Madalena Ventures Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE PERIOD THREE MONTHS ENDED MARCH 31, 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 May 27, 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 month period ended March 31, 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.

Madalena Ventures Inc.

INTRODUCTION AND OVERVIEW

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 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, 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 its conventional oil play in the Sierras Blancas formation.

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’s focused on exploiting a large inventory of horizontal development locations across key resource plays in the Ostracod oil, Mannville Channel Trends (Notikewin / Wilrich formations), and emerging Nordegg. 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 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 unconventional shale plays in addition to various tight sand and conventional zones of interest.

Madalena’s Canadian assets were strategically acquired through the acquisition of Online Energy Inc. (“Online”) 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 move forward and delineate its international unconventional assets.

FIRST QUARTER 2013 HIGHLIGHTS AND 2013 CAPITAL BUDGET

- Madalena continues to maintain a strong financial position with positive working capital, no bank debt and increasing production levels. The Company has established, and the Board of Directors has approved, a $34 million capital budget for 2013 of which $17 million was spent in the first quarter. This budget will be funded from existing working capital, cash flow from operations and the Company's bank lines of credit. For the remainder of 2013, Madalena anticipates drilling 6 to 7 additional gross wells, executing multiple re-entries and workovers, and conducting seismic activity. Operations for the balance of 2013 will be primarily focused on a combination of unconventional shale drilling internationally and horizontal development drilling domestically.

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

- Completed the CAN-8 well at Coiron Amargo Norte in the Sierras Blancas formation with initial production from the well commencing in February 2013. The CAN-8 well was placed on production after perforating the Sierras Blancas without any fracture stimulation. The well is currently producing approximately 150 boe/d (53 boe/d net). This well may be stimulated in the Sierras Blancas in the future and also has approximately a 340 foot (104 meter) thick section of unconventional Vaca Muerta shale.
- 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.
- At Coiron Amargo Sur, drilled and cased the CAS X-5 exploration well which confirmed the high quality of Vaca Muerta shale on the block. The CAS X-5 location encountered approximately 325 feet (100 meters) of Vaca Muerta shale on logs with an average total organic content of over 4% and an average of 7% porosity in the lower Vaca Muerta.
- In March 2013, Madalena and its partners commenced the first of multiple planned workovers at Coiron Amargo through 2013 to optimize current field production. A successful cement squeeze, perforation and fracture stimulation was conducted on the CAN X-3 well to enhance oil recoveries in the Sierras Blancas light oil formation. After completing the workover, CAN X-3 was put back on stream in late March at over 115 bbls/d (40 bbls/d net) which represents a significant increase from the pre-workover level of 25 bbls/d (9 bbls/d net).

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

Domestically, Madalena continued its planned horizontal development program focused on production growth from its light oil and liquids-rich resource plays. During the first quarter, execution work on four 100% working interest horizontal multi-stage fraced wells was carried out with progress made on three key resource plays as follows:

- At Niton, completed and tied-in a liquids-rich Notikewin horizontal gas well which was placed on production in early March averaging a pro-rated 345 boe/d (14% NGLs) for the month.
- At Paddle River, drilled and completed two additional Ostracod horizontal oil wells during the first quarter. In May 2013, both wells were subsequently equipped with the solution gas tied-in to existing Madalena facilities and are producing at restricted rates pending completion of a pipeline twinning project and third party compression upgrades currently underway to accommodate increased volumes from these wells and future horizontal development in the area.
- At Wildwood, drilled and subsequently initiated completion and evaluation on a Nordegg horizontal well. With the onset of spring break-up the Company temporarily shut-down operations on this location with plans to re-commence evaluation operations post break-up when road and lease conditions permit.

- 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.

SUMMARY FINANCIAL AND OPERATIONAL RESULTS

$CDN	**Three months ended March 31**	
	2013	2012
Financial		
Oil and gas revenue	**3,609,743**	396,773
Net loss	**(2,319,727)**	(1,167,365)
Per share – basic and diluted	**(0.01)**	-
Capital expenditures	**16,974,882**	6,691,664
Working capital	**12,364,101**	70,593,691
Equity outstanding		
Common shares	**316,090,885**	314,307,185
Stock options	**20,696,663**	13,690,366
Operating		
Average Daily Production		
Crude oil and condensate – Bbls/d	**316**	62
Natural gas – Mcf/d	**2,677**	-
NGLs – Bbls/d	**109**	-
Total - boe /d[(1)]	**872**	62
Average Sales Prices		
Crude oil and condensate - $/Bbl	**78.63**	77.19
Natural gas - $/Mcf	**3.29**	-
NGLs - $/Bbl	**58.79**	-
Total - $/boe[(1)]	**45.99**	77.19
Operating Netbacks		
$/boe[(1)]	**15.37**	(0.62)

(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 March 31	
	2013	2012
Net loss	**(2,319,727)**	(1,167,365)
Comprehensive income (loss)	**(3,087,734)**	202,201
Net loss Per share – basic & diluted	**(0.01)**	-

The net loss for the three months ended March 31, 2013 (the "Quarter") was $2.3 million (2012 – $1.2 million) primarily as a result of increased general and administrative costs resulting from the establishment of the Canadian operations, severance payments and non-cash charges relating to depletion and depreciation and stock based compensation.

Production

	Three months ended March 31	
Average daily production	**2013**	2012
Argentina		
Crude oil (Bbls/d)	**177**	62
Natural gas (Mcf/d)	**134**	-
Total daily production (boe/d)	**199**	62
Canada		
Crude oil and condensate (Bbls/d)	**140**	-
Natural gas (Mcf/d)	**2,543**	-
Natural gas liquids (Bbls/d)	**109**	-
Total daily production (boe/d)	**673**	-
Corporate		
Total daily production (boe/d)	**872**	62
% Oil & NGLs	**49%**	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 acquisition of Online on November 1, 2012. The Company had 12 (7.5 net) producing oil wells and 24 (17.5 net) producing gas wells as at March 31, 2013. Production during the Quarter increased to 673 boe/d (37% Oil & NGLs) from 417 boe/d (50% Oil & NGLs) in the fourth quarter of 2012. The increase was primarily a result of the Niton gas well commencing production in March 2013 and the fourth quarter of 2012 production consisting of just the 61 days from the date of the acquisition of Online.

Pricing

Average Realized Prices	Three months ended March 31 2013	2012
Argentina		
Crude oil – ($/Bbl)	**81.48**	77.19
Natural gas – ($/Mcf)	**4.07**	-
Total per boe	**75.06**	77.19
Canada		
Crude oil and condensate – ($/Bbl)	**75.04**	-
Natural gas – ($/Mcf)	**3.24**	-
Natural gas liquids ($/Bbls)	**58.79**	-
Total per boe	**37.40**	77.19

During 2012, the Company did not have any physical natural gas and oil contracts in place. During the Quarter, 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

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 March 31, 2013 was a net liability and an unrealized loss of $65,114 (2012 - $nil).

Revenue

$CDN	Three months ended March 31 2013	2012
Argentina		
Crude oil	**1,294,657**	396,773
Natural gas	**49,233**	-
	1,343,890	396,773
Canada		
Crude oil and condensate	**944,450**	-
Natural gas	**742,440**	-
Natural gas liquids	**578,963**	-
	2,265,853	-
Total	**3,609,743**	396,773
Per boe	**45.99**	77.19

Neuquen Basin, Argentina

Oil sales increased to 177 bopd in the Quarter from 56 bopd 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.

Canada

Petroleum, natural gas and natural gas liquid sales from the Canadian operations for the Quarter were a result of the acquisition of Online on November 1, 2012. Prior thereto, there were no Canadian operations. Total sales were $2.3 million compared to $1.6 million in the fourth quarter of 2012. The increase was a result of the Niton gas well commencing production in March 2013 and the fourth quarter of 2012 sales consisting of just 61 days of production.

Royalties

$CDN	Three months ended March 31	
	2013	**2012**
Argentina		
Royalties	**209,332**	69,800
As % of revenue from Argentina	**16%**	18%
Canada		
Royalties	**316,117**	-
As % of revenue from Canada	**14%**	-
Corporate total	**525,449**	69,800

Neuquen Basin, 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.

Canada

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. For the Quarter, royalties were 14% of revenues. There were no operations in Canada for the comparative period in 2012; however, fourth quarter royalties were $276,012 or 18% of fourth quarter sales. The lower royalty rate in the Quarter compared to the fourth quarter in 2012 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

$CDN	Three months ended March 31	
	2013	**2012**
Argentina		
Operating costs	**686,600**	330,156
Per boe	**38.35**	64.23
Canada		
Operating costs	**1,191,103**	-
Per boe	**19.66**	-
Corporate total	**1,877,703**	330,156

Operating costs in Argentina were $38.35 per boe in the Quarter 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 $19.66 per boe during the Quarter compared to $28.34 per boe during the fourth quarter of 2012. One of the Company's business objectives is to reduce per boe operating costs through successful drilling activities that add production from high-deliverability wells 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 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)

	Three months ended March 31	
$ CDN per boe	**2013**	**2012**
Argentina		
Revenue	**75.06**	77.19
Royalties	**(11.69)**	(13.58)
Operating expenses	**(38.35)**	(64.23)
Netbacks	**25.02**	(0.62)
Canada		
Revenue	**37.40**	-
Royalties	**(5.22)**	-
Operating expenses	**(19.66)**	-
Netbacks	**12.52**	-
Corporate		
Revenue	**45.99**	77.19
Royalties	**(6.70)**	(13.58)
Operating expenses	**(23.93)**	(64.23)
Netbacks	**15.37**	(0.62)

(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 March 31	
	2013	**2012**
Argentina	**322,279**	294,969
Canada	**1,625,450**	438,375
	1,947,729	733,344

The Company currently has three full-time employees in Argentina and eight 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 retiring management.

Finance Cost

Finance cost consists of accretion of the decommissioning obligations which were $20,008 (2012 – $13,026) for the Quarter for Argentina and $17,000 (2012 - $nil) for the Quarter 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 was $0.2 million in the Quarter (2012 - $0.3 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, the Company capitalized $5,342 (2012 - $11,846) of share based compensation to exploration and evaluation assets.

Depletion and Depreciation

$CDN	Three months ended March 31	
	2013	**2012**
Argentina	517,833	80,563
Canada	746,600	-
	1,264,433	80,653

In Argentina, depletion and depreciation expense for the Quarter increased due to higher depletion rates and increased production from Coiron Amargo Norte. In Canada, depletion and depreciation expense of $0.7 million for the Quarter 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, the Company incurred fees of $0.2 million (2012 - $0.1 million) from this firm for legal fees related to legal matters, of which $0.2 million (2012 - $nil) is included in accounts payable and accrued liabilities at March 31, 2013.

A director of one of the Company's subsidiaries provides legal and consulting services to the Company. During the Quarter, the Company incurred fees of $nil (2012 - $0.2 million).

Property, Plant & Equipment Additions

$CDN	Three months ended March 31	
	2013	**2012**
Argentina		
Geological and geophysical	**2,291**	-
Drilling and completions	**976,112**	810,435
Well equipment and facilities	**-**	807,403
Other	**387,499**	337,804
Argentina Total	**1,365,902**	1,955,642
Canada		
Drilling and completions	**7,491,633**	-
Well equipment and facilities	**1,024,927**	
Other	**94,217**	9,822
Canada total	**8,610,777**	9,822
Corporate total	**9,976,679**	1,965,464

For the Quarter, capital expenditures were $10.0 million (2012 - $2.0 million). In Argentina, the Company completed the CAN 8 at Coiron Amargo Norte and the well went on-stream in February 2013.

Canadian activity during the Quarter included the drilling and completion of two additional 100% working interest Paddle River horizontal Ostracod oil wells and the completion and tie-in of the Niton horizontal Notikewin gas well. During the fourth quarter of 2012, property, plant and equipment additions were $19.0 million including the Online business combination of $16.5 million and drilling and completion costs of $2.5 million.

Exploration and Evaluation Asset Additions

$CDN	Three months ended March 31	
	2013	**2012**
Argentina		
Geological and geophysical	**4,708**	229,253
Land acquisitions	**3,049**	-
Drilling and completions	**806,123**	3,954,555
Well equipment and facilities	**138,973**	(5,684)
Other	**(59,803)**	548,076
Argentina Total	**893,050**	**4,726,200**
Canada		
Land acquisitions	**66,565**	-
Drilling and completions	**5,626,579**	**-**
Well equipment and facilities	**371,456**	**-**
Other	**40,553**	**-**
Canada total	**6,105,153**	-
Corporate total	**6,998,203**	4,726,200

Capital expenditures increased to $7.0 million for the Quarter compared to $4.7 million for the corresponding period in 2012.

In Argentina, Madalena drilled and cased the CAS X-5 exploration well at Coiron Amargo Sur.

In Canada, the Company completed drilling its 100% working interest horizontal well at Wildwood and subsequently initiated completion and evaluation of the well during the Quarter. The arrival of break-up resulted in the suspension of completion and testing operations. The Company anticipates further testing operations subsequent to spring break-up.

During the fourth quarter of 2012, Canadian exploration and evaluation asset additions were $10.6 million including the Online business combination of $8.5 million and drilling costs of $2.1 million.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity, working capital and shareholders' equity

$CDN	March 31 2013	December 31 2012
Working capital	**12,364,101**	30,025,431
Shareholders' equity	**89,797,842**	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 March 31, 2013, the Company's wholly owned subsidiary, Online 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 and the next review, which was scheduled on or before May 1, 2013, is currently underway. The facility was unutilized at March 31, 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.

The Company's 2013 capital budget of $34 million, of which $17 was spent during the Quarter, will be funded from its existing working capital of $12.4 million, cash flow from operations and bank lines of credit.

Share capital issued and options granted

Outstanding Share Capital

During the three months ended March 31, 2013, a total of 1,783,700 shares were issued pursuant to the exercise of stock options for proceeds of $344,789. As of March 31, 2013, the Company had 316.1 million common shares, and 20.7 million stock options outstanding.

Since March 31, 2013, a total of 250,000 million shares have been issued pursuant to the exercise of stock options for proceeds of $52,500. As of May 27, 2013, the Company has 316.3 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 $2.2 million. The majority of the costs are expected to be incurred between 2023 and 2025. An inflation rate of 10.6% was used to calculate the future value of the undiscounted decommissioning obligations. At March 31, 2013, the decommissioning obligations of $0.5 million have been discounted using a discount rate of 14.1%.

Canada
The total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $4.6 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 March 31, 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 (Madalena, Apco Oil & Gas International and Roch SA) 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 as of March 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 as of March 31, 2013). 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

On the Cortadera Block in the Province of Neuquén the joint venture (Madalena and Apache Corporation) submitted a new proposal during the first quarter of 2013 to formalize an extension of the initial exploration period and subsequent exploration periods based on a proposed work plan for the block. The joint venture is currently working towards approval of an agreed upon work program for the block. As at March 31, 2013 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 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

Quarterly Financial Results

CDN$ except shares outstanding	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Revenues	**3,609,743**	3,011,804	1,761,983	374,734
Net loss	**(2,319,727)**	(5,075,119)	(916,185)	(1,847,984)
Shares outstanding ('000s)	**316,091**	314,307	314,307	314,307
Net loss per share – basic and diluted	**(0.01)**	(0.02)	(0.0)	(0.01)

	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Revenues	396,773	609,340	619,178	807,497
Net loss	(1,167,365)	(1,585,520)	(315,915)	(12,490,603)
Shares outstanding ('000s)	314,307	260,021	260,021	259,996
Net loss per share – basic and diluted	(0.0)	(0.01)	(0.0)	(0.05)

Generally, the Company's increase in 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 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. There have been no changes to the Company's key sources of estimation uncertainty in the first quarter of 2013. 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 March 31, 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 three months ended March 31, 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		