CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMEBER 30, 2013 AND 2012

(UNAUDITED)

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

| Canadian $000s | Note | **As at September 30 2013** | As at December 31 2012 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **10,601** | 38,253 |
| Trade and other receivables | | **4,148** | 2,256 |
| Other current assets | | **757** | 894 |
| | | **15,506** | 41,403 |
| Property, plant and equipment | 4 | **43,436** | 29,478 |
| Exploration and evaluation assets | 5 | **42,617** | 35,760 |
| Other non-current assets | | **1,164** | 1,139 |
| | | **102,723** | 107,780 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade and other payables | | **6,581** | 11,377 |
| Flow-through share liability | 11 | **500** | 62 |
| Decommissioning obligations | 6 | **4,006** | 3,955 |
| | | **11,087** | 15,394 |
| **Shareholders' Equity** | | | |
| Share capital | 7 | **148,651** | 141,676 |
| Contributed surplus | | **12,185** | 11,920 |
| Accumulated other comprehensive loss | | **(13,605)** | (8,373) |
| Deficit | | **(55,595)** | (52,837) |
| | | **91,636** | 92,386 |
| | | **102,723** | 107,780 |

Commitments (Note 11)

Subsequent Event (Note 15)

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

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

| Canadian $000s, except per share amounts | Note | Three months ended September 30 2013 | 2012 | Nine months ended September 30 2013 | 2012 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Oil and natural gas revenues | | **4,840** | 1,762 | **12,327** | 2,533 |
| Royalties | | **(724)** | (274) | **(1,711)** | (400) |
| | | **4,116** | 1,488 | **10,616** | 2,133 |
| Interest and other income (expense) | | **(19)** | 204 | **148** | 499 |
| Unrealized loss on commodity contracts | | **(29)** | - | **(4)** | - |
| | | **4,068** | 1,692 | **10,760** | 2,632 |
| **Expenses** | | | | | |
| Operating | | **2,513** | 634 | **6,534** | 1,235 |
| General and administrative | | **1,086** | 1,114 | **4,364** | 3,294 |
| Accretion | 6 | **33** | 17 | **104** | 46 |
| Share-based compensation | 8 | **270** | 407 | **713** | 1,386 |
| Depletion and depreciation | 4 | **1,790** | 436 | **4,471** | 592 |
| Foreign exchange (gain) loss | | **(1,396)** | - | **(2,559)** | 11 |
| | | **4,296** | 2,608 | **13,627** | 6,564 |
| **Loss before income taxes** | | **(228)** | (916) | **(2,867)** | (3,932) |
| **Deferred income tax recovery** | | **109** | - | **109** | - |
| **Net loss** | | **(118)** | (916) | **(2,758)** | (3,932) |
| Foreign currency translation adjustment | | **(3,834)** | (2,789) | **(5,232)** | (1,925) |
| **Comprehensive loss** | | **(3,952)** | (3,705) | **(7,990)** | (5,857) |
| **Loss per share** | | | | | |
| Basic and diluted | 12 | **(0.00)** | (0.00) | **(0.01)** | (0.01) |

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

Condensed Interim Consolidated Statements of Equity
(Unaudited)

| Canadian $000s | Share Capital | Contributed Surplus | Accumulated Other Comprehensive Income | Deficit | Total Equity |
|---|---|---|---|---|---|
| | (Note7) | | | | |
| **Balance at December 31, 2012** | 141,676 | 11,920 | (8,373) | (52,837) | 92,386 |
| Net loss | - | - | - | (2,758) | (2,758) |
| Other comprehensive loss | - | - | (5,232) | - | (5,232) |
| Private placement of shares | 7,253 | - | - | - | 7,253 |
| Share issue costs | (726) | - | - | - | (726) |
| Flow-through share liability | (547) | - | - | - | (547) |
| Stock options exercised | 995 | (448) | - | - | 547 |
| Share based payments | - | 713 | - | - | 713 |
| **Balance at September 30, 2013** | **148,651** | **12,185** | **(13,605)** | **(55,595)** | **91,636** |
| | | | | | |
| **Balance at December 31, 2011** | 77,863 | 10,074 | (5,162) | (43,972) | 38,803 |
| Net loss | - | - | - | (3,932) | (3,932) |
| Other comprehensive loss | - | - | (1,925) | - | (1,925) |
| Public offering of shares | 63,485 | - | - | - | 63,485 |
| Stock options exercised | 328 | (143) | - | - | 185 |
| Share based payments | - | 1,420 | - | - | 1,420 |
| **Balance at September 30, 2012** | 141,676 | 11,351 | (7,087) | (47,904) | 98,036 |

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

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

| Canadian $000s | Note | Nine months ended September 30<br>2013 | 2012 |
|---|---|---|---|
| **Cash provided by (used in):** | | | |
| **Operating** | | | |
| Net loss | | **(2,758)** | (3,932) |
| Items not affecting cash: | | | |
| Depletion and depreciation | 4 | **4,471** | 592 |
| Accretion | | **104** | 46 |
| Unrealized loss on commodity contracts | 13 | **4** | - |
| Share-based compensation | 8 | **713** | 1,386 |
| Decommissioning costs incurred | 6 | **(93)** | - |
| Deferred income tax recovery | 7 | **(109)** | - |
| Change in other non-current assets | | **-** | (25) |
| Change in non-cash working capital | 10 | **(2,421)** | (1,226) |
| Net cash used in operating activities | | **(89)** | (3,159) |
| **Investing** | | | |
| Development capital and corporate additions | 4 | **(19,803)** | (7,275) |
| Evaluation and exploration assets additions | 5 | **(10,371)** | (9,267) |
| Change in other non-current assets | | **(174)** | (783) |
| Change in non-cash working capital | 10 | **(4,038)** | 210 |
| Net cash used in investing activities | | **(34,386)** | (17,115) |
| **Financing** | | | |
| Shares issued, net of issue costs | 7 | **7,075** | 63,671 |
| Change in non-cash working capital | 10 | **-** | - |
| Net cash from financing activities | | **7,075** | 63,671 |
| Change in cash and cash equivalents | | **(27,400)** | 43,397 |
| Cash and cash equivalents, beginning of period | | **38,253** | 16,439 |
| Impact of foreign exchange on cash balances | | **(252)** | (152) |
| **Cash and cash equivalents, end of period** | | **10,601** | 59,684 |

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

Tabular amounts in thousands of Canadian dollars, except per share amounts

## 1. Reporting Entity

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

Effective July 30, 2013, the Company changed its name from Madalena Ventures Inc. to Madalena Energy Inc.

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 limited cash flow from operating activities. The Company currently relies substantially on equity financing to pay for exploration activities. 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 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 November 28, 2013.

## 3. Changes in Accounting Policies

**Future Accounting Changes**

On January 1 2013, the Company adopted 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") as described in the December 31, 2012 annual Consolidated Financial Statements.

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 values. 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 nine months ended September 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

| Canadian $000s | Oil and Natural Gas Assets | Corporate | Total |
|---|---|---|---|
| **Cost** | | | |
| At December 31, 2011 | 7,490 | 227 | 7,717 |
| Acquired on business combination | 16,488 | 42 | 16,530 |
| Development capital and corporate additions | 11,225 | 27 | 11,252 |
| Effect of change in foreign exchange rates | (1,259) | (3) | (1,262) |
| At December 31, 2012 | 33,944 | 293 | 34,237 |
| Development capital and corporate additions | 20,102 | 2 | 20,104 |
| Effect of change in foreign exchange rates | (2,216) | (6) | (2,222) |
| **At September 30, 2013** | 51,740 | 289 | 52,029 |

| Canadian $000s | Oil and Natural Gas Assets | Corporate | Total |
|---|---|---|---|
| **Accumulated depreciation and depletion** | | | |
| At December 31, 2011 | (452) | (144) | (596) |
| Depreciation and depletion | (1,715) | (19) | (1,734) |
| Impairment | (2,519) | - | (2,519) |
| Effect of change in foreign exchange rates | 88 | 2 | 90 |
| At December 31, 2012 | (4,598) | (161) | (4,759) |
| Depreciation and depletion | (4,452) | (19) | (4,471) |
| Effect of change in foreign exchange rates | 633 | 4 | 637 |
| **At September 30, 2013** | **(8,417)** | **(176)** | **(8,593)** |

| Canadian $000s | | | |
|---|---|---|---|
| **Net book value** | | | |
| At December 31, 2011 | 7,038 | 83 | 7,121 |
| At December 31, 2012 | 29,346 | 132 | 29,478 |
| **At September 30, 2013** | **43,323** | **113** | **43,436** |

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 September 30, 2013 includes $3.6 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 nine months ended September 30, 2013 included $11.1 million (September 30, 2012 – $9.4 million) for estimated future development costs associated with proved and probable reserves.

At September 30, 2013, the net book value of the Argentinean and Canadian PP&E assets were $12.0 million (December 31, 2012 - $10.9 million) and $31.4 million (December 31, 2012 - $18.6), respectively.

## 5. Exploration and Evaluation Assets

| Canadian $000s | |
|---|---|
| **Cost** | |
| At December 31, 2011 | 17,339 |
| Acquired on business combination | 8,455 |
| Additions | 11,924 |
| Effect of change in foreign exchange rates | (1,958) |
| At December 31, 2012 | 35,760 |
| Additions | 10,264 |
| Effect of change in foreign exchange rates | (3,407) |
| **At September 30, 2013** | **42,617** |

Exploration and Evaluation ("E&E") assets consist of the Company's intangible exploration projects in Argentina and Canada 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 September 30, 2013 included $5.5 million of VAT (December 31, 2012 - $5.6 million). During the nine months ended September 30, 2013, share-based payments directly related to E&E activities totaling $1,327 were capitalized (2012 – $33,310).

At September 30, 2013, the net book value of the Argentinean and Canadian E&E assets were $25.4 million (December 31, 2012 - $25.2 million) and $17.2 million (December 31, 2012 - $10.6), respectively.

## 6. Decommissioning Obligations

| Canadian $000s | **Nine months ended September 30 2013** | **Year ended December 31 2012** |
|---|---|---|
| Balance, beginning of period | **3,955** | 331 |
| Assumed in business combination | **-** | 3,315 |
| Incurred from development activities (Note 4) | **210** | 198 |
| Accretion expense | **104** | 73 |
| Revision of estimates | **(107)** | 83 |
| Obligations settled | **(93)** | - |
| Effect of change in foreign exchange rates | **(63)** | (45) |
| **Balance, end of period** | **4,006** | 3,955 |

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 10.5% 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 14.93% (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 000s** | **Share Capital $000s** |
|---|---|---|
| Balance at December 31, 2011 | 260,021 | 77,863 |
| Shares issued pursuant to financing | 54,000 | 67,500 |
| Share issue costs | - | (4,015) |
| Stock options exercised | 286 | 328 |
| Balance at December 31, 2012 | 314,307 | 141,676 |
| Shares issued under private placement | 21,632 | 6,706 |
| Share issue costs | - | (726) |
| Stock options exercised | 2,759 | 995 |
| **Balance at September 30, 2013** | **338,698** | **148,651** |

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 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 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.

A flow-through share liability in the amount of $499,553 was recorded, recognizing the difference between the flow-through share price and the price of the common shares. This liability will be reduced as qualifying expenditures are incurred and the related tax liability is recognized.

## 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.

During the period ended September 30, 2013, 7,260,000 options were granted to certain officers, employees, consultants and directors of the Corporation and its subsidiaries. Fair value was estimated at the period end date using the Black-Scholes valuation model with weighted average assumptions as follows:

*Inputs used to fair value options*

| | |
|---|---|
| Fair value | $ 0.26 |
| Share price | $ 0.36 |
| Exercise price | $ 0.36 |
| Expected Volatility - % | 96% |
| Forfeiture rate | 10% |
| Option life – years | 4.35 |
| Risk-free interest rate - % | 1.25% |

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

*Number of share options*

| | Number of options 000s | Weighted average exercise price CDN$ |
|---|---|---|
| Outstanding at December 31, 2011 | 13,977 | 0.57 |
| Granted | 9,480 | 0.34 |
| Exercised | (286) | 0.65 |
| Forfeited | (37) | 0.74 |
| Expired or cancelled | (800) | 0.60 |
| Outstanding at December 31, 2012 | 22,334 | 0.47 |
| Granted | 7,260 | 0.36 |
| Exercised | (2,759) | 0.20 |
| Forfeited | (1,742) | 0.42 |
| Expired or cancelled | (4,663) | 0.41 |
| **Outstanding at September 30, 2013** | **20,430** | **0.41** |
| **Exercisable at September 30, 2013** | **6,512** | **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 three months and nine months ended September 30, 2013, the Company incurred fees of $105,786 (2012 - $200,000) and $431,581 (2012 - $338,342), respectively from this firm for legal fees related to legal matters of which $33,078 is included in accounts payable and accrued liabilities at September 30, 2013.

A director of one of the Company's subsidiaries provides legal and consulting services to the Company. During the three months and nine months ended September 30, 2013,, the Company incurred fees of $50,215 (2012 - $7,914) and $238,963 (2012 - $222,040), respectively for these services.

## 10. Supplemental Cash Flow Information

*Changes in non-cash working capital*

| | Nine months ended September 30 | |
|---|---|---|
| Canadian $000s | **2013** | **2012** |
| Trade and other receivables | (2,100) | (1,274) |
| Prepaid expenses and deposits | 123 | (357) |
| Inventory | (77) | (57) |
| Trade and other payable | (4,405) | 672 |
| Change in non-cash working capital | **(6,459)** | (1,016) |
| Attributable to: | | |
| Operating activities | (2,421) | (1,226) |
| Financing activities | - | - |
| Investing activities | (4,038) | 210 |
| | **(6,459)** | (1,016) |

## 11. Commitments

*Rental Commitments*

| Canadian $000s | **2013** | **2014** | **2015** |
|---|---|---|---|
| Leased office premises | 53 | 143 | 8 |

Leased office premises includes estimated operating costs.

*Development & Exploration Commitments*

*Coiron Amargo Block (35% working interest)*

The Coiron Amargo block is divided into two regions called Coiron Amargo Norte (northern portion of the block) and Coiron Amargo Sur (southern portion of the block). Coiron Amargo Norte is currently under a 25 year exploitation (development) concession which was approved by the Province of Neuquén in 2012.

On November 12, 2013, following an application and approval process by Madalena and its partners over the past several months, the exploration period for Coiron Amargo Sur was extended by way of an official decree signed by the Province of Neuquén in Argentina until November 8, 2014.

Madalena’s remaining share of future work commitments associated with the entire Coiron Amargo block as of September 30, 2013 is approximately US$6.3 plus VAT.

*Curamhuele Block (90% working interest)*

In June 2013 the exploration period was extended by way of an official decree signed by the Province of Neuquén until November 8, 2014.

The Company continues to examine opportunities in respect of a possible a joint venture or other transaction to accelerate exploration and development activities on the block. RBC Capital Markets, Madalena's exclusive advisor to its Neuquen basin assets, is in communication with a broad spectrum of parties to solicit interest in a joint venture or other transaction with the Company. The Company cautions that there are no assurances that an acceptable joint venture arrangement or other transaction will be reached.

Madalena’s remaining share of future work commitments associated with the Curamhuele block as of September 30, 2013 is approximately US$13.8 plus VAT.

*Cortadera Block (40% working interest)*

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 third quarter, the joint venture has continued to engage in discussions related to a multi-year agreement and has signed on September 24th, 2013 an amended contract agreement for the block.

*Flow-through Shares Commitments*

During the third quarter of 2013, the Company completed a flow through share financing in the amount of $5.7 million and $1.5 million for CEE and CDE flow-through shares, respectively (see Note 7). As at September 30, 2013, all of the CDE flow-through funds had been expended and none of the CEE flow-through funds had been expended. The Company has until December 31, 2014 to expend the CEE flow through funds on qualified expenditures.

The Company had a previous flow-through share commitment of $462,450 to be renounced by December 31, 2013. As at September 30, 2013, all of these 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 September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net loss - $000s CDN | (118) | (916) | (2,758) | (3,932) |
| Weighted average number of common shares: | | | | |
| Basic and diluted – 000s | 336,177 | 314,307 | 322,605 | 301,238 |

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 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 |
| Natural gas fixed | April 1, 2014 to Oct. 31, 2014 | 300 GJ/d | $4.52CDN | $4.52 CDN | AECO |
| Crude oil call options | Jan. 1, 2014 to Dec. 31, 2014 | 50 bbl/d | - | $100.00 US | WTI |
| 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 September 30, 2013 was a net liability and an unrealized loss of $4,374 (2012 - $nil). Realized gains as at September 30, 2013 were $78,252 (2012 - $nil) and are included in interest and other income on the statement of loss and comprehensive loss. The commodity contracts currently on the final statements 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 September 30, 2013 and September 30, 2012.

| | **As at and for nine months ended September 30, 2013** | | |
|---|---|---|---|
| Canadian $000s | **Canada** | **Argentina** | **Total** |
| Total assets | 59,875 | 42,848 | 102,723 |
| Total liabilities | (8,793) | (2,294) | (11,087) |
| Revenues | 8,359 | 3,968 | 12,327 |
| Loss | (1,057) | (1,701) | (2,758) |
| Capital expenditures | 22,132 | 8,043 | 30,175 |

| | **As at and for nine months ended September 30, 2012** | | |
|---|---|---|---|
| Canadian $000s | **Canada** | **Argentina** | **Total** |
| Total assets | 59,337 | 42,766 | 102,103 |
| Total liabilities | (402) | (3,665) | (4,067) |
| Revenues | - | 2,533 | 2,533 |
| Loss | (2,800) | (1,132) | (3,932) |
| Capital expenditures | 12 | 16,530 | 16,542 |

**15. Subsequent Event**

On November 14, 2013, the Company announced a bought deal financing of 17,022,000 common shares at a price of $0.47 per common share, for aggregate gross proceeds to the Company of $8,000,340 through a syndicate of underwriters (the "Offering"). The Company has granted the underwriters an option (the "Over-Allotment Option"), exercisable at any time up to 30 days following the closing of the Offering to purchase up to an additional 2,553,300 common shares at a price of $0.47 per common share for additional gross proceeds of up to $1,200,051 on the same terms and conditions as the Offering. The Offering is expected to close on or about December 3, 2013.

In addition, the Company announced that it proposes to issue, on a private placement basis, up to 6,000,000 common shares to be issued as "flow-through shares" ("CDE Flow-Through Shares") within the meaning of the

Income Tax Act (Canada) at a price of $0.54 per CDE Flow-Through Share for aggregate gross proceeds of $3,240,000 (the "Private Placement"). On November 21, 2013, the Company issued 5,555,556 common shares for gross proceeds of $3,000,000 pursuant to the Private Placement.