MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 November 28, 2013 and should be read in conjunction with Madalena Energy Inc.'s ("Madalena" or the "Company") unaudited condensed interim consolidated financial statements for the three and nine months period ended September 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.

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

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.

Unless otherwise indicated, tabular financial amounts, other than per share amounts, are in thousands of Canadian dollars.

Non-GAAP Measures

Certain financial measures in this document do not have a standardized meaning as prescribed by IFRS, such as 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 Financial Results section of this MD&A.

INTRODUCTION AND OVERVIEW

Overview

Madalena is an independent, Canadian-based, domestic and international upstream oil and gas company whose main business activities include exploration, development and production of crude oil, natural gas liquids and natural gas.

Internationally, Madalena holds three blocks within the Neuquén basin in Argentina comprised of approximately 135,000 net acres consisting of the Coiron Amargo block (approximately 35,000 net acres), the Curamhuele block (approximately 50,500 net acres) and the Cortadera block (approximately 49,500 net acres).

Domestically, Madalena's core area of operations is located in the Greater Paddle River area of west-central Alberta, where the Corporation holds approximately 200 gross (155 net) sections of land (78% average working interest).

THIRD QUARTER 2013 HIGHLIGHTS AND OUTLOOK

- Q3 -2013 production averaged 1,177 boe/d (46% oil and liquids), an increase of 345% from Q3 – 2012.
- Subsequent to Q3 – 2013, the Company's latest Ostracod horizontal (100% W.I.) was brought on stream in early November 2013. During its initial 24 operating days of production, the average rate of this horizontal well was approximately 606 boe/d (84% oil & NGLs);
- Closed a $7.25 million equity financing in early July 2013;
- Exited the third quarter with positive working capital of $8.9 million and unutilized credit facilities of $13 million;
- On November 14, 2013 announced an $11 million financing through an $8 million bought deal and concurrent $3 million private placement. The private placement closed on November 21, 2013 and the bought deal is scheduled to close on or about December 3, 2013; and
- On November 28, 2013, Madalena increased its 2013 capital budget to $42 million. The increased budget will be primarily allocated to the Company's Ostracod oil project.

International Operations - *Neuquen Basin, Argentina*

Coiron Amargo Block

- The exploration period for Coiron Amargo Sur (southern portion of the block) was extended until November 8, 2014 by way of an official decree signed by the Province of Neuquén in Argentina on November 12, 2013. Coiron Amargo Norte (northern portion of the block) is currently under a 25 year exploitation (development) concession;
- The CAS.x-14 vertical well in the southern portion of the Coiron Amargo block was drilled and cased encountering approximately 105 meters of Vaca Muerta shale on logs. Completion activities on this well are expected to commence as part of a two well completion program after the CAS.x-15 well is drilled in the fourth quarter of 2013;
- The CAN.xr-2(h) well was re-entered and is currently being drilled and completed horizontally in the Sierras Blancas light oil reservoir. This well represents the first horizontal well drilled into one of the six Sierras Blancas conventional light oil pools discovered on the block to date; and

- Two 3D seismic programs were shot at Coiron Amargo Sur during the second quarter and were subsequently processed in the third quarter of 2013. The Coiron Amargo block (both north and south regions) is now almost entirely covered with 3D seismic.

Curamhuele Block

- The Company continues to examine opportunities in respect of a possible a joint venture or other transaction with respect to its 90% Curamhuele block in the Neuquén basin in Argentina. RBC Capital Markets ("RBC"), Madalena's exclusive advisor related 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 is currently planning to shoot a 75 km2 3D seismic survey at Curamhuele during the first quarter of 2014. The Company plans to merge this newly acquired data with the existing 125 km2 3D survey on the block. This will provide 3D seismic coverage on the entire northern portion of the Curamhuele block.

Cortadera Block

- On the Cortadera Block in the Province of Neuquén, the joint venture signed an amended contract agreement on September 24th, 2013 to formalize a multi-year agreement for the extension of the initial exploration period and inclusion of subsequent exploration periods.
- 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 late Q4, 2013 or during the first quarter of 2014.

Domestic Operations – *Greater Paddle River Area, Alberta, Canada*

- Drilled, completed and tied-in a 100% working interest ("W.I.") horizontal Ostracod oil well at 1-32-55-7W5M in the Paddle River area of west-central Alberta. This well commenced production in early November 2013. During its initial 24 operating days of production the well flowed at an average rate of 476 bbls/d of 30° API oil and 838 mscf/d of raw natural gas for a total of 616 barrels of oil equivalent ("boe") per day ("boe/d") (77% oil). After accounting for shrinkage and NGLs recovery at the local production facility, the average rate over the initial 24 operating days would equate to approximately 606 boe/d (84% oil & NGLs). This well was drilled to a total depth of 3,250 metres with a horizontal length of 1,380 metres and was completed with a 16 stage multi-frac program.

- In support of the Company's plan to recommence drilling operations in the greater Paddle River area in Q4 2013, 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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Financial - Canadian $000s, except per share amounts				
Oil and gas revenue	**4,840**	1,762	**12,327**	2,533
Net loss	**(118)**	(916)	**(2,758)**	(3,932)
Per share – basic and diluted	**(0.00)**	(0.00)	**(0.01)**	(0.01)
Capital expenditures	**7,177**	3,633	**30,175**	16,542
Working capital	**8,925**	58,752	**8,925**	58,752
Equity outstanding – 000s				
Common shares	**338,698**	314,307	**338,698**	314,307
Stock options	**20,430**	16,324	**20,430**	16,322
Operating				
Average Daily Production				
Crude oil and condensate – Bbls/d	**401**	250	**338**	121
Natural gas – Mcf/d	**3,838**	84	**3,340**	28
NGLs – Bbls/d	**137**	-	**129**	-
Total - boe /d(1)	**1,177**	264	**1,024**	125
Average Sales Prices				
Crude oil and condensate - $/Bbl	**89.51**	75.11	**83.01**	75.66
Natural gas - $/Mcf	**2.43**	4.37	**3.05**	4.37
NGLs - $/Bbl	**54.54**	-	**53.33**	-
Total - $/boe(1)	**44.72**	72.52	**44.11**	73.81
Operating Netbacks				
$/boe(1)	**14.82**	35.15	**14.61**	26.16

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

FINANCIAL RESULTS

Net Loss and Comprehensive Loss

Canadian $000s, except per share amounts	Three months ended September 30 **2013**	2012	Nine months ended September 30 **2013**	2012
Net loss	**(118)**	(916)	**(2,758)**	(3,932)
Comprehensive income (loss)	**(3,952)**	(3,705)	**(7,990)**	(5,857)
Net loss Per share – basic & diluted	**(0.00)**	(0.00)	**(0.01)**	(0.01)

The net loss for the three months ended September 30, 2013 (the "Quarter") was $0.1 million (2012 – $0.9 million). The net loss for the nine months ended September 30, 2013 ("YTD") was $2.8 million (2012 – $3.9 million). The establishment of the Canadian operations resulted in increased revenues which were offset by increased royalties, operating costs, depletion and general and administrative costs. In addition, the Company realized foreign exchange gains of $1.4 million (2012 – nil) and $2.6 million (2012 – nil) for the Quarter and YTD, respectively. 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 nine months ended September 30, 2013, the Argentine peso weakened against Canadian dollar. The foreign currency translation loss for the Quarter and YTD was $3.8 million (2012 – loss $2.8 million) and $5.2 million (2012 – loss $1.9 million), respectively.

Production

Average daily production	Three months ended September 30 **2013**	2012	Nine months ended September 30 **2013**	2012
Argentina				
Crude oil (Bbls/d)	**171**	250	**175**	121
Natural gas (Mcf/d)	**106**	84	**129**	28
Total daily production (boe/d)	**189**	264	**197**	125
Canada				
Crude oil and condensate (Bbls/d)	**230**	-	**163**	-
Natural gas (Mcf/d)	**3,732**	-	**3,211**	-
Natural gas liquids (Bbls/d)	**137**	-	**129**	-
Total daily production (boe/d)	**988**	-	**827**	-
Corporate				
Total daily production (boe/d)	**1,177**	264	**1,024**	125
% Oil & NGLs	**46%**	95%	**46%**	96%

Neuquen Basin, Argentina

The Company produces oil, with a small amount of solution gas, from seven wells (2.5 net) in the Coiron Amargo Norte block. Reduced oil production from the CAN 7 well, which commenced production in July 2012 resulting in "flush" production for the third quarter of 2012, was the primary cause of the reduction in the comparative quarterly production rates, while increased production year over year was primarily a result of the CAN 5 and CAN 8 wells, which commenced production in June 2012 and February 2013, respectively.

Canada

Production from the Canadian operations for the Quarter and YTD was a result of the strategic domestic acquisition completed on November 1, 2012. Production was 988 boe/d and 827 boe/d during the Quarter and YTD, respectively. The Company has a base production of approximately 275 boe/d from 36 (22 net) oil and gas wells, with the balance of the Company's production being generated from four 100% working interest Ostracod horizontal oil wells and one 100% working interest Notikewin gas well.

Average Realized Prices

Canadian $	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Argentina				
Crude oil – $/bbl	**81.92**	75.11	**79.72**	75.66
Natural gas – $/mcf	**4.94**	4.37	**4.42**	4.37
Total – $/boe	**77.00**	72.52	**73.92**	73.81
Canada				
Crude oil and condensate – $/bbl	**95.16**	-	**86.54**	-
Natural gas – $/mcf	**2.36**	-	**3.00**	-
Natural gas liquids – $/bbl	**54.54**	-	**53.33**	-
Total - $/boe	**38.55**	-	**37.02**	-

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
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 payable and an unrealized loss of $4,374 (2012 - $nil). Realized gains for the Quarter and YTD were $78,252 and $78,252 (2012 – nil and nil) and are included in interest and other income on the Statement of Loss and Comprehensive Loss. The commodity contracts are classified as level 2 within the fair value hierarchy.

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

Revenue

Canadian $000s, except per boe	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Argentina				
Crude oil	**1,288**	1,728	**3,812**	2,499
Natural gas	**48**	34	**155**	34
	1,336	1,762	**3,967**	2,533
Canada				
Crude oil and condensate	**2,009**	-	**3,856**	-
Natural gas	**810**	-	**2,630**	-
Natural gas liquids	**685**	-	**1,874**	-
	3,504	-	**8,360**	-
Corporate Total	**4,840**	1,762	**12,327**	2,533
Corporate - $/boe	**44.72**	72.52	**44.11**	73.81

Neuquen Basin, Argentina

Oil sales decreased by $0.4 million in the Quarter from the corresponding period in 2012 as a result of lower production volumes from the CAN 5 well. YTD oil sales increased by $1.3 million from the corresponding period in 2012 as a result of production from the CAN 5 and CAN 8 wells.

Canada

Petroleum, natural gas and natural gas liquid sales from the Canadian operations for the Quarter and YTD were a result of the strategic domestic acquisition on November 1, 2012. Prior thereto, there were no Canadian operations.

Royalties

Canadian $000s	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Argentina				
Royalties	**206**	274	**640**	400
As % of revenue from Argentina	**15%**	16%	**16%**	16%
Canada				
Royalties	**518**	-	**1,071**	-
As % of revenue from Canada	**15%**	-	**13%**	-
Corporate total	**724**	274	**1,711**	400

Neuquen Basin, Argentina

Royalty expense in the Quarter declined as a result of reduced oil volumes while royalty expenses for the 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 15% of revenues and YTD were 13% of revenues. There were no operations in Canada for the comparative period in 2012.

Operating Costs

Canadian $000s, except per boe	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Argentina				
Operating costs	**735**	634	**2,167**	1,235
$/boe	**42.36**	26.10	**40.36**	35.99
Canada				
Operating costs	**1,778**	-	**4,367**	-
$/boe	**19.56**	-	**19.34**	-
Corporate total	**2,513**	634	**6,534**	1,235

Operating costs in Argentina were $42.36 per boe and $40.36 per boe in the Quarter and YTD respectively as work continued on the optimization of surface fluid handling facilities. In Q3 - 2012, operating costs in Argentina were positively impacted by the flush production from CAN 7, which reduced the fixed operating costs on a per barrel basis.

In Canada, operating costs were $19.56 per boe during the Quarter and $19.34 per boe for the YTD. 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.

Netbacks (1)

Canadian $	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Argentina				
Revenue	**77.00**	72.52	**73.92**	73.81
Royalties	**(11.87)**	(11.27)	**(11.92)**	(11.66)
Operating expenses	**(42.36)**	(26.10)	**(40.36)**	(35.99)
Netbacks	**22.77**	35.15	**21.64**	26.16
Canada				
Revenue	**38.55**	-	**37.02**	-
Royalties	**(5.70)**	-	**(4.74)**	-
Operating expenses	**(19.56)**	-	**(19.34)**	-
Netbacks	**13.29**	-	**12.94**	-
Corporate				
Revenue	**44.72**	72.52	**44.11**	73.81
Royalties	**(6.69)**	(11.27)	**(6.12)**	(11.66)
Operating expenses	**(23.21)**	(26.10)	**(23.38)**	(35.99)
Netbacks	**14.82**	35.15	**14.61**	26.16

(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

Canadian $000s	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Argentina	**405**	433	**1,270**	1,387
Canada	**681**	681	**3,094**	1,907
	1,086	1,114	**4,364**	3,294

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 YTD 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 costs were $16,070 (2012 – $16,975) for the Quarter and $53,473 (2012 – $46,006) YTD. In Canada, accretion costs were $17,000 (2012 - $nil) for the Quarter and were $51,000 (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 $0.30 million in the Quarter (2012 - $0.4 million) and $0.7 million YTD (2012 - $1.4 million).

Depletion and Depreciation

Canadian $000s	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Argentina	**464**	433	**1,512**	583
Canada	**1,326**	3	**2,959**	9
	1,790	436	**4,471**	592

In Argentina, depletion and depreciation expense for the Quarter increased by $31,000 as higher depletion rates offset the lower production volumes. YTD depletion and depreciation increased due to higher depletion rates and increased production. In Canada, depletion and depreciation expense for the Quarter and YTD was a result of the strategic domestic acquisition completed in November 1, 2012.

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 $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 Quarter and YTD, the Company incurred fees of $50,215 (2012 - $7,914) and $238,963 (2012 - $222,040), respectively for these services.

Property, Plant & Equipment Additions

Canadian $000s	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Argentina				
Land	**-**	-	**2**	-
Geological and geophysical	**(249)**	-	**25**	-
Drilling and completions	**856**	473	**1,663**	3,528
Well equipment and facilities	**272**	(2)	**1,380**	2,397
Other	**270**	97	**1,192**	1,338
Argentina Total	**1,149**	568	**4,262**	7,263
Canada				
Land	**1**	-	**1**	-
Geological and geophysical	**28**	-	**35**	-
Drilling and completions	**3,623**	-	**12,018**	-
Well equipment and facilities	**1,010**	-	**3,298**	-
Other	**61**	-	**189**	12
Canada total	**4,723**	-	**15,541**	12
Corporate total	**5,872**	568	**19,803**	7,275

For the Quarter, capital expenditures for property plant and equipment were $5.9 million (2012 - $0.6 million) and YTD were $19.8 million (2012 - $7.3 million). In Argentina to date in 2013, the Company participated in a workover of CAN.x-3 and the 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 drilling and completion of one Ostracod well. YTD the Company drilled, completed and tied-in two Ostracod wells in the paddle River area, drilled and completed one Ostracod well in the Paddle River area and completed and tied-in one Notikewin well at Niton.

Exploration and Evaluation Asset Additions

Canadian $000s	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Argentina				
Land acquisitions	**1,002**	-	**1,134**	577
Geological and geophysical	**-**	113	**1,155**	423
Drilling and completions	**502**	2,371	**1,840**	6,927
Well equipment and facilities	**(385)**	-	**(256)**	(6)
Other	**(38)**	581	**(92)**	1,346
Argentina Total	**1,081**	3,065	**3,781**	9,267
Canada				
Land acquisitions	**52**	-	**166**	-
Geological and geophysical	**-**	-	**10**	-
Drilling and completions	**109**	-	**5,820**	-
Well equipment and facilities	**26**	-	**519**	-
Other	**31**	-	**76**	-
Canada total	**218**	-	**6,591**	-
Corporate total	**1,299**	3,065	**10,372**	9,267

Capital expenditures for exploration and evaluation assets were $1.3 million for the Quarter and $10.4 million YTD compared to $3.1 million and $9.3 million for the respective corresponding periods in 2012. Argentine expenditures were $1.1 million (2012 -$3.1 million) and $3.8 million (2012 - $9.3 million) for the Quarter and YTD, respectively. Canadian expenditures were $0.2 million (2012 - nil) and $6.6 million (2012 – nil) for the Quarter and YTD, respectively.

In Argentina, activity during the Quarter included the drilling and casing of the CAS.x-14 vertical well and the payment of extension fees relating to the Curamhuele concession. Additional activity during the year has included conducting two 3D seismic programs and a workover of the CAS.x-1 vertical well in the Vaca Muerta shale and completion of CAS.x-4 in the Punta Rosada.

In Canada, the majority of the capital expenditures have been directed to the Company's Nordegg project at Wildwood. Third quarter activity was minimal due to spring break-up and an extended wet weather season. Plans are underway to re-commence evaluation operations of this Nordegg horizontal well before year-end.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity, working capital and shareholders' equity

Canadian $000s	September 30 2013	December 31 2012
Working capital	**8,925**	30,026
Shareholders' equity	**91,636**	92,386

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 September 30, 2013, the Company had a revolving operating demand loan credit facility with the National Bank of Canada 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 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. Standby fees associated with the facility are 0.25% per annum on the undrawn portion.

In addition, The Company has an acquisition / development demand loan credit facility with the National Bank of Canada to a maximum of $3 million with interest charged at the bank's prime rate plus 1.25% per annum.

Both facilities are subject to a periodic review by the bank and the next review is scheduled on or before May 1, 2014. The facilities were unutilized at September 30, 2013.

As the credit facilities are a demand loan, it may be called at any time. Accordingly, there is no assurance that the credit facilities will be renewed when the current scheduled review is completed.

Share capital issued and options granted

Outstanding Share Capital

During the Quarter, 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 Private Placement.

In addition, during the Quarter, a total of 225,000 shares were issued pursuant to the exercise of stock options for proceeds of $44,625. YTD a total of 2,758,700 shares were issued pursuant to the exercise of stock options for proceeds of $546,914. During the Quarter, 6,000,000 options were granted to certain officers, employees, consultants and directors of the Corporation and its subsidiaries. Each Option has an exercise price of $0.35 per share and is exercisable for a period of five years from the date of grant. As of September 30, 2013, the Company had 338.7 million common shares, and 20.4 million stock options outstanding.

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 $3,000,240 pursuant to the Private Placement.

In addition, since September 30, 2013, a total of 200,000 shares have been issued pursuant to the exercise of stock options for proceeds of $84,000. As of November 28, 2013, the Company has 344.5 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 $1.9 million. The majority of the costs are expected to be incurred between 2023 and 2025. An inflation rate of 10.5% was used to calculate the future value of the undiscounted decommissioning obligations. At September 30, 2013, the decommissioning obligations of $0.5 million have been discounted using a discount rate of 14.93%.

Canada
The total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $4.8 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 September 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 (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 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 on September 24, 2013 signed an amended contract agreement for the block.

Flow-through Shares Commitments

During the third quarter, 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. 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 CEE 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.

During the fourth quarter, the Company completed a flow through share financing in the amount of $3.0 million for CDE flow-through shares. The Company has until December 31, 2013 to expend these funds on qualified expenditures.

ANNUAL AND QUARTERLY FINANCIAL RESULTS

Quarterly Financial Results

Canadian $000s, except shares outstanding	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Revenues	**4,840**	3,877	3,610	3,012
Net loss	**(118)**	(320)	(2,320)	(5,075)
Shares outstanding – 000s	**338.7**	316.8	316.1	314.3
Net loss per share – basic and diluted	**(0.00)**	(0.00)	(0.01)	(0.02)

	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Revenues	1,762	375	397	609
Net loss	(916)	(1,848)	(1,167)	(1,586)
Shares outstanding ('000s)	314.3	314.3	314.3	260.0
Net loss per share – basic and diluted	(0.0)	(0.01)	(0.0)	(0.01)

Generally, the Company's increase in revenues during 2012 can be attributed to increasing oil production in Argentina and its strategic domestic acquisition in the fourth quarter of 2012. The decline in revenues during the first nine 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 21.6 million shares during the Quarter for gross proceeds of $7.3 million and issued 54 million shares during Q1-2012 for gross proceeds of $67.5 million.

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 September 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 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 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

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

Natural Gas

Mcf	thousand cubic feet