CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(UNAUDITED)

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

Canadian $000s	Note	As at September 30 2014	As at December 31 2013
Assets			
Current assets			
Cash and cash equivalents		**22,276**	14,835
Trade and other receivables		**20,288**	4,057
Inventory		**1,828**	-
Other current assets		**1,981**	1,075
		46,373	19,967
Property, plant and equipment	5	**145,843**	39,062
Exploration and evaluation assets	6	**38,312**	35,745
Other non-current assets		**6,273**	1,512
		236,801	96,286
Liabilities			
Current liabilities			
Trade and other payables		**28,394**	11,951
Flow-through share liability		**21**	385
Other liabilities		**3,903**	-
Deferred tax liability	4	**6,855**	-
Decommissioning obligations	7	**34,996**	4,947
		74,169	17,283
Shareholders' Equity			
Share capital	8	**249,717**	159,574
Contributed surplus	9	**13,835**	12,645
Accumulated other comprehensive loss		**(19,318)**	(17,094)
Deficit		**(81,602)**	(76,122)
		162,632	79,003
		236,801	96,286

Commitments (Note 12)

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

Madalena energy inc.

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

Canadian $000s	Note	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Revenues					
Oil and natural gas revenues		**30,860**	4,840	**46,310**	12,327
Royalties		**(4,369)**	(724)	**(6,332)**	(1,711)
		26,491	4,116	**39,978**	10,616
Interest and other income (expense)		**(46)**	(19)	**(49)**	148
Unrealized gain (loss) on commodity contracts	14	**383**	(29)	**35**	(4)
Foreign exchange gain		**32**	1,396	**2,063**	2,559
		26,860	5,464	**42,027**	13,319
Expenses					
Operating		**11,646**	2,513	**17,075**	6,534
General and administrative		**4,934**	1,086	**8,677**	4,364
Business combination costs	4	**126**	-	**1,851**	-
Accretion		**67**	33	**163**	104
Share-based compensation	9	**514**	270	**1,208**	713
Depletion and depreciation	5	**10,097**	1,790	**14,445**	4,471
Impairment	6	**596**	-	**3,161**	-
		27,980	5,692	**46,580**	16,186
Loss before income taxes		**(1,120)**	(228)	**(4,553)**	(2,867)
Current income tax expense		**(1,021)**	-	**(1,021)**	-
Deferred tax recovery (expense)		**(126)**	109	**94**	109
Net loss		**(2,267)**	(118)	**(5,480)**	(2,758)
Foreign currency translation adjustment		**6,747**	(3,834)	**(2,224)**	(5,232)
Comprehensive income (loss)		**4,480**	(3,952)	**(7,704)**	(7,990)
Loss per share					
Basic and diluted	13	**(0.00)**	(0.00)	**(0.01)**	(0.01)

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

Madalena energy inc.

Condensed Interim Consolidated Statements of Equity
(Unaudited)

Canadian $000s	**Share Capital**	**Contributed Surplus**	**Accumulated Other Comprehensive Income**	**Deficit**	**Total Equity**
	(Note 8)				
Balance at December 31, 2013	**159,574**	**12,645**	**(17,094)**	**(76,122)**	**79,003**
Net loss	-	-	-	(5,480)	(5,480)
Other comprehensive loss	-	-	(2,224)	-	(2,224)
Gross proceeds from financings	80,536	-	-	-	80,536
Share issue costs	(5,661)	-	-	-	(5,661)
Issued on business combination	15,214	-	-	-	15,214
Stock options exercised	30	-	-	-	30
Share based payments	24	1,190	-	-	1,214
Balance at September 30, 2014	**249,717**	**13,835**	**(19,318)**	**(81,602)**	**162,632**

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

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

Madalena energy inc.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

Canadian $000s	Note	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Cash provided by (used in):					
Operating					
Net income (loss)		**(2,267)**	(118)	**(5,480)**	(2,758)
Items not affecting cash:					
Depletion and depreciation	5	**10,097**	1,790	**14,445**	4,471
Impairment	6	**596**	-	**3,161**	-
Accretion		**67**	33	**163**	104
Unrealized (gain) loss on commodity contracts	14	**(383)**	29	**(35)**	4
Share-based compensation	9	**514**	270	**1,208**	713
Deferred income tax expense (recovery)		**126**	(109)	**(94)**	(109)
Change in non-cash working capital	11	**10,149**	(1,908)	**6,500**	(2,421)
Decommissioning costs incurred	7	**(33)**	(34)	**(56)**	(93)
Net cash from (used in) operating activities		**18,866**	(47)	**19,812**	(89)
Investing					
Property, plant and equipment additions	5	**(9,376)**	(5,871)	**(15,234)**	(19,803)
Evaluation and exploration assets additions	6	**(3,167)**	(1,274)	**(12,022)**	(10,371)
Business combination	4	**-**	-	**(59,192)**	-
Cash acquired in business combination	4	**-**	-	**11,078**	-
Change in other non-current assets		**(1,821)**	3	**(2,433)**	(174)
Change in non-cash working capital	11	**(6,655)**	352	**(9,973)**	(4,038)
Net cash used in investing activities		**(21,019)**	(6,790)	**(87,776)**	(34,386)
Financing					
Shares issued, net of issue costs	8	**7,042**	6,573	**74,905**	7,075
Change in non-cash working capital	11	**(276)**	-	**30**	-
Net cash from financing activities		**6,766**	6,573	**74,935**	7,075
Change in cash and cash equivalents		**4,613**	(264)	**6,971**	(27,400)
Cash and cash equivalents, beginning of period		**16,854**	11,055	**14,835**	38,253
Impact of foreign exchange on cash balances		**809**	(190)	**470**	(252)
Cash and cash equivalents, end of period		**22,276**	10,601	**22,276**	10,601

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 Argentina and in Alberta, Canada and its principal place of business is Suite 3200, 500 – 4th Avenue S.W., Calgary, Alberta, T2P 2V6.

Prior to June 25, 2014, the condensed interim consolidated financial statements were 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)

On June 25, 2014, the Company acquired the Argentine business unit of Gran Tierra Energy Inc. and the condensed interim consolidated financial statements include the results from June 25, 2014 to September 30, 2014 of the following wholly-owned subsidiaries:

- Madalena Petroleum Ltd. (formerly “Petrolifera Petroleum Ltd.”) (Canada)
- Madalena Petroleum Holdings Limited (formerly “Petrolifera Petroleum Holdings Limited”) (Barbados)
- Madalena Petroleum Americas Limited (formerly “Petrolifera Petroleum Americas Limited”) (Barbados)
- Madalena Energy Argentina S.R.L (formerly “Gran Tierra Energy Argentina S.R.L.”) (Argentina)
- Pet-Ja S.A. (Argentina)

2. Basis of Preparation

Statement of Compliance

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with 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, 2013, 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, 2013, 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 25, 2014.

Joint Operations

Madalena has 14 concessions in Argentina. Operations for these concessions are conducted by way of a Union Transitoria de Empresas (“UTE”), which is an agreement entered into between two or more parties with the purpose of gathering human, technological and economic resources temporarily, in order to develop or execute a project, render a service or provide a specific supply. The UTE parties maintain at all times their legal and economic independence. The UTE is not a separate legal entity and no separate legal entities are established by the parties of the UTE to conduct business on behalf of the UTE.

In Canada, Madalena’s core area of operations is located in the Greater Paddle River area of west-central Alberta. There are no unusual terms or conditions attached to any of the joint operating agreements associated with these properties. Madalena contributes to exploration and development projects in accordance with its proportionate working interest in the wells and are allocated revenue and operating costs in accordance with its working interest.

Management has exercised judgment in concluding that joint arrangements are subject to joint control. Specifically, judgment has been used in determining that decisions concerning the relevant activities of each arrangement require the specified parties must act together. Madalena has classified and accounted for each of its interests in joint arrangements as joint operations.

Inventory
Inventory consists of oil in tanks and third party pipelines, and supplies and is valued at the lower of cost or market value. The cost of inventory is determined using the weighted average method. Oil inventories include expenditures incurred to produce, upgrade and transport the product to the storage facilities and include operating, depletion and depreciation expenses and cash royalties.

Value-added tax
Madalena capitalizes value-added tax ("VAT") incurred in Argentina when there is uncertainty regarding recovery during the evaluation and exploration phase. If these amounts are transferred to property, plant and equipment, VAT collected on sales to customers are initially credited to the asset to the extent of the amounts previously capitalized. VAT incurred during production are recorded as receivables. VAT collected on sales is applied against the receivable until the Company is in a net payable position, at which time it must remit the amounts collected to the government. Madalena monitors its receivables for impairment, as VAT receivables do not expire.

3. Changes in Accounting Policies

Change in Functional Currency
The functional currency of each of the parent company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates.

Effective July 1, 2014, the functional currency of one of Madalena's subsidiaries, Madalena Austral S.A., changed from the Argentine Peso ("ARS") to the United States Dollar ("USD"). The change coincides with the Acquisition (see Note 4) along with the evolving economic environment in Argentina that is faced with significant Argentina peso inflationary pressures. This change in accounting treatment is applied prospectively. The assets and liabilities of the Argentine subsidiaries were translated from ARS to USD at the exchange rate on the date of change into the new functional currency.

As a result of the above change, the functional currency of all Argentine and Barbados companies is the USD.

The functional and presentation currency of the parent company, Madalena, is the Canadian dollar ("CAD").

Uncertain Tax Provisions
The Company's policy for income tax uncertainties is that tax provisions will be recognized only when it is probable that the position will result in a liability once examined by the relevant tax authority and a reasonable estimate of the amount can be made.

New and Amended Standards and Interpretations Adopted
The IASB issued International Financial Reporting Interpretations Committee Interpretation ("IFRIC") 21, "Levies" which was adopted by the Company on January 1, 2014. The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs. The adoption of this interpretation did not impact the condensed interim consolidated financial statements.

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, "Financial Instruments: Presentation" ("IAS 32"). The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. IAS 32 did not impact the condensed interim consolidated financial statements.

Future Accounting Pronouncements

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, 2013. In May 2014, the International Accounting Standards Board issued IFRS 15 Revenues from Contracts with Customers ("IFRS 15"). IFRS 15 provides a single, principles based five-step model to be applied to revenue recognition from all contracts with customers and applies to an annual reporting period beginning on or after 1 January 2017. The impact of this standard on the Company has not been determined.

4. Business Combination

On June 25, 2014, the Company acquired all of the outstanding shares of the Argentine business unit of Gran Tierra Energy Inc. for cash consideration of $59.2 million (including working capital of $5.1 million) and 29,831,537 common shares at a fair value of $0.51 per common share (the "Acquisition"). The Acquisition, which provides the Company with a significant platform to grow its Argentine production, included proved and probable reserves of 6,513 Mboe at December 31, 2013, 11 exploration and production blocks comprising approximately 890,000 net acres and a fully functional independent business unit in Argentina, with an experienced technical and operational team. The operations from the Acquisition have been included in the results of Madalena commencing June 25, 2014. The business combination has been accounted for using the acquisition method and the purchase price allocation is as follows:

Canadian $000s		
Net assets acquired		
Property, plant and equipment		98,628
Exploration and evaluation assets		2,037
Working capital		8,139
Other long-term assets		2,877
Other long term liabilities		(3,042)
Deferred tax liability		(6,265)
Decommissioning liabilities		(27,968)
		74,406
Consideration		
Cash		59,192
Common shares		15,214
		74,406

The above amounts are estimates, which were made by management at the time of the preparation of these condensed interim consolidated financial statements based on the information available. Amendments may be made to these amounts as values subject to estimation are finalized. In addition to minor changes that may be made, management is still reviewing the estimates regarding the decommissioning liabilities which may cause a change to the presented numbers once further detail is obtained regarding our obligations. It is currently premature to reflect these potential changes.

As part of the acquisition agreement, the Company was indemnified by Gran Tierra Energy Inc. for certain pre-existing liabilities and the liability and an equal offsetting indemnification asset were included in working capital as of June 30, 2014. During the quarter ended September 30, 2014, the obligations associated with the indemnification were resolved at no cost to the Company. Accordingly, the amounts were de-recognized for no net income impact.

The Company incurred transaction costs of $1.9 million in conjunction with the Acquisition which have been recorded as business combination costs in profit and loss. Had the transaction closed on January 1, 2014, the estimated revenue and net income that would have been reported by the Company for the period ending September 30, 2014 would have been $59.4 million and $10.8 million, respectively. Actual revenues and net income included in the Company's results for the period from the date of acquisition June 25, 2014 to September 30, 2014 were $21.7 million and $0.9 million, respectively.

The fair value of oil and natural gas interests acquired was estimated with reference to the discounted cash flows expected to be derived from the oil and natural gas production based on externally prepared reserve reports which applied forward looking price decks as well internal estimates as at the date of acquisition.

The fair value of exploration and evaluation assets is based on prices observed for similar items.

The acquisition resulted in the addition of 11 concessions located in the Noroeste Basin in northern Argentina and the Neuquén Basin in central Argentina, with working interests ranging between 14 – 100%. These arrangements are accounted for as joint operations, in the same manner as our pre-existing Argentine concessions.

The fair value of receivables acquired was $23.4 million which approximates their gross contractual flows. All acquired receivables have been collected or are expected to be collected.

5. Property, Plant and Equipment ("PP&E")

Canadian $000s	Oil and Natural Gas Assets	Corporate	Total
Cost			
At December 31, 2012	35,181	292	35,473
Additions	22,643	(15)	22,628
Effect of change in foreign exchange rates	(3,674)	(8)	(3,682)
At December 31, 2013	54,150	269	54,419
Additions	15,207	755	15,962
Transfer from E & E assets (Note 6)	4,215	-	4,215
Acquisitions through business combination (Note 4)	98,094	534	98,628
Effect of change in foreign exchange rates	1,022	15	1,037
At September 30, 2014	**172,688**	**1,573**	**174,261**

Canadian $000s	Oil and Natural Gas Assets	Corporate	Total
Accumulated depreciation and depletion			
At December 31, 2012	(4,598)	(161)	(4,579)
Depreciation and depletion	(6,647)	(25)	(6,672)
Impairment	(5,000)	-	(5,000)
Effect of change in foreign exchange rates	1,067	6	1,073
At December 31, 2013	(15,178)	(180)	(15,358)
Depreciation and depletion	(14,324)	(121)	(14,445)
Effect of change in foreign exchange rates	1,376	9	1,385
At September 30, 2014	**(28,126)**	**(292)**	**(28,418)**

Canadian $000s			
Net book value			
At December 31, 2013	38,972	90	39,062
At September 30, 2014	**144,562**	**1,281**	**145,843**

At September 30, 2014, the net book value of the Argentine and Canadian PP&E assets were $111.0 million (December 31, 2013 - $12.0 million) and $34.8 million (December 31, 2013 - $27.1 million), respectively.

The depletion expense calculation for the nine months ended September 30, 2014 included $63.1 million (December 31, 2013 – $30.6 million) for estimated future development costs associated with proved and probable reserves.

6. Exploration and Evaluation Assets ("E&E")

Canadian $000s	
Cost	
At December 31, 2012	35,760
Additions	20,491
Impairment	(14,719)
Effect of change in foreign exchange rates	(5,787)
At December 31, 2013	35,745
Additions	12,433
Acquisitions through business combination (Note 4)	2,037
Transfer to PP&E assets (Note 5)	(4,215)
Impairment	(3,161)
Effect of change in foreign exchange rates	(4,527)
At September 30, 2014	**38,312**

At September 30, 2014, the net book value of the Argentine and Canadian E&E assets were $31.7 million (December 31, 2013 - $28.6 million) and $6.6 million (December 31, 2013 - $7.1 million), respectively.

The Company recorded an impairment charge of $0.6 million and $3.2 million for the three and nine months ended September 30, 2014, respectively, (2013 – nil and nil) on its Canadian exploration and evaluation assets.

7. Decommissioning Obligations

Canadian $000s	Nine months ended September 30 2014	Year ended December 31 2013
Balance, beginning of period	**4,947**	5,191
Acquired through business combination (Note 4)	**27,968**	-
Incurred from development activities (Note 5)	**107**	210
Incurred from exploration activities (Note 6)	**40**	50
Accretion expense	**163**	137
Revision of estimates	**401**	(448)
Obligations settled	**(56)**	(92)
Effect of change in foreign exchange rates	**1,426**	(101)
Balance, end of period	**34,996**	4,947

The total undiscounted amount of cash flows required to settle Madalena's decommissioning obligations at September 30, 2014 is approximately $45.5 million (December 31, 2013 – $8.7 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.

The business combination in Argentina added a significant number of producing wells and associated facilities and with this expanded operating portfolio, the Company expects that decommissioning obligations for all of its Argentina portfolio will be settled in USD. It is anticipated that a change in decommissioning liabilities associated with the Acquisition may be forthcoming once further detail is obtained regarding our obligations. It is currently premature to reflect these potential changes.

Madalena's estimates of decommissioning, restoration and similar liabilities could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the provision. Madalena's estimates are reviewed at the end of each reporting period for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

At September 30, 2014, inflation rates of 2% were used in both Argentina and Canada (December 31, 2013 – 10.9% and 2% for Argentina and Canada, respectively). The risk free rate used to discount the liability was 2.5% (December 31, 2013 – 17.18%) in Argentina and up to 2.8% (December 31, 2013 – up to 3.0%) in Canada.

8. Share Capital

The Company is authorized to issue an unlimited number of common 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, 2012	314,307	141,676
Shares issued pursuant to financing	46,763	19,454
Share issue costs	-	(1,766)
Flow through share liability	-	(936)
Stock options exercised	2,959	1,146
Balance at December 31, 2013	364,029	159,574
Shares issued on financing	145,672	80,536
Share issue costs	-	(5,661)
Issued on business combination (Note 4)	29,832	15,214
Stock options exercised	250	54
Balance at September 30, 2014	**539,783**	**249,717**

On July 7, 2014, the Company closed the over-allotment option in full of its previously announced bought deal, short-form prospectus offering, issuing 14,715,000 common shares of the Company at a price of $0.51 per common share for gross proceeds of $7.5 million.

On June 25, 2014, in connection with the Acquisition, the Company issued 29,831,537 common shares to Gran Tierra Energy Inc. at a price of $0.51 per common share for partial consideration in the Acquisition totaling $15.2 million.

On June 24, 2014, the Company closed a bought deal financing of 98,100,000 common shares at a price of $0.51 per common share, for aggregate gross proceeds of $50.0 million.

On February 11, 2014, the Company closed a bought deal financing of 32,857,225 common shares at a price of $0.70 per common share, including 4,285,725 common shares issued pursuant to the exercise of the over-allotment option in full by the Underwriters, for aggregate gross proceeds of $23.0 million.

9. Share 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.

The weighted average share price of the Company's common shares on the exercise date during the nine months ended September 30, 2014 was $0.51.

During the period ended September 30, 2014, 6,200,000 options were granted to certain employees, consultants and directors of the Company 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	$0.31
Share price	$0.50
Exercise price	$0.50
Expected Volatility - %	84%
Forfeiture rate	9.8%
Option life – years	4.35
Risk-free interest rate - %	1.47%

Expected volatility is estimated by considering historic daily share price volatility. A 9.8% estimated forfeiture rate was used when recording share-based compensation for stock options. This estimate will be adjusted each period until the vesting date.

Share-based compensation expense arising from the issuance of stock options recognized in the nine months ended September 30, 2014 was $1.2 million (2013 - $0.7 million) with an offsetting credit to contributed surplus.

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

	Number of options 000s	Weighted average exercise price CDN$
Outstanding at December 31, 2012	22,334	0.47
Granted	7,260	0.36
Exercised	(2,959)	0.21
Forfeited	(1,842)	0.42
Expired or cancelled	(5,263)	0.76
Outstanding at December 31, 2013	**19,530**	**0.40**
Granted	**6,200**	**0.50**
Expired	**(47)**	**(0.11)**
Exercised	**(250)**	**(0.12)**
Outstanding at September 30, 2014	**25,433**	**0.43**
Exercisable at September 30, 2014	**10,557**	**0.46**

During the third quarter, 6,200,000 options were granted to certain employees and consultants of the Corporation and its subsidiaries; 5,000,000 related to employees in Argentina as a result of the Acquisition. The options have an average exercise price of $0.50 per share and are exercisable for a period of five years from the date of grant.

10. Related Parties

A director of the Company is a partner of a law firm that provides legal services to the Company. During the nine months ended September 30, 2014, the Company incurred fees of $ 0.04 million (September 30, 2013 - $ 0.1 million) from this firm for legal fees related to legal matters. All legal fees from this firm have been paid as at September 30, 2014.

11. Supplemental Cash Flow

Changes in non-cash working capital

Canadian $000s	Nine months ended September 30 2014	2013
Trade and other receivables	**(16,832)**	(2,100)
Other current assets	**(3,354)**	46
Trade and other payable	**16,743**	(4,405)
Change in non-cash working capital	**(3,443)**	(6,459)
Attributable to:		
Operating activities	**6,500**	(2,421)
Financing activities	**30**	-
Investing activities	**(9,973)**	(4,038)
	(3,443)	(6,459)

12. Commitments

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 held under a 25 year exploitation (development) concession which was approved by the Province of Neuquén in 2012 and expires in 2038. There are no firm commitments are associated with this portion of the block.

In October 2013 the exploration period for Coiron Amargo Sur was extended until November 8, 2014 based on a work commitment program for the southern portion of the block. The Company commenced drilling a Vaca Muerta shale well in November 2014 which will satisfy the last of the work commitments prior to entering into a new contract phase. Over the last several months, Madalena and its partners have been negotiating the contract renewal for Coiron Amargo Sur and anticipate a multi-year year contract to be officially approved by the Province of Neuquen in the first quarter of 2015 by way of an official decree.

Curamhuele Block (90% working interest)
In September 2013 the first exploration period was extended until November 8, 2014 by the Province of Neuquén. In the first half of 2014 Madalena shot and processed a 75 sq. km. 3D seismic program to satisfy part of the work commitments associated with the first exploration period. This seismic program is currently in the geotechnical processing stage to identify additional exploration and appraisal leads across the block. To satisfy the remaining work commitments, Madalena is preparing to conduct a 2 well re-entry program in early 2015. Madalena has been in communication with the Province of Neuquén and its partner (Gas y Petroleo) related to execution timelines for the re-entry program and an additional ten months of flexibility. It is anticipated that an extension will be officially granted in order to fulfill the remaining work program. At this time, Madalena plans to execute the remaining commitments on the block in 2015.

After satisfying these remaining work commitments, Madalena expects to either convert certain areas of the acreage into an exploitation (development) concession and/or enter into a new exploration period(s) or unconventional evaluation phase to further explore and appraise the Curamhuele block.

Cortadera Block (37.8% working interest)
On January 15, 2014, Madalena and its working interest partners signed an amended contract agreement to formalize a multi-year agreement for the extension of the initial exploration period and inclusion of subsequent exploration periods. Subsequent to that agreement and following an application and approval process, the first exploration period for Cortadera was extended by way of an official decree which was signed by the Province of Neuquén in Argentina. This extension provides Madalena and its working interest partners until October 26, 2014 to satisfy the remaining work commitments on the block. As of November 25, 2014 Madalena and its working interest partners have taken steps to satisfy the remaining commitments in Q4-2014 (as planned). Madalena's share of any remaining work commitments that was yet to be performed was not material.

Madalena and its working interest partners at Cortadera have the option to enter into subsequent exploration periods involving a second exploration period extending to October 25, 2018 and a third exploration period upon which Madalena and its working interest partners have the option to enter into subsequent exploration periods extending to October 25, 2021, or extend the Cortadera Block through potential further evaluation and/or exploitation phases.

Santa Victoria Block (100% working interest)
This block was part of the recent Acquisition and includes a 100% working interest operated property covering 516,846 gross acres in the Noroeste Basin. The contract is currently in the second of three exploration phases. This phase requires a minimum work commitment of US$3.75 million plus VAT to be conducted by April 2015. Madalena is currently pursuing joint ventures on the block that would satisfy the current period commitment and allow the Company to proceed to a third exploration period.

Flow-through Share Commitments
During 2013, the Company completed a Canadian Exploration Expense ("CEE") flow through share financing in the amount of $5.7 million. As at November 25, 2014, all of the CEE flow-through funds had been expended.

13. Net Income (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	
	2014	**2013**	**2014**	**2013**
Net loss - $000s	(2,265)	(118)	(5,480)	(2,758)
Weighted average number of common shares:				
Basic and diluted - 000s	538,822	336,177	442,955	322,605

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

14. 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.

Argentine Foreign Currency Restrictions

Historically, Madalena has not repatriated funds from Argentina. As a result of expanding our operations in Argentina through the Acquisition, there may be reason to repatriate funds in future periods. The Argentina government has imposed a number of monetary and currency exchange control measures that include restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad, with certain exceptions for transfers related to foreign trade and other authorized transactions approved by the Argentina Central Bank. Subsequent to September 30, 2014, the Company repatriated USD$2 million from one of its Argentina subsidiaries. These were repayments related to loan principal and as such had no withholding tax applied. At September 30, 2014, $14.2 million, or 64%, of our cash and cash equivalents was deposited with banks in Argentina.

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 oil and gas properties 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, 2014 to Oct. 31, 2014	500 GJ/d	$3.45CDN	$3.45 CDN	AECO
Natural gas fixed	April 1, 2014 to Oct. 31, 2014	300 GJ/d	$3.55CDN	$3.55 CDN	AECO
Natural gas fixed	April 1, 2014 to Oct. 31, 2014	300 GJ/d	$4.43CDN	$4.43 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 US	WTI
Crude oil call options	Jan. 1, 2014 to Dec. 31, 2014	50 bbl/d	-	$100 US	WTI
Crude oil call options	Jan. 1, 2015 to Dec. 31, 2015	50 bbl/d	-	$95 US	WTI
Crude oil swap	Feb 1, 2014 to Dec 31, 2014	50 bbl/d	-	$100 CDN	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, 2014 was a net liability of $ 34,689 (September 30, 2013 - $4,374). Realized losses as at September 30, 2014 were $214,933 (September 30, 2013 - $78,252 realized gain) and are included in interest and other income on the statement of loss and comprehensive loss. The commodity contracts currently in the condensed interim consolidated financial statements are classified as level 2 within the fair value hierarchy.

Subsequent to September 30, 2014, one fixed natural gas contract has been added effective for the period November 1, 2014 to October 31, 2015 for 500 GJ/day with a price of $3.52/GJ using AECO as a price index.

15. 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, 2014 and September 30, 2013.

	As at and for Nine months ended September 30, 2014		
Canadian $000s	**Canada**	**Argentina**	**Total**
Total assets	**50,012**	**186,789**	**236,801**
Total liabilities	**(11,438)**	**(62,730)**	**(74,168)**
Revenues	**13,069**	**33,241**	**46,310**
Net Loss	**(3,832)**	**(1,648)**	**(5,480)**
Capital expenditures	**10,852**	**16,403**	**27,255**

	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