Madalena Ventures Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

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This Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is based on information available to August 26, 2013 and should be read in conjunction with Madalena Venture Inc.'s ("Madalena" or the "Company") unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2013 and the accompanying notes as well as the 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 unaudited condensed interim 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

Overview

Madalena is an independent, Canadian-based, international and domestic upstream oil and gas company whose main business activities include exploration, development and production of crude oil, natural gas liquids and natural gas. The Company was focused exclusively on exploration and production operations internationally until late 2012 when the Corporation strategically established domestic exploration and production.

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 unconventional resources in the Lower Agrio, Los Molles and Vaca Muerta shales in addition to tight sand plays in the Mulichinco and Quintuco formations. The three blocks include Coiron Amargo (35,000 net acres), Curamhuele (50,400 net acres) and Cortadera (49,600 net acres). The Company is also developing a conventional light oil play in the Sierras Blancas formation at Coiron Amargo.

Domestically, Madalena's core area of operations is located in the greater Paddle River area of west-central Alberta, Canada where the Company holds over 200 gross (150 net) sections of land encompassing light oil and liquids-rich gas resource plays. Madalena is focused on exploiting a large inventory of horizontal development locations on the Ostracod oil, Mannville Channels (Notikewin / Wilrich formations), and emerging Nordegg resource plays. The Company also has over 100 net sections (100% W.I.) which are prospective for the Duvernay shale predominately within the oil window of the west shale basin.

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 Company has a portfolio of exploration and development opportunities within the Neuquén Basin of Argentina focused on stacked conventional targets, tight sand plays and unconventional shales. 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 (or existing on-the block) 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 unconventional shale plays in addition to various tight sands and conventional zones of interest.

Madalena's Canadian assets were acquired through a strategic acquisition executed on November 1, 2012. Madalena's domestic assets include approximately 150 net sections of land in the greater Paddle River area of west-central Alberta that encompass multiple light oil and liquids-rich gas resource plays. The acquisition of these domestic assets 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 delineate and unlock value from its international unconventional shale assets.

SECOND QUARTER 2013 HIGHLIGHTS

- As at June 30, 2013, the Company continues to maintain a strong balance sheet with a positive working capital of $7.7 million, an unutilized credit facility of $13 million and increasing production levels.
- Post Q2, Madalena supplemented its existing working capital with a $7.25 million equity financing that closed in early July 2013.

International Operations in Second Quarter 2013 - *Neuquen Basin, Argentina*

- 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 as its exclusive financial advisor in connection with the Company's three blocks 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.
- Shot two 3D seismic programs at Coiron Amargo Sur (south portion of the block). The Coiron Amargo block (both north and south regions) now have extensive 3D seismic coverage.
- Work continued on construction of three surface facility components at Coiron Amargo Norte which are anticipated to reduce future operating costs, conserve all produced solution gas and provide the facility operating capacity to bring on additional volumes from planned drilling targeting light oil in both the Vaca Muerta shale and Sierras Blancas formations in 2013 and beyond.
- 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 progress discussions related to a multi-year agreement and has recently agreed upon a work plan for the block.

Domestic Operations in Second Quarter 2013 – *Greater Paddle River Area, Alberta, Canada*

- At Paddle River, two 100% working interest Ostracod horizontal oil wells were equipped with the solution gas tied-in to existing Madalena facilities. These wells produced at restricted rates during the second quarter pending completion of a pipeline twinning project and third party compression upgrades that are currently in the final stages of completion to accommodate increased volumes from these wells and future horizontal development wells in the area.

2013 OPERATIONS UPDATE AND OUTLOOK – INTERNATIONAL AND DOMESTIC

- Operational activity on the Coiron Amargo block in the Neuquen basin, Argentina for the remainder of 2013 involves the drilling of two additional gross wells (CAS.x-14 and CAS.x-15), the drilling of one re-entry horizontal lateral (CAN.xr-2h) into the conventional Sierras Blancas light oil reservoir, and one or two workovers. Except for the **C**ompany's first horizontal in the Sierras Blancas, drilling, completions and workover activities will focus predominantly on unconventional shale delineation in the Vaca Muerta.

- The CAS.x.14 vertical well in the southern portion of the Coiron Amargo block has recently finished drilling and has now been cased with approximately 105 meters of Vaca Muerta shale on logs. Completion activities on this well are expected to commence as part of a program of numerous Vaca Muerta zone completions after the CAS.x-15 well is drilled in the fourth quarter of 2013.
- On the *Cortadera* block, the Company plans to re-enter the CorS.X-1 well to conduct re-entry work to evaluate an uphole zone of interest in the wellbore. Re-entry operations at CorS.X-1 are planned to commence in the fourth quarter.
- In Canada, in support of the Company's plan to recommence drilling operations in the greater Paddle River area subsequent to spring break-up, Madalena conducted upfront survey, permitting and in some cases road and lease preparation work associated with additional horizontal development locations on the Company's multiple resource plays.
- The Company continues to develop its Ostracod oil project with one additional 100% working interest Ostracod horizontal well currently being drilled from an existing pad site that will benefit from its close proximity to the newly built pipeline and third party compression upgrades in the area.
- At Wildwood, the Company plans to re-commence its evaluation operations of its Nordegg horizontal well as soon as road and lease conditions permit.

SUMMARY FINANCIAL AND OPERATIONAL RESULTS

	Three months ended June 30		**Six months ended June 30**	
$CDN	**2013**	2012	**2013**	2012
Financial				
Oil and gas revenue	**3,877,254**	374,734	**7,486,997**	771,507
Net loss	**(320,306)**	(1,847,894)	**(2,640,034)**	(3,015,349)
Per share – basic and diluted	**(0.00)**	(0.01)	**(0.01)**	(0.01)
Capital expenditures	**6,053,500**	6,217,529	**23,028,382**	12,909,193
Working capital	**7,780,138**	63,260,017	**7,780,138**	63,260,017
Equity outstanding				
Common shares	**316,840,885**	314,307,185	**316,840,885**	314,307,185
Stock options	**15,371,665**	16,323,699	**15,371,665**	16,323,699
Operating				
Average Daily Production				
Crude oil and condensate – Bbls/d	**297**	66	**307**	64
Natural gas – Mcf/d	**3,491**	-	**3,086**	-
NGLs – Bbls/d	**140**	-	**125**	-
Total - boe /d[(1)]	**1,020**	66	**946**	64
Average Sales Prices				
Crude oil and condensate - $/Bbl	**78.77**	76.64	**78.70**	76.92
Natural gas - $/Mcf	**3.57**	-	**3.45**	-
NGLs - $/Bbl	**47.91**	-	**52.66**	-
Total - $/boe[(1)]	**41.80**	76.64	**43.72**	76.92
Operating Netbacks				
$/boe[(1)]	**13.71**	9.57	**14.47**	4.34

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

FINANCIAL RESULTS

Net Loss and Comprehensive Loss

$CDN	Three months ended June 30 2013	2012	Six months ended June 30 2013	2012
Net loss	**(320,306)**	(1,847,894)	**(2,640,034)**	(3,015,349)
Comprehensive income (loss)	**(949,978)**	(2,353,821)	**(4,037,712)**	(2,151,620)
Net loss Per share – basic & diluted	**(0.01)**	(0.01)	**(0.01)**	(0.01)

The net loss for the three months ended June 30, 2013 (the "Quarter") was $0.3 million (2012 – $1.8 million). The establishment of the Canadian operations resulted in increased revenues which were offset by increased royalties, operating costs and depletion. The net loss for the six months ended June 30, 2013 ("YTD") was $2.6 million (2012 – $3.0 million). The establishment of the Canadian operations resulted in increased revenues which were offset by increased royalties, operating costs and depletion, while increased general and administrative costs were related to severance payments. During the Quarter and YTD, the Company realized a gain of $1.2 million (2012 – nil) that was recorded in foreign exchange (gain) loss. These gains were a result of beneficial exchange rates between the Argentine peso and the Canadian dollar that existed in the market at the time of funding the Argentina exploration and development activity from Canada.

The increase in the comprehensive loss compared to the net loss was a result of the changes in the Argentine peso to Canadian dollar exchange rate applied to the net assets of the Company's operations in Argentina. During the three and six months ended June 30, 2013, the Argentine peso weakened against Canadian dollar. The foreign currency translation adjustment for the Quarter and YTD was ($0.6 million) (2012 – ($.5 million)) and ($1.4 million) (2012 – $0.9 million), respectively.

Production

Average daily production	Three months ended June 30 2013	2012	Six months ended June 30 2013	2012
Argentina				
Crude oil (Bbls/d)	**178**	66	**177**	64
Natural gas (Mcf/d)	**146**	-	**140**	-
Total daily production (boe/d)	**203**	66	**201**	64
Canada				
Crude oil and condensate (Bbls/d)	**119**	-	**130**	-
Natural gas (Mcf/d)	**3,345**	-	**2,946**	-
Natural gas liquids (Bbls/d)	**140**	-	**125**	-
Total daily production (boe/d)	**817**	-	**745**	-
Corporate				
Total daily production (boe/d)	**1,020**	66	**946**	64
% Oil & NGLs	**43%**	100%	**45%**	100%

Neuquen Basin, Argentina

The Company produced oil, with a small amount of solution gas, from seven wells (2.5 net) in the Coiron Amargo

Norte block. Increased oil production in Argentina was predominately a result of production from the CAN 5 and CAN 7 wells which commenced production in July 2012 and the CAN 8 well which commenced production in February 2013.

Canada

Production from the Canadian operations for the Quarter was a result of the strategic domestic acquisition made on November 1, 2012. The Company had 13 (8.5 net) producing oil wells and 24 (17.5 net) producing gas wells as at June 30, 2013. Production during the Quarter increased to 817 boe/d (32% Oil & NGLs) from 673 boe/d (37% Oil & NGLs) in the first quarter of 2013. The increase was primarily a result of the Niton gas well which commenced production in March 2013.

Average Realized Prices

	Three months ended June 30		Six months ended June 30	
$CDN	**2013**	**2012**	**2013**	**2012**
Argentina				
Crude oil – ($/Bbl)	**75.87**	76.64	**78.65**	76.92
Natural gas – ($/Mcf)	**4.36**	-	**4.22**	-
Total per boe	**69.90**	76.64	**72.44**	76.92
Canada				
Crude oil and condensate – ($/Bbl)	**83.09**	-	**78.77**	-
Natural gas – ($/Mcf)	**3.54**	-	**3.41**	-
Natural gas liquids ($/Bbls)	**47.91**	-	**52.66**	-
Total per boe	**34.84**	76.64	**35.99**	76.92

During 2012, the Company did not have any physical natural gas and oil contracts in place. The Company has the following physical natural gas and oil contracts in place:

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).

Revenue

$CDN	Three months ended June 30 2013	2012	Six months ended June 30 2013	2012
Argentina				
Crude oil	**1,230,366**	374,734	**2,525,023**	771,507
Natural gas	**57,910**	-	**107,143**	-
	1,288,276	374,734	**2,632,166**	771,507
Canada				
Crude oil and condensate	**901,843**	-	**1,846,293**	-
Natural gas	**1,077,158**	-	**1,819,597**	-
Natural gas liquids	**609,977**	-	**1,188,941**	-
	2,588,978	-	**4,854,831**	-
Total	**3,877,254**	374,734	**7,486,997**	771,507
Per boe	**41.80**	76.64	**43.72**	76.92

Neuquen Basin, Argentina

Oil sales increased to 178 boe/d in the Quarter from 66 boe/d in the corresponding period in 2012 as a result of production from three (1.1 net) new wells - the CAN 5 and CAN 7 wells went on-stream in July 2012 and the CAN 8 well commenced production in February 2013. YTD oil sales increased to 177 boe/d from 64 boe/d in the corresponding period last year as a result of production from three (1.1 net) new wells - the CAN 5 and CAN 7 wells went on-stream in July 2012 and the CAN 8 well commenced production in February 2013.

Canada

Petroleum, natural gas and natural gas liquid sales from the Canadian operations for the Quarter and YTD were a result of the acquisition of Online on November 1, 2012. Prior thereto, there were no Canadian operations. Total sales in the Quarter were $2.6 million (compared to $2.3 million in the first quarter of 2013) and YTD were $4.8 million. The increase was a result of the Niton gas well commencing production in March 2013.

Royalties

$CDN	Three months ended June 30 2013	2012	Six months ended June 30 2013	2012
Argentina				
Royalties	**224,594**	56,736	**433,926**	126,536
As % of revenue from Argentina	**17.4%**	15%	**16.5%**	16%
Canada				
Royalties	**237,367**	-	**553,484**	-
As % of revenue from Canada	**9.2%**	-	**11.4%**	-
Corporate total	**461,961**	56,736	**987,410**	126,536

Neuquen Basin, Argentina

Royalty expense in the Quarter and YTD increased due to higher production volumes.

Canada

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. For the Quarter, royalties were 9.2% of revenues and YTD were 11.4% of revenues. There were no operations in Canada for the comparative period in 2012; however, first quarter 2013 royalties were $276,012 or 14% of first quarter sales. The lower royalty rate in the Quarter compared to the first quarter in 2013 was a result of the lower royalty rate on the Niton gas well, which is subject to a 5% royalty rate pursuant to the Alberta New Well Royalty Regulation and the Emerging Resource and Technologies Initiative.

Operating Costs

	Three months ended June 30		Six months ended June 30	
$CDN	**2013**	**2012**	**2013**	**2012**
Argentina				
Operating costs	**745,107**	271,208	**1,431,707**	601,364
Per boe	**40.43**	55.47	**39.40**	59.96
Canada				
Operating costs	**1,398,091**	-	**2,589,194**	-
Per boe	**18.81**	**-**	**19.19**	-
Corporate total	**2,143,198**	271,208	**4,020,901**	601,364

Operating costs in Argentina were $40.43 and 39.40 per boe in the Quarter and YTD, respectively as work continued on the optimization of surface fluid handling facilities. In 2012, operating costs in Argentina were negatively impacted by unscheduled maintenance at CAN X-2, completion of necessary road works, adjustment to surface rental rates payable to private land owners and higher transportation costs.

In Canada, operating costs were $18.81 per boe during the Quarter and $19.19 per boe for the YTD compared to $19.66 per boe during the first quarter of 2013. One of the Company's business objectives is to reduce per boe operating costs through successful drilling activities that add production from high-deliverability horizontal with lower per boe operating costs. With Madalena's recent entry into the domestic E&P sector in Canada in late 2012, the Company has just begun horizontal development work from on its multiple light oil and liquids-rich resource plays and expects to steadily reduce per boe operating costs as future drilling programs are executed.

Netbacks [1]

$ CDN per boe	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Argentina				
Revenue	**69.90**	76.64	**72.44**	76.92
Royalties	**(12.19)**	(11.60)	**(11.94)**	(12.62)
Operating expenses	**(40.43)**	(55.47)	**(39.40)**	(59.96)
Netbacks	**17.28**	9.57	**21.10**	4.34
Canada				
Revenue	**34.84**	-	**35.99**	-
Royalties	**(3.19)**	-	**(4.10)**	-
Operating expenses	**(18.81)**	-	**(19.19)**	-
Netbacks	**12.84**	-	**12.69**	-
Corporate				
Revenue	**41.80**	76.64	**43.72**	76.92
Royalties	**(4.98)**	(11.60)	**(5.77)**	(12.62)
Operating expenses	**(23.11)**	(55.47)	**(23.48)**	(59.96)
Netbacks	**13.71**	9.57	**14.47**	4.34

(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.

General and Administration ("G&A") Expenses

$CDN	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Argentina	**311,614**	427,332	**633,893**	722,301
Canada	**787,658**	787,591	**2,413,108**	1,225,966
	1,099,272	1,214,923	**3,047,001**	1,948,267

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 the establishment of the Canadian operations and severance payments paid to a former officer.

Accretion

In Argentina, accretion expense was $17,395 (2012 – $16,005) for the Quarter and $37,403 (2012 – $29,031) YTD. In Canada, accretion expense was $17,000 (2012 - $nil) for the Quarter and were $34,000 (2012 - $nil) YTD.

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 was $0.3 million in the Quarter (2012 - $0.7 million) and $0.4 million YTD (2012 - $1.0 million).

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. For the Quarter and YTD, the Company capitalized $(11,811) (2012 - $11,043) and $(6,469) (2012 - $22,889) of share based compensation to exploration and evaluation assets, respectively.

Depletion and Depreciation

	Three months ended June 30		Six months ended June 30	
$CDN	**2013**	**2012**	**2013**	**2012**
Argentina	**530,120**	71,602	**1,047,953**	149,765
Canada	**886,200**	3,200	**1,632,800**	5,700
	1,416,320	74,802	**2,680,753**	155,365

In Argentina, depletion and depreciation expense for the Quarter and YTD increased due to higher depletion rates and increased production from Coiron Amargo Norte. In Canada, depletion and depreciation expense for the Quarter and YTD was a result of the acquisition of Online.

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 $25,009 (2012 - $43,587) and $220,099 (2012 - $138,342), respectively, from this firm for legal fees related to legal matters of which $35,384 is included in accounts payable and accrued liabilities at June 30, 2013.

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 $188,748 (2012 - $14,099 for the comparative Quarter and $214,099 for the comparative YTD).

Property, Plant & Equipment Additions

	Three months ended June 30		Six months ended June 30	
$CDN	**2013**	**2012**	**2013**	**2012**
Argentina				
Land	**273,947**	**-**	**273,947**	**-**
Geological and geophysical	**-**	**-**	**2,291**	**-**
Drilling and completions	**831,187**	2,244,893	**1,807,299**	3,055,328
Well equipment and facilities	**108,099**	1,591,590	**108,099**	2,398,994
Other	**535,137**	903,171	**922,636**	1,240,975
Argentina Total	**1,748,370**	4,739,653	**3,114,272**	6,695,297
Canada				
Geological and geophysical	**7,405**	-	**7,405**	-
Drilling and completions	**902,276**	-	**8,393,909**	-
Well equipment and facilities	**1,262,859**	-	**2,287,766**	-
Other	**34,471**	1,822	**128,688**	11,644
Canada total	**2,207,011**	1,822	**10,817,788**	11,644
Corporate total	**3,955,381**	4,741,476	**13,932,060**	6,706,941

For the Quarter, capital expenditures for property, plant and equipment were $4.0 million (2012 - $4.7 million) and YTD were $13.9 million (2012 - $6.7 million). In Argentina, work continued on construction of three surface facility components at Coiron Amargo Norte which are anticipated to reduce future operating costs, conserve all produced solution gas and provide the facility operating capacity to bring on additional volumes from planned drilling targeting the Vaca Muerta shale and Sierras Blancas formations in 2013 and beyond.

Canadian activity during the Quarter included the equipping, with the solution gas tied-in to existing Madalena facilities, of the two 100% working interest Ostracod horizontal oil wells drilled and completed in the first quarter of 2013 at Paddle River.

Exploration and Evaluation Asset Additions

	Three months ended June 30		Six months ended June 30	
$CDN	**2013**	**2012**	**2013**	**2012**
Argentina				
Geological and geophysical	**1,150,409**	79,899	**1,155,117**	309,152
Land acquisitions	**129,337**	577,493	**132,386**	577,493
Drilling and completions	**532,183**	602,171	**1,338,306**	4,556,725
Well equipment and facilities	**(10,266)**	-	**128,707**	(5,684)
Other	**27,683**	216,490	**(32,120)**	764,566
Argentina Total	**1,829,346**	1,476,053	**2,722,396**	6,202,252
Canada				
Geological and geophysical	**9,657**		**9,657**	
Land acquisitions	**47,072**	-	**113,637**	-
Drilling and completions	**84,868**	-	**5,711,449**	**-**
Well equipment and facilities	**122,022**	-	**493,478**	**-**
Other	**5,152**	-	**45,705**	**-**
Canada total	**268,772**	-	**6,373,926**	-
Corporate total	**2,098,118**	1,476,053	**9,096,322**	6,202,252

Capital expenditures for exploration and evaluation assets were $2.1 million for the Quarter and $9.1 YTD compared to $1.5 million and $6.2 million for the respective corresponding periods in 2012. Argentine expenditures were $1.8 million (2012 -$1.5 million) and $2.7 million (2012 - $6.2 million) for the Quarter and YTD, respectively. Canadian expenditures were $0.3 million (2012 - nil) and $6.4 million (2012 – nil) for the Quarter and YTD, respectively. At the Company’s Nordegg project at Wildwood, capital expenditures were $0.2 million and $6.3 million for the Quarter and YTD, respectively. The Company plans to re-commence evaluation operations when road and lease conditions permit.

In Argentina, Madalena shot two 3D seismic programs at Coiron Amargo Sur and executed a workover of the CAS.X-1 vertical well in the Vaca Muerta shale.

In Canada, second quarter activity was minimal due to spring break-up and an extended wet weather season.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity, working capital and shareholders' equity

$CDN	June 30 2013	December 31 2012
Working capital	**7,780,138**	30,025,431
Shareholders' equity	**89,287,431**	92,385,634

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 June 30, 2013, the Company had a credit facility with the National Bank of Canada consisting of a revolving operating demand loan to a maximum of $10 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 Canadian petroleum and natural gas assets of the Company. The facility includes a working capital ratio covenant, whereby the Company's working capital deficiency (excluding any unrealized hedging gains or losses) may not exceed $10 million. In addition, Madalena has an acquisition / development demand loan to a maximum of $3 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 and the next review is scheduled on or before September 1, 2013. The facility was unutilized at June 30, 2013.

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 current scheduled review is completed.

Share capital issued and options granted

Outstanding Share Capital

During the Quarter, a total of 750,000 shares were issued pursuant to the exercise of stock options for proceeds of $157,500. YTD a total of 2,533,700 shares were issued pursuant to the exercise of stock options for proceeds of $502,289. As of June 30, 2013, the Company had 316.8 million common shares, and 15.4 million stock options outstanding.

On July 11, 2013, the Company issued 21,631,765 shares and 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 a "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.

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.

Since June 30, 2013, a total of 50,000 shares have been issued pursuant to the exercise of stock options for proceeds of $10,500. As of August 26, 2013, the Company has 338.5 million common shares outstanding.

Financial Instruments

Financial instruments comprise cash and cash equivalents, trade and other receivables, and trade and other payables. 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 $2.1 million. The majority of the costs are expected to be incurred between 2023 and 2025. An inflation rate of 10.3% was used to calculate the future value of the undiscounted decommissioning obligations. At June 30, 2013, the decommissioning obligations of $0.5 million have been discounted using a discount rate of 15.1%.

Canada
The total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $4.7 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 June 30, 2013, the decommissioning obligations of $3.5 million have been discounted using a discount rate ranging from 1.0% to 2.45%.

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 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.

Cortadera 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.

Curamhuele Block

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.

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.

ANNUAL AND QUARTERLY FINANCIAL RESULTS

Quarterly Financial Results

$CDN except shares outstanding	**Q2 2013**	**Q1 2013**	**Q4 2012**	**Q3 2012**
Revenues	**3,877,254**	3,609,743	3,011,804	1,761,983
Net loss	**(320,306)**	(2,319,727)	(5,075,119)	(916,185)
Shares outstanding ('000s)	**316.8**	316,091	314,307	314,307
Net loss per share – basic and diluted	**(0.00)**	(0.01)	(0.02)	(0.0)

	Q2 2012	**Q1 2012**	**Q4 2011**	**Q3 2011**
Revenues	374,734	396,773	609,340	619,178
Net loss	(1,847,984)	(1,167,365)	(1,585,520)	(315,915)
Shares outstanding ('000s)	314,307	314,307	260,021	260,021
Net loss per share – basic and diluted	(0.01)	(0.0)	(0.01)	(0.0)

Generally, the Company's increase in revenues during 2013 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 the last three quarters of 2011 was a result of decreased oil production in early 2012.

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

The Company issued 54 million shares during Q1-2012 at a price of $1.25 per share.

CRITICAL ACCOUNTING JUDGEMENTS, 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 2012 annual MD&A.

Management is required to make judgments, estimates and assumptions in the application of accounting policies that could have a significant impact on our 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 and annual MD&A for the year ended December 31, 2012.

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 annual and interim Consolidated Financial Statements and accompanying notes. On January 1, 2013, as required, the Company adopted the standards related to joint arrangements, consolidations and associates. See discussion below under Changes in Accounting Policies for details. Further information on Management's critical accounting judgments in applying accounting policies can be found in the notes to the Consolidated Financial Statements and annual MD&A for the year ended December 31, 2012.

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 2013, there have been 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 and annual MD&A for the year ended December 31, 2012.

Changes in Accounting Policies

As disclosed in the June 30, 2013 unaudited condensed interim consolidated financial statements, 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. 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 and MD&A for the year ended December 31, 2012.

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 2012 annual MD&A.

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. Actively managing these risks improves the Company's ability to effectively execute its business strategy. 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, 2012. For a further and more in-depth discussion of our risk management see the Company's annual MD&A for the year ended December 31, 2012.

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 our Annual Information Form for the year ended December 31, 2012.

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.

Reserves and Other Oil and Gas Disclosure

Any references in this news release to test rates, flow rates, initial and/or final raw test or production rates, early production, test volumes behind pipe and/or "flush" production rates are useful in confirming the presence of hydrocarbons, however, such rates are not necessarily indicative of long-term performance or of ultimate recovery. Such rates may also include recovered "load" fluids used in well completion stimulation. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Madalena. In addition, the Vaca Muerta shale is an unconventional resource play which may be subject to high initial decline rates.

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		