Madalena Ventures Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012

(UNAUDITED)

Madalena Ventures Inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

$CDN	Note	As at June 30 2013	As at December 31 2012
Assets			
Current assets			
Cash and cash equivalents		**11,054,632**	38,252,673
Trade and other receivables		**3,841,598**	2,255,860
Other current assets		**1,051,284**	894,096
		15,947,514	41,402,629
Property, plant and equipment	4	**40,483,745**	29,478,004
Exploration and evaluation assets	5	**43,789,352**	35,759,879
Other non-current assets		**1,274,681**	1,138,712
		101,495,292	107,779,224
Liabilities			
Current liabilities			
Trade and other payables		**8,167,376**	11,377,198
Other liabilities	11	**61,660**	61,660
Decommissioning obligations	6	**3,978,825**	3,954,732
		12,207,861	15,393,590
Shareholders' Equity			
Share capital	7	**142,589,964**	141,676,214
Contributed surplus		**11,945,767**	11,920,008
Accumulated other comprehensive loss		**(9,770,956)**	(8,373,278)
Deficit		**(55,477,344)**	(52,837,310)
		89,287,431	92,385,634
		101,495,292	107,779,224

Commitments (Note 11)

Subsequent Events (Note 15)

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

Madalena Ventures Inc.

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

		Three months ended June 30		Six months ended June 30	
$CDN	**Note**	**2013**	**2012**	**2013**	**2012**
Revenues					
Oil and natural gas revenues		**3,877,254**	374,734	**7,486,997**	771,507
Royalties		**(461,961)**	(56,736)	**(987,410)**	(126,536)
		3,415,293	317,998	**6,499,587**	644,971
Interest and other income		**64,302**	208,713	**167,303**	295,407
Unrealized gain on commodity contracts		**89,914**	-	**24,800**	-
		3,569,509	526,711	**6,691,690**	940,378
Expenses					
Operating		**2,143,198**	271,208	**4,020,901**	601,364
General and administrative		**1,099,272**	1,214,923	**3,047,001**	1,948,267
Accretion	6	**34,395**	16,005	**71,403**	29,031
Share-based compensation	8	**293,878**	654,564	**443,690**	979,400
Depletion and depreciation	4	**1,416,320**	74,802	**2,680,753**	155,365
Foreign exchange (gain) loss		**(1,211,166)**	14,796	**(1,163,183)**	10,950
		3,775,897	2,246,298	**9,100,565**	3,724,377
Loss before income taxes		**(206,388)**	(1,719,587)	**(2,408,875)**	(2,783,999)
Current income tax expense		**(113,918)**	(128,397)	**(231,159)**	(231,350)
Net loss		**(320,306)**	(1,847,984)	**(2,640,034)**	(3,015,349)
Foreign currency translation adjustment		**(629,672)**	(505,837)	**(1,397,678)**	863,729
Comprehensive loss		**(949,978)**	(2,353,821)	**(4,037,712)**	(2,151,620)
Loss per share					
Basic and diluted	12	**(0.00)**	(0.01)	**(0.01)**	(0.01)

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

Madalena Ventures Inc.

Condensed Interim Consolidated Statements of Equity
(Unaudited)

$CDN	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
	(Note7)				
Balance at December 31, 2011	77,862,747	10,073,672	(5,162,197)	(43,972,109)	38,802,113
Net loss	-	-	-	(3,015,349)	(3,015,349)
Other comprehensive income (loss)	-	-	863,729	-	863,729
Share issuance	67,500,000	-	-	-	67,500,000
Share issuance costs	(4,014,574)	-	-	-	(4,014,574)
Stock options exercised	328,041	(142,591)	-	-	185,450
Share based payments	-	1,002,289	-	-	1,002,289
Balance at June 30, 2012	141,676,214	10,933,370	(4,298,468)	(46,987,458)	101,323,658
Balance at December 31, 2012	141,676,214	11,920,008	(8,373,278)	(52,837,310)	92,385,634
Net loss	-	-	-	(2,640,034)	(2,640,034)
Other comprehensive income (loss)	-	-	(1,397,678)	-	(1,397,678)
Stock options exercised	913,750	(411,462)	-	-	502,288
Share based payments	-	437,221	-	-	437,221
Balance at June 30, 2013	**142,589,964**	**11,945,767**	**(9,770,956)**	**(55,477,344)**	**89,287,431**

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

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

$CDN	Note	Six months ended June 30 2013	2012
Cash provided by (used in):			
Operating			
Net loss		**(2,640,034)**	(3,015,349)
Items not affecting cash:			
Depletion and depreciation	4,5	**2,680,753**	155,365
Accretion		**71,403**	29,031
Unrealized gain on commodity contracts	13	**(24,800)**	-
Share-based compensation	8	**443,690**	979,400
Decommissioning costs incurred	6	**(58,950)**	-
Change in other non-current assets		**-**	(1,431)
Change in non-cash working capital	10	**(514,370)**	(284,365)
Net cash used in operating activities		**(42,308)**	(2,137,349)
Investing			
Development capital and corporate additions	4	**(13,932,060)**	(6,706,941)
Evaluation and exploration assets additions	5	**(9,096,322)**	(6,202,252)
Change in other non-current assets		**(177,312)**	-
Change in non-cash working capital	10	**(4,390,313)**	(165,383)
Net cash used in investing activities		**(27,596,007)**	(13,074,576)
Financing			
Share issuance	7	**502,288**	67,685,450
Share issuance costs	7	**-**	(4,014,574)
Change in non-cash working capital	10	**-**	-
Net cash from financing activities		**502,288**	63,670,876
Change in cash and cash equivalents		**(27,136,027)**	48,458,951
Cash and cash equivalents, beginning of period		**38,252,673**	16,439,077
Impact of foreign exchange on cash balances		**(62,014)**	(48,240)
Cash and cash equivalents, end of period		**11,054,632**	64,849,788

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

1. Reporting Entity

Madalena Ventures Inc. (the "Company" or "Madalena") is involved in the exploration, development and production of oil and natural gas in Argentina and in Alberta, Canada and its principal place of business is Suite 200, 707 – 7th Avenue S.W., Calgary, Alberta, T2P 3H6.

The condensed interim consolidated financial statements are comprised of the results of the Company and the following wholly-owned subsidiaries in the indicated legal jurisdictions:

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

2. Basis of Preparation

Future operations

These condensed interim consolidated financial statements have been prepared on the basis that the Company is a going concern and will realize assets and discharge liabilities in the normal course of operations for the foreseeable future. Presently, Madalena has minimal production and limited cash flow from operating activities. The Company currently relies substantially on equity financing to pay for exploration activities and overhead expenses. Therefore, the Company's ability to continue operations is dependent on identifying commercial oil and gas reserves, generating profitable operations and raising sufficient capital to complete planned exploration and development activities. The outcome of these matters cannot be predicted at this time.

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements including International Accounting Standard 34, "*Interim Financial Reporting*". These condensed interim consolidated financial statements follow the same accounting policies and method of computation as the annual Consolidated Financial Statements for the year ended December 31, 2012, except as identified in Note 3. The disclosures provided below are incremental to those included with the annual Consolidated Financial Statements. Certain information and disclosures normally included in the notes to the annual Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual Consolidated Financial Statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS.

The condensed interim consolidated financial statements were approved and authorized for issue by the Company's Board of Directors on August 26, 2013.

3. Changes in Accounting Policies

Future Accounting Changes

As disclosed in the December 31, 2012 annual Consolidated Financial Statements, effective January 1, 2013, the Company adopted, as required, IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 *Joint Arrangements*("IFRS 11"), IFRS 12 *Disclosure of Interest in Other Entities* ("IFRS 12"), IFRS 13 *Fair Value Measurement* ("IFRS 13"), as well as the amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1"), IAS 27 *Separate Financial Statements* ("IAS 27") and IAS 28 *Investments in Associate and Joint Ventures* ("IAS 28").

The Company reviewed its consolidation methodology and determined that the adoption of IFRS 10 did not result in a change in the consolidation status of its subsidiaries and investees. The Company performed a comprehensive review of its interests in other entities and identified no interests that would require different accounting treatment under IFRS 11 or disclosures required under IFRS 12. The Company applied IFRS 13 prospectively as required and there has been no change to the Company's methodology for determining fair value for its financial assets and liabilities and as such, the adoption of IFRS 13 did not result in any measurement adjustments as at January 1, 2013 and it did not result in any additional disclosure in the notes to the condensed interim consolidated financial statements as the carrying value of all of the Company's financial assets and liabilities approximate their fair value. The amendments to IAS 1, IAS 27 and IAS 28 had no impact on the condensed interim consolidated financial statements.

Future Accounting Pronouncements

There were no new or amended standards issued during the six months ended June 30, 2013 that are applicable to the Company in future periods. 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, 2012.

4. Property, Plant and Equipment

$CDN	Oil and Natural Gas Assets	Corporate	Total
Cost			
At December 31, 2011	7,489,806	227,307	7,717,113
Acquired on business combination	16,488,711	41,493	16,530,204
Development capital and corporate additions	11,224,514	27,328	11,251,842
Effect of change in foreign exchange rates	(1,258,989)	(2,907)	(1,261,896)
At December 31, 2012	33,944,042	293,221	34,237,263
Development capital and corporate additions	14,087,042	1,904	14,088,946
Effect of change in foreign exchange rates	(583,597)	(1,683)	(585,280)
At June 30, 2013	**47,447,487**	**293,442**	**47,740,929**

$CDN	Oil and Natural Gas Assets	Corporate	Total
Accumulated depreciation and depletion			
At December 31, 2011	(452,367)	(144,342)	(596,709)
Depreciation and depletion	(1,714,648)	(18,787)	(1,733,435)
Impairment	(2,519,001)	-	(2,519,001)
Effect of change in foreign exchange rates	87,742	2,145	89,887
At December 31, 2012	(4,598,274)	(160,984)	(4,759,258)
Depreciation and depletion	(2,650,330)	(12,800)	(2,663,130)
Effect of change in foreign exchange rates	164,020	1,184	165,204
At June 30, 2013	**(7,084,584)**	**(172,600)**	**(7,257,184)**

$CDN			
Net book value			
At December 31, 2011	7,037,439	82,965	7,120,404
At December 31, 2012	29,345,767	132,237	29,478,004
At June 30, 2013	**40,362,903**	**120,842**	**40,483,745**

PP&E assets consist of costs less depletion, depreciation and impairment of the Company's assets in Argentina and Canada. The amounts capitalized as PP&E assets in Argentina at June 30, 2013 includes $3.3 million of Value Added Tax ("VAT") (December 31, 2012 - $2.4 million). VAT is payable on goods and services supplied to the Company and is not recoverable from the Government of Argentina, however the Company is allowed to retain VAT on any sales that it collects to the extent of the VAT recorded and paid on previous expenditures.

Depletion expense for the six months ended June 30, 2013 included $10.7 million (June 30, 2012 – $9.7 million) for estimated future development costs associated with proved and probable reserves.

At June 30, 2013, the net book value of the Argentinean and Canadian PP&E assets were $12.6 million (December 31, 2012 - $10.9 million) and $27.9 million (December 31, 2012 - $18.6), respectively.

5. Exploration and Evaluation Assets

$CDN	
Cost	
At December 31, 2011	17,338,614
Acquired on business combination	8,455,000
Additions	11,924,453
Effect of change in foreign exchange rates	(1,958,188)
At December 31, 2012	35,759,879
Additions	8,964,600
Effect of change in foreign exchange rates	(935,127)
At June 30, 2013	**43,789,352**

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

The amounts capitalized as Argentina E&E assets at June 30, 2013 before impairment losses included $5.5 million of VAT (December 31, 2012 - $5.6 million). During the six months ended June 30, 2013, share-based payments directly related to exploration and evaluation activities totaling ($6,469) were capitalized (2012 – $22,889).

At June 30, 2013, the net book value of the Argentinean and Canadian E&E assets were $26.9 million (December 31, 2012 - $25.2 million) and $16.9 million (December 31, 2012 - $10.6), respectively.

6. Decommissioning Obligations

$CDN	Six Months ended June 30 2013	Year ended December 31 2012
Balance, beginning of period	3,954,732	330,981
Assumed in business combination	-	3,315,042
Incurred from development activities (Note 4)	156,884	197,912
Accretion expense	71,403	72,822
Revision of estimates	(124,697)	82,780
Obligations settled	(58,950)	-
Effect of change in foreign exchange rates	(20,547)	(44,805)
Balance, end of period	**3,978,825**	3,954,732

The total undiscounted amount of cash flows required to settle Madalena's decommissioning obligations is approximately $6.7 million (December 31, 2012 – $7.0 million) with the majority of the costs to be incurred between 2018 and 2030. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability. Inflation rates of 10.3% and 2% were used to calculate the future value of the undiscounted decommissioning obligations in Argentina and Canada, respectively (December 31, 2012 – 10.8% and 2%). The risk free rate used to discount the liability was 15.10% (December 31, 2012 – 14.66%) in Argentina and 1.0 to 2.45% (December 31, 2012 – 1.0 to 2.45%) in Canada.

7. Share Capital

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

Share Capital

	Number of Shares	**Share Capital $CDN**
Balance at December 31, 2011	260,020,517	77,862,747
Share issuance	54,000,000	67,500,000
Share issuance costs	-	(4,014,574)
Stock options exercised	286,668	328,041
Balance at December 31, 2012	314,307,185	141,676,214
Stock options exercised	2,533,700	913,750
Balance at June 30, 2013	**316,840,885**	**142,589,964**

8. Stock Based Compensation

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

Movements in the number of stock options outstanding and their related weighted average exercise prices are summarized as follows:

Number of share options

$CDN	Number of options	Weighted average exercise price
Outstanding at December 31, 2011	13,977,034	0.57
Granted	9,480,000	0.34
Exercised	(286,668)	0.65
Forfeited	(36,666)	0.74
Expired or cancelled	(800,001)	0.60
Outstanding at December 31, 2012	22,333,699	0.47
Granted	1,260,000	0.41
Exercised	(2,533,700)	0.20
Forfeited	(1,341,670)	0.44
Expired or cancelled	(4,346,664)	0.41
Outstanding at June 30, 2013	**15,371,665**	**0.43**
Exercisable at June 30, 2013	**6,953,332**	**0.56**

9. Related Parties

A director of the Company is a partner of a law firm that provides legal services to the Company. During the six months ended June 30, 2013, the Company incurred fees of $220,009 (2012 - $138,342) from this firm for legal fees.

A director of one of the Company's subsidiaries provides legal and consulting services to the Company. During the six months ended June 30, 2013, the Company incurred fees of $188,748 (2012 - $214,099) for such services.

10. Supplemental Cash Flow Information

Changes in non-cash working capital

$CDN	Six months ended June 30 2013	2012
Trade and other receivables	(1,611,944)	(46,942)
Prepaid expenses and deposits	(194,742)	(350,269)
Inventory	(9,965)	(131,997)
Trade and other payable	(3,088,032)	79,460
Change in non-cash working capital	**(4,904,683)**	(449,748)
Attributable to:		
Operating activities	(514,370)	(284,365)
Financing activities	-	-
Investing activities	(4,390,313)	(165,383)
	4,904,683	(449,748)

11. Commitments

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

Year	**$CDN**
2013	105,000
2014	143,000
2015	8,100
	256,100

Development & Exploration Commitments

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 has a 35% working interest in both the Coiron Amargo Norte and Coiron Amargo Sur portions of the block.

Madalena's remaining share of future development commitments associated with Coiron Amargo Norte as of June 30, 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$ 3.8 million plus VAT remains outstanding as of June 30, 2013). At the end of the current exploration period in the fourth quarter of 2013, Coiron Amargo Sur qualifies for an additional one year extension period whereby the existing exploration period can be extended until November 8, 2014. Madalena and its partners have already initiated the application and approval process related to the Coiron Amargo Sur extension.

In June 2013 the exploration period for Madalena's 90% working interest Curamhuele block was extended by way of an official decree signed by the Province of Neuquén. This one year extension allows Madalena until November 8, 2014 to satisfy the remaining work commitments of approximately US $13.8 million plus VAT on the block providing the Company enhanced financial flexibility. The Company has also retained RBC Capital Markets ("RBC") as its exclusive financial advisor in connection with the Company's assets located within the Neuquén Basin of Argentina and is currently conducting a joint venture process focused on identifying a potential joint venture partner(s) to accelerate exploration and development activities on the Curamhuele block.

On the Cortadera Block in the Province of Neuquén, the joint venture submitted a new proposal during the first quarter of 2013 to formalize a multi-year agreement for the extension of the initial exploration period and inclusion of subsequent exploration periods. Throughout the second quarter, the joint venture has continued to engage in discussions related to a multi-year agreement and has recently agreed upon a work plan for the block. As at June 30, 2013 the Company had incurred cumulative costs of approximately $2.4 million with respect to this block.

In 2012, Online Energy Inc., prior to its acquisition by the Company, issued a flow through share offering. Online renounced $462,450 to the flow-through share subscribers with an effective date of December 31, 2012 and recognized a flow-through share premium liability of $61,660. The Company has until December 31, 2013 to expend the funds on qualified expenditures and as at June 30, 2013, no funds had been expended.

12. Loss Per Share

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

Basic and diluted loss per share

	Three months ended June 30		Six months ended June 30	
$CDN	**2013**	**2012**	**2013**	**2012**
Net loss	(320,306)	(1,847,984)	(2,640,034)	(3,015,349)
Weighted average number of common shares:				
Basic and diluted	316,412,314	314,307,185	315,705,909	294,631,423

All share options were excluded from the preceding calculation of diluted earnings per share as their effect is anti-dilutive.

13. Financial Instruments and Risk Management

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

Market risk

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

Commodity price risk

Price fluctuations for both crude oil and natural gas are determined by world supply and demand factors. Additionally, a significant part of the Company's oil and gas revenue is from an oil property in Argentina. Oil prices in Argentina are subject to domestic market discounts which result in prices significantly below benchmark prices. The Company has the following 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

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 as at June 30, 2013 was a net receivable and an unrealized gain of $24,800 (2012 - $nil). Realized gains as at June 30, 2013 were $5,872 and are included in interest and other income on the statement of loss and comprehensive loss. The commodity contracts are classified as level 2 within the fair value hierarchy.

14. Segmented information

The Company is engaged primarily in the exploration and development of oil and gas. The Company's reportable segments are based on geographic area and comprise Canada and Argentina. The Company's operations in Barbados are not a reportable segment and are included in the Argentina segment because the level of activity in Barbados was not significant at June 30, 2013 and June 30, 2012.

	As at and for six months ended June 30, 2013		
$CDN	**Canada**	**Argentina**	**Total**
Total assets	57,258,769	44,236,523	101,495,292
Total liabilities	(7,740,123)	(4,467,738)	(12,207,861)
Revenues	4,854,831	2,632,166	7,486,997
Loss	(1,384,175)	(1,255,859)	(2,640,034)
Capital expenditures	17,191,714	5,836,668	23,028,382

	As at and for six months ended June 30, 2012		
$CDN	**Canada**	**Argentina**	**Total**
Total assets	63,723,762	41,323,511	105,047,273
Total liabilities	(296,212)	(3,427,403)	(3,723,615)
Revenues	-	771,507	771,507
Loss	(1,917,162)	(1,098,187)	(3,015,349)
Capital expenditures	11,644	12,897,549	12,909,193

15. Subsequent Events

a) On July 11, 2013, the Company raised approximately $7.25 million through the issuance of:

i) 11,765,000 common shares issued as CEE "flow-through shares" at a price of $0.34 by way of "bought deal" private placement; and

ii) 200,000 common shares at a price of $0.31 per share, 4,780,000 common shares issued as CDE "flow-through shares" at a price of $0.32 per share and 4,886,765 common shares issued as CEE "flow-through shares" at a price of $0.34 per share by way of a Non-Brokered Private Placement.

iii) Certain directors and officers of the Company acquired an aggregate of 200,000 common shares and 400,000 CEE "flow-through" shares under the Non-Brokered Private Placement.

The Company has until December 31, 2014 to expend the funds on qualified CEE and CDE expenditures in the amount of $5,661,600 and $1,529,600, respectively.

b) On July 30, 2013, the Company changed its name to Madalena Energy Inc.