presented in the table above represents the volumes produced in the last two months of 2012

divided by the number of days in the Quarter and YTD.

Pricing

Average Realized Prices	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
Argentina				
Crude oil – ($/Bbl)	**77.63**	69.26	**76.35**	60.58
Natural gas – ($/Mcf)	**4.03**	-	**4.16**	-
Total per boe	**72.19**	69.26	**73.21**	60.58
Canada				
Crude oil and condensate – ($/Bbl)	**70.49**	-	**70.49**	-
Natural gas – ($/Mcf)	**3.27**	-	**3.27**	-
Natural gas liquids ($/Bbls)	**48.04**	-	**48.04**	-
Total per boe	**40.99**	69.26	**40.99**	60.58

During 2012, the Company did not have any physical natural gas and oil contracts in place. During the first quarter of 2013, the Company entered into the following physical natural gas and oil contracts:

Type	Period	Volume	Price Floor	Price Ceiling	Index
Natural gas fixed	April 1, 2013 to Oct. 31, 2013	300 GJ/d	$3.00 CDN	$3.00 CDN	AECO
Natural gas fixed	April 1, 2013 to Oct. 31, 2013	300 GJ/d	$3.20 CDN	$3.20 CDN	AECO
Natural gas fixed	April 1, 2013 to Oct. 31, 2013	300 GJ/d	$4.47CDN	$4.47 CDN	AECO
Crude oil call options	Jan. 1, 2014 to Dec. 31, 2014	50 bbl/d	-	$100.00 US	WTI

Revenue

$CDN	Three months ended December 31, 2012	2011	Year ended December 31, 2012	2011
Argentina				
Crude oil	**1,389,437**	609,340	**3,889,208**	2,598,503
Natural gas	**49,092**	-	**82,811**	-
	1,438,529	609,340	**3,972,019**	2,598,503
Canada				
Crude oil and condensate	**853,321**		**853,321**	
Natural gas sales	**375,061**	-	**375,061**	-
Natural gas liquids sales	**344,893**	-	**344,893**	-
	1,573,275	-	**1,573,275**	-
Total	**3,011,804**	609,340	**5,545,294**	2,598,503
Per boe	**51.66**	69.26	**59.86**	60.58

Argentina

Oil sales increased from the corresponding period in 2011 due to production from the CAN 5 and CAN 7 wells, which went on-stream in June and July 2012, respectively. Oil sales were 195 bopd and 140 bopd for the Quarter and YTD, respectively.

Canada
The acquisition of Online resulted in crude oil and condensate, natural gas and natural gas liquids revenue from the Canadian operations for the last two months of 2012.

Royalties

$CDN	Three months ended December 31, 2012	2011	Year ended December 31, 2012	2011
Argentina				
Royalties	**208,350**	142,591	**608,637**	521,037
As % of revenue from Argentina	**15%**	23%	15%	20%
Canada				
Royalties	**276,012**	-	**276,012**	-
As % of revenue from Canada	**18%**	-	**18%**	-
Corporate total	**484,362**	142,591	**884,649**	521,037

Argentina
Royalty expense increased due to higher production volumes partially offset by a lower royalty rate. Royalty expense includes a 3% provincial turnover tax on sales. In 2012, with conversion of the northern portion of the block into a 25 year exploitation concession, production from Coiron Amargo Norte is subject to a 12% provincial royalty payable to the Province of Neuquén. In 2011 production from the Coiron Amargo Block was subject to a 15% provincial royalty rate.

Canada
Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. For the Quarter and YTD, royalties were 18% of revenues. There were no operations in Canada in 2011.

Operating Costs

$CDN	Three months ended December 31, 2012	2011	Year ended December 31, 2012	2011
Argentina				
Operating costs	**653,309**	352,463	**1,888,707**	1,337,223
Per boe	**32.79**	40.06	**34.81**	31.18
Canada				
Operating costs	**1,087,757**	-	**1,087,757**	-
Per boe	**28.34**	**-**	**28.34**	-
Corporate total	**1,741,066**	352,463	**2,976,464**	1,337,223

The base production from both Argentina and Canada, with the exception of the most recent production additions, is predominately from low productivity and mature wells with high operating costs. One of the Company's business objectives is to reduce per boe operating costs by adding production from new reserves with lower costs through successful drilling activities.

Netbacks [(1)]

$ per boe	Three months ended December 31, 2012	2011	Year ended December 31, 2012	2011
Argentina				
Revenue	**72.19**	69.26	**73.21**	60.58
Royalties	**(10.46)**	(16.21)	**(11.22)**	(12.15)
Operating expenses	**(32.79)**	(40.06)	**(34.81)**	(31.18)
Netbacks	**28.94**	12.99	**27.18**	17.25
Canada				
Revenue	**40.99**	-	**40.99**	-
Royalties	**(7.19)**	-	**(7.19)**	-
Operating expenses	**(28.34)**	**-**	**(28.34)**	-
Netbacks	**5.46**	-	**5.46**	-
Corporate				
Revenue	**51.66**	69.26	**59.86**	60.58
Royalties	**(8.31)**	(16.21)	**(9.55)**	(12.15)
Operating expenses	**(29.86)**	(40.06)	**(32.13)**	(31.18)
Netbacks	**13.49**	12.99	**18.18**	17.25

(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, 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.

General and Administration ("G&A") Expenses

$CDN	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
Argentina	**370,290**	349,274	**1,386,493**	1,359,917
Canada	**869,969**	487,782	**2,777,100**	2.,119,224
	1,240,259	837,056	**4,163,593**	3,479,141

The Company currently has three full-time employees in Argentina and seven full-time employees in Canada. The Company's head office is in Canada. The increase in general and administration costs were predominately a result of increased consulting fees in Argentina and two months of G&A related to the new Canadian operations.

Finance Cost

Finance cost consists of accretion of the decommissioning obligations which were $16,816 and $62,822 for the Quarter and YTD, respectively for Argentina and $10,000 and $10,000 for the Quarter and YTD, respectively for Canada.

Share-based Compensation

The Company has issued Stock Options as incentive programs that allow officers, directors, consultants and employees to purchase shares in the Company.

Share based compensation decreased in the year ended December 31, 2012 to $1.9 million (2011 - $2.8 million) and decreased to $0.5 million in the Quarter (2011 - $0.8 million) as a result of a fewer options granted in the fourth quarter of 2012 compared to the previous year.

Share based compensation is capitalized to property and equipment or exploration and evaluation assets to the extent that the activities are directly related to the exploration for or development of petroleum and natural gas reserves. YTD, the Company capitalized $44,174 (2011 - $98,892) of share based compensation to exploration and evaluation assets. For the Quarter, the Company capitalized $10,864 (2011 - $34,644) of share based compensation to exploration and evaluation assets.

At December 31, 2012, the Company has approximately $1.9 million (2011 - $1.5 million) of unamortized share based compensation that will be charged to income over the remaining vesting period of the outstanding options.

Depletion, Depreciation and Impairment

$CDN	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
Argentina				
Depletion and depreciation	**626,375**	118,479	**1,217,937**	453,231
Impairment	**2,519,001**	-	**2,519,001**	11,006,637
	3,145,376	118,479	**3,736,938**	11,059,868
Canada				
Depletion and depreciation	**505,400**	-	**505,400**	-
Impairment of E & E assets	**-**	-	**-**	-
	505,400	**-**	**505,400**	**-**
Corporate total	**3,650,776**	118,479	**4,242,338**	11,049,868

In Argentina, depletion and depreciation expense for the Quarter and YTD increased due to higher depletion rates and increased production from Coiron Amargo Norte. The Company recorded an impairment loss of $2.5 million during the Quarter and YTD equal to the excess of the carrying value over the recoverable amount of the PP&E assets at year-end. In 2011, the Company recorded an impairment loss during the year on its E&E assets in Argentina of $11.0 million.

In Canada, depletion and depreciation expense of $0.5 million for the Quarter and the YTD was a result of the acquisition of Online.

Income Taxes

In Argentina, income tax expense for the year ended December 31, 2012 totaled $0.2 (2011 - $0.3 million). Current income taxes relate to minimum taxes based on the book value of assets in Argentina.

In Canada, as at December 31, 2012, the Company has, subject to confirmation by income tax authorities, cumulative income tax deductions of approximately $49 million available to reduce future taxable income.

Transactions with Related Parties

A director of the Company is a partner of a law firm that provides legal services to the Company. During the Quarter and YTD, the Company incurred fees of $0.3 million (2011 -$1,898) and $0.4 million (2011 - $20,304), respectively from this firm for legal fees related the business combination, the financings and other legal matters, of which $10,000 (2011 - $nil) is included in accounts payable and accrued liabilities at December 31, 2012. The costs related to the financings were charged against share capital. The costs related to the business combination and other legal matters were expensed in profit and loss.

A director of one of the Company's subsidiaries provides legal and consulting services to the Company. During the Quarter and YTD, the Company incurred fees of $0.2 million (2011 - $25,000) and $0.5 million (2011 - $0.1 million) respectively for fees related to concession extensions and other legal matters, of which $0.2 million (2011 - $nil) is included in accounts payable and accrued liabilities at December 31, 2012. The costs related to the concession extensions were recorded in PP&E and E&E assets and the costs related to other legal matters were expensed in profit and loss.

The transactions arose during the normal course of business and have been recorded at the exchange amounts, which are the amounts agreed upon by the related parties.

Property, Plant & Equipment Additions

$CDN	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
Argentina				
Geological and geophysical	**-**	37,387	**-**	84,498
Drilling and completions	**1,222,063**	1,545,780	**4,749,955**	2,194,999
Well equipment and facilities	**1,580**	64	**2,398,598**	22,788
Other	**223,192**	323,811	**1,597,136**	295,289
Argentina Total	**1,446,835**	1,907,042	**8,745,689**	2,597,574
Canada				
Business combination	**16,530,204**		**16,530,204**	
Drilling and completions	**2,427,926**	-	**2,427,926**	-
Other	**60,555**	-	**78,228**	6,437
	2,488,481	-	**2,506,154**	-
Canada total	**19,018,685**	-	**19,036,358**	-
Corporate total	**20,465,520**	1,907,042	**27,782,047**	2,597,574

YTD, the Company incurred capital expenditures on property, plant and equipment of $27.8 million (2011 - $2.6 million). For the Quarter, capital expenditures were $20.5 million (2011 - $1.9 million. In Argentina, the Company drilled five wells (1.75 net) in 2012 (CAN 5, 7 & 8, CAS 2 & 4) and one well (0.35 net) (CAS 8) during the Quarter. In Canada, the acquisition of Online accounted for $16.5 million of the PP&E assets additions during the Quarter and YTD. During November and December the Company drilled a 100% working interest well in Canada at Niton which was cased as a potential Notikewin gas well.

Exploration and Evaluation Asset Additions

$CDN	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
Argentina				
Geological and geophysical	**180,000**	14,415	**602,614**	103,885
Land acquisitions	**2,916**	-	**580,409**	(6,305)
Drilling and completions	**393,532**	1,720,860	**7,320,878**	14,366,024
Well equipment and facilities	**7,592**	-	**1,908**	-
Other	**(222,301)**	372,946	**1,303,831**	2,966,478
Argentina Total	**361,739**	2,108,221	**9,809,640**	17,430,082
Canada				
Business combination	**8,455,000**	-	**8,455,000**	-
Land acquisitions	**10,514**	-	**10,514**	-
Drilling and completions	**2,104,299**	-	**2,104,299**	-
Canada total	**2,114,813**	-	**2,114,813**	-
	10,569,813	-	**10,569,813**	-
Corporate total	**10,931,552**	2,108,221	**20,379,453**	17,430,082

For the year ended December 31, 2012, the Company incurred capital expenditures on exploration and evaluation assets of $20.4 million compared to $17.4 million in 2011. Capital expenditures increased to $10.9 million for the Quarter compared to $2.1 million for the corresponding period in 2011.

In Argentina, the Company extended the Curamhuele block through November 2013 and drilled two (0.7 net) wells on the Coiron Amargo Sur block (CAS 2 & 4). In addition, at the Cur X-1 well the Company mobilized a service rig in the second quarter of 2012 for its planned three stage fracture stimulation of the Lower Agrio shale formation. After an unsuccessful attempt to remove certain down-hole equipment, operations were suspended with the potential to come back to this location at a later date to conduct further operations on the well.

In Canada, the Company commenced drilling its 100% working interest horizontal well Wildwood in December, which was cased in January 2013 as a potential Nordegg liquids-rich gas well.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity, working capital and shareholders' equity

$CDN	December 31, 2012	December 31, 2011
Working capital	**30,025,431**	14,442,910
Shareholders' equity	**92,385,634**	38,802,113

The Company's capital management objective is to have sufficient capital to be able to execute its business plan. 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, loans and borrowings and working capital. The Company may issue shares to fund its capital commitments.

At December 31, the Company's wholly owned subsidiary, Online Energy had a credit facility with the National Bank of Canada consisting of a revolving operating demand loan to a maximum of $4.75 million with interest charged at the bank's prime rate plus 1.0% per annum. Security for this facility is provided by way of a charge over the petroleum and natural gas assets of Online and a guarantee by the Company. The facilities include a working capital ratio covenant, whereby the Company's working capital deficiency (excluding any unrealized hedging gains or losses) may not exceed $4.75 million. In addition, Online had an acquisition / development demand loan to a maximum of $1.25 million with interest charged at the bank's prime rate plus 1.25% per annum. Standby fees associated with both facilities are 0.25% per annum on the undrawn portion. The credit facility is subject to a periodic review by the bank, with the next review scheduled on or before May 1, 2013. The facility was unutilized at year-end.

As the credit facility is a demand loan, it may be called at any time. Accordingly, there is no assurance that the credit facility will be renewed when the next scheduled review is completed. Should the bank not extend the loan, the Company would need to seek alternative forms of debt or equity financing or dispose of certain assets to repay the outstanding indebtedness.

The Company's principal source of cash continues to be from the issuance of common shares. The Company's 2013 capital budget will be funded from its existing working capital of $30.0 million, cash flow from operations and bank lines of credit.

Share capital issued and options granted

Outstanding Share Capital

During the year the Company issued 54.0 million common shares for net proceeds of $63.5 million after issuance costs of $4.0 million. In addition, a total of 286,668 shares were issued pursuant to the exercise of stock options for proceeds of $0.19 million. As of December 31, 2012, the Company had 314.3 million common shares, and 22.3 million stock options outstanding.

Since year-end, a total of 1.8 million shares have been issued pursuant to the exercise of stock options for proceeds of $0.34 million. As of April 26, 2013, the Company has 316.1 million common shares outstanding.

Financial Instruments

Financial instruments comprise cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. 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 are a critical accounting estimate. There are significant uncertainties related to settling decommissioning obligations and the impact on the financial statements could be material. The eventual timing of and costs to settle these obligations could differ from current estimates. 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 reserve lives and changes in technology.

Argentina
The total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $2.6 million. The majority of the costs are expected to be incurred between 2023 and 2025. An inflation rate of 10.8% was used to calculate the future value of the undiscounted decommissioning obligations. At December 31, 2012, the decommissioning obligations of $0.6 million have been discounted using a discount rate of 14.7%.

Canada
The total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $4.4 million. The majority of the costs are expected to be incurred between 2018 and 2030. An inflation rate of 2% was used to calculate the future value of the undiscounted decommissioning obligations. At December 31, 2012, the decommissioning obligations of $3.4 million have been discounted using a discount rate ranging from 1.0% to 2.45%.

Commitments

The Company has rental commitments (including estimated operating costs) relating to leased office premises as follows:

$CDN As of December 31	2012	2011
For the calendar year 2013	210,000	104,000
For the calendar year 2014	143,000	46,000
For the month of January 2015	8,100	-
	361,100	150,000

Contractual Obligations

Development & Exploration commitments

Coiron Amargo Block

In March 2012 an application by the Coiron Amargo joint venture to convert the northern 108 km^2 of the 404 km^2 block to a 25 year exploitation concession (Coiron Amargo Norte) was approved by the Province of Neuquén. In addition, the exploration period for the remainder of the block (Coiron Amargo Sur) was extended to November 8, 2013. Madalena's remaining share of future development commitments associated with Coiron Amargo Norte to December 31, 2013 is approximately US$4.1 million plus VAT.

The extension of Coiron Amargo Sur to November 8, 2013 required additional work commitments of US$ 33.5 million (Madalena share – US$ 13.0 million of which approximately US$ 4.9 million plus VAT remains outstanding). The exploration block (Coiron Amargo Sur) qualifies for an additional one year extension period at the end of the exploration period in the fourth quarter of 2013.

Cortadera Block
The initial exploration period for the Cortadera Block in the Province of Neuquén had an initial expiry of October 26, 2011. A new proposal was made by the joint venture to formalize an extension of the initial exploration period

based on a proposed work plan for the block. As of December 31, 2012, the original proposal was yet to be finalized and discussions between the Province of Neuquen and the joint venture were recently reopened resulting in the decision to submit a new proposal. During the first quarter of 2013, the joint venture submitted a revised proposal and is currently working towards approval of an agreed upon work program for the block. As at December 31, 2012 the Company had incurred cumulative costs of approximately $2.4 million with respect to this block. A delay or rejection of the extension terms may result in an impairment of these costs.

Curamhuele Block

In March 2012 the exploration period for the block was extended to November 8, 2013. The extension of the block required additional work commitments of US$ 17.6 million (Madalena share – US$ 17.6 million of which approximately US $13.7 million plus VAT remains outstanding). The exploration block qualifies for an additional one year extension after November 13, 2013. In December 2012, Madalena initiated the process to qualify the Curamhuele block for an additional one year extension. Throughout the first quarter of 2013, the Company has made steady progress with respect to this application and is currently in the advanced stages of the approval process.

ANNUAL AND QUARTERLY FINANCIAL RESULTS

Annual Financial Results

As of December 31 **$CDN**	2012	2011	2010
Revenues	5,545,294	2,598,503	244,235
Net loss	(8,865,201)	(16,136,543)	(3,886,065)
Total assets	107,779,224	42,097,787	59,754,228
Long-term financial liabilities	61,660	-	-
Shareholder equity	92,385,634	38,802,113	53,838,060
Net loss per share – basic and diluted	(0.03)	(0.07)	(0.02)

Quarterly Financial Results

	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenues	3,011,804	1,761,983	374,734	396,773
Net loss	(5,075,119)	(916,185)	(1,847,984)	(1,167,365)
Shares outstanding ('000s)	314,307	314,307	314,307	314,307
Net loss per share – basic and diluted	(0.02)	(0.0)	(0.01)	(0.0)

	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues	609,340	619,178	807,497	562,488
Net loss	(1,585,520)	(315,915)	(12,490,603)	(1,744,505)
Shares outstanding ('000s)	260,021	260,021	259,996	259,996
Net loss per share – basic and diluted	(0.01)	(0.0)	(0.05)	(0.01)

Generally, the Company's increasing revenues during 2012 can be attributed to increasing oil production and the acquisition of Online in the fourth quarter of 2012. The decline in revenues during the first six months of 2012 as compared to 2011 was a result of decreased oil sales in early 2012.

The Company recorded an impairment charge in Q2-2011 and Q4-2012 of $11.0 million and $2.5 million, respectively, resulting in a net loss of $12.5 million and $5.1 million in Q2-2011 and Q4-2012, respectively.

The Company issued 54 million shares during Q1-2011 at a price of $1.25 per share.

ACCOUNTING POLICIES AND ESTIMATES

Future Accounting Changes

The following Standards will be effective for the Company's year ended December 31, 2013. The evaluation of these standards by the Company and the effect on the Company's financial statements has not been completed.

- IFRS 10 *Consolidated Financial Statements* builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.
- IFRS 11 *Joint Arrangements* establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.
- IFRS 12 *Disclosure of Interest in Other Entities* provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.
- IFRS 13 *Fair Value Measurement* defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.
- IAS 27 *Separate Financial Statements* revises the existing standard which addresses the presentation of parent company financial statements that are not consolidated financial statements.
- IAS 28 *Investments in Associate and Joint Ventures* revises the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The following standards are new or revised and are effective for the annual periods noted. Early adoption is permitted for each. Unless otherwise noted the Company has not completed its evaluation of the effect of adopting these standards on its consolidated financial statements.

IFRS 9 *Financial Instruments* is intended to replace IAS 39, *"Financial Instruments: Recognition and Measurement"* ("IAS 39"). For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with different transitional arrangements depending on the date of initial application.

Critical accounting estimates

Certain of Madalena's accounting policies require that it makes appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses.

Estimating oil and gas reserves

The Company engages a qualified, independent oil and gas reserves evaluator to perform an estimation of the amount of oil and gas reserves at least annually. Reserves form the basis for the calculation of depletion charges and assessment of impairment of oil and gas assets. Reserves are estimated using the definitions of reserves prescribed by National Instrument 51-101 (NI 51-101) and the Canadian Oil and Gas Evaluation (COGE) Handbook.

Proved plus probable reserves are defined as the estimated quantities of crude oil, natural gas liquids including condensate and natural gas that geological and engineering data demonstrate a 50% probability of being recovered at the reported level. Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available. The estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in Madalena's plans. Changes in reported reserves can affect the impairment of assets, the decommissioning obligation, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment and exploration and evaluation assets.

Decommissioning Obligations

The Company estimates obligations under environmental regulations in respect of decommissioning and site restoration. These obligations are determined based on the expected present value of expenses required in the process of plugging and abandoning wells, dismantling of wellheads, production and transportation facilities and restoration of producing areas in accordance with relevant legislation, discounted from the date when expenses are expected to be incurred. Most of the abandonment of the Company's wells is estimated to take place far in the future. Therefore, changes in estimated timing of future expenses, estimated logistics of performing abandonment work and the discount rate used to discount future expenses would have a significant effect on the carrying amount of the decommissioning obligations.

Business combination

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven, probable and possible and/or contingent reserves being acquired.

Share based compensation

Compensation costs recognized under the share based payments to directors and employee are subject to an estimation of the expected lives of options including forfeiture rates, risk-free rates of return and stock price volatility.

RISK MANAGEMENT

The Company's business, prospects, financial condition, results of operation and cash flows, and in some cases its reputation, are impacted by risks that are categorized as financial risks; operational risks; and safety, environmental and regulatory risks.

In Madalena's Annual Information Form for the fiscal year ended December 31, 2012, the Company provided a detailed review of the risks that could affect its financial condition, results of operations or business that could cause actual results to differ materially from those expressed in the Company's forward-looking statements.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Financial Risks

During the three and year ended December 31, 2012, the Company's financial instruments included cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Company is exposed to fluctuating market prices for oil and natural gas. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollars, but also global economic events that dictate the levels of supply and demand. Most commodity prices are based on U.S. dollar benchmarks, which result in the Company's realized prices being influenced by the Canadian/U.S. exchange rates. The Company does not currently sell or transact in any foreign currency and has no foreign exchange risk management contracts outstanding.

The Company mitigates its credit risk associated with cash by holding the cash and cash equivalents in accounts with a high credit quality financial institution. As the Company has cash balances and no debt, it is not exposed to interest rate risks arising from fluctuating interest rates. The Company's assets, liabilities and operations are denominated in Canadian dollars mitigating foreign exchange risk.

In Argentina, the majority of the Company's oil production is sold to the Argentina subsidiaries of major international oil and gas companies. In Canada, receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any collection issues with its oil and natural gas marketers.

The Company does not anticipate any default as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers. As such a provision for doubtful accounts has not been recorded at December 31, 2012 and December 31, 2011.

Operational Risks

The Company is exposed to operational risks being the risk of loss or lost opportunity resulting from reserve replacement and capital and operating activities. The Company's ability to operate, generate cash flows, complete projects, and add reserves is dependent on financial risks, including commodity prices mentioned above, continued market demand for its products and other risk factors outside of its control, which include: general business and market conditions; economic recessions and financial market turmoil; the ability to secure and maintain cost effective financing for its commitments; environmental and regulatory matters; unexpected cost increases; royalties; taxes; the availability of drilling and other equipment; the ability to access lands; weather; the availability of processing capacity; the availability and proximity of pipeline capacity; technology failures; accidents; the availability of skilled labour; and reservoir quality.

If the Company fails to acquire or find additional oil or natural gas reserves, its reserves and production will decline materially from their current levels and, therefore, its cash flows are highly dependent upon successfully exploiting current reserves and acquiring, discovering or developing additional reserves.

To mitigate these risks, as part of the capital approval process, the Company's projects are evaluated on a fully risked basis, including geological risk and engineering risk. When making operating and investing decisions, the Company's decision model seeks to optimize investments focused on project returns, long-term value creation, and risk mitigation.

Foreign operations

Prior to the acquisition of Online on November 1, 2012 all of the Company's oil and gas operations were in Argentina. A number of risks are associated with conducting foreign operations over which the Company has no control, including currency instability, potential and actual civil disturbances, restriction of funds movement outside of these countries, the ability of joint venture partners to fund their obligations, changes of laws affecting foreign ownership and existing contracts, crude oil and natural gas price and production regulation, royalty rates, potential expropriation of property without fair compensation, retroactive tax changes and possible interruption of oil deliveries.

Regulatory environment

On May 3, 2012, Law No. 26,741 was passed by the Argentine Congress and, on May 7, it was published in the Official Gazette of the Republic of Argentina. The law declared achieving self-sufficiency in the supply of hydrocarbons as well as in the exploitation, industrialization, transportation and sale of hydrocarbons, a national public interest and a priority for Argentina. In addition, its stated goal is to guarantee socially equitable economic development, the creation of jobs, the increase of the competitiveness of various economic sectors and the equitable and sustainable growth of the Argentine provinces and regions. On July 27, 2012 the Federal Government published Decree 1277/12 (the "Decree") in the Official Gazette, regulating Law No. 26741 which introduced a tighter regime on investments and commercialization of hydrocarbons in Argentina. Although there has been no change to the fiscal regime, the Company continues to evaluate what impact the Decree may have on the Company's business, financial condition, results of operations and prospects. Future regulatory changes could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Expiration of licences and leases

The Company's properties in Argentina are held in the form of licences and leases and working interests in licences and leases. If the Company or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Company's licences or leases or the working interests relating to a licence or lease may result in an impairment of the costs incurred with respect to the block.

In response to declining oil and gas production volumes in Argentina, the federal and various provincial governments in Argentina are calling for oil and gas companies operating in the country to increase investment. Any federal changes to the licencing regime or changes to the provincial licencing regime in Neuquen Province, Argentina where the Company's acreage is located could have a material adverse effect on the Company.

The initial exploration period for the Cortadera Block in the Province of Neuquén had an initial expiry of October 26, 2011. A new proposal was made by the joint venture to formalize an extension of the initial exploration period based on a proposed work plan for the block. As of December 31, 2012, the original proposal was yet to be finalized and discussions between the Province of Neuquen and the joint venture were recently reopened resulting in the decision to submit a new proposal. During the first quarter of 2013, the joint venture submitted a revised proposal and is currently working towards approval of an agreed upon work program for the block. As at December 31, 2012 the Company had incurred cumulative costs of approximately $2.4 million with respect to this block. A delay or rejection of the extension terms may result in an impairment of these costs.

Safety, Environmental and Regulatory Risks

The Company's business is subject to all of the operating risks normally associated with the exploration for, development of and production of natural gas and liquids. These risks are managed by executing policies and standards that are designed to comply with or exceed government regulations and industry standards.

Substantial capital requirements

In order to completely exploit its existing properties and create future growth, the Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. In addition, uncertain levels of near term industry activity and uncertain global markets may impair the Company's ability to access capital. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

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 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		
NGLs	Natural gas liquids		
boe	barrel of oil equivalent		
boe/d	barrel of oil equivalent per day		