MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

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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 25, 2014 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 ended September 30, 2014 and the accompanying notes as well as the audited consolidated financial statements for the year ended December 31, 2013 and the accompanying notes. This MD&A contains forward-looking information about our current expectations, estimates, projections and assumptions. See the reader advisory for information on the risk factors that could cause actual results to differ materially and the assumptions underlying our forward-looking information. Madalena's management prepared the MD&A, while the Audit Committee of the Madalena Board of Directors (the "Board") reviewed and recommended its approval by the Board. Additional information relevant to the Company's activities contained in its continuous disclosure documents, including our quarterly and the Annual Information Form ("AIF") is available on SEDAR at www.sedar.com.*

**Basis of Presentation**

*This MD&A and the unaudited condensed interim consolidated financial statements and comparative information have been prepared in Canadian dollars, except where another currency has been indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. Production volumes are presented on a before royalties basis.*

**Non-GAAP Measures**

*Certain financial measures in this document do not have a standardized meaning as prescribed by IFRS, such as funds flow from operations and netbacks and therefore are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in order to provide shareholders and potential investors with additional measures for analyzing our ability to generate funds to finance our operations and information regarding our liquidity. The additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The definition and reconciliation of each non-GAAP measure is presented in the Operating Results, Financial Results and Liquidity and Capital Resources sections of this MD&A.*

*The reconciliation between cash flow from operating activities and funds flow from operations can be found in the MD&A. Funds flow from operations per share is calculated using the same basic and diluted weighted average number of shares for the period, consistent with the calculations of earnings per share.*

*The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. This equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

## INTRODUCTION AND OVERVIEW

### Company Overview

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

Internationally, Madalena holds over 950,000 net acres across a portfolio of large land blocks for concessions within five provinces in Argentina where it is focused on the delineation of large petroleum in-place shale and unconventional resources in the Vaca Muerta and Agrio shales, in addition to multiple tight sand plays. The

Company is also implementing horizontal drilling and completions technology to develop high impact conventional and scaleable resource plays.

Domestically, Madalena's core area of operations is located in the Greater Paddle River area of west-central Alberta where the Company holds approximately 200 gross (150 net) sections of land (approximately 78% average W.I.) encompassing light oil and liquids-rich gas resource plays. Madalena's primary domestic focus is to exploit its large inventory of horizontal drilling locations on its Ostracod oil and other oil and liquids-rich gas resource plays.

**THIRD QUARTER 2014 HIGHLIGHTS**

*($CDN unless otherwise specified)*

The third quarter was highlighted by the results of the accretive acquisition made by Madalena in late June 2014. Third quarter 2014 highlights as compared to the third quarter of 2013 include:

- 300% increase in production to 4,707 boe/d (75% oil & NGLs);
- 538% increase in oil and gas revenues to $30.9 million;
- 379% increase in funds flow from operations to $8.8 million;
- During the quarter the Company was awarded USD$4 million for Argentine Oil Plus Credits (related to production and reserve increases in prior years). The Company anticipates collecting these credits (revenue) in 2015 and will recognize the revenue at the time of collection;
- Exited the quarter with a positive working capital position of $18.0 million, no debt and unutilized credit facilities of $13.0 million;
- Appointed two new independent directors Messrs. Douglas E. Brooks and Steven Sharpe to the Board directors. Messrs. Brooks and Sharpe add significant operational, strategic and governance expertise to Madalena;
- Realized oil prices in Argentina remained strong with the Company receiving an average of $87.11 per barrel of oil during the third quarter;
- Drilled, completed and placed on production its third Sierras Blancas light oil horizontal (CAN-18(h)) after successfully targeting a third separate oil pool on its Coiron Amargo Norte block (35% WI). The CAN-18(h) horizontal was initially placed on production through permanent facilities at a rate of 910 boe/d (83% oil);
- Successfully drilled and completed a new horizontal oil and gas exploration discovery (100% WI) in the Nordegg formation on Madalena's western Canadian assets. This new discovery well flowed continuously up 7 inch casing and ended its initial clean-up period flowing at a rate of 718 boe/d (51% Oil); and
- Commenced the international operational planning related to the drilling of multiple high impact plays in 2015 focused on the Loma Montosa oil resource play, Sierras Blancas light oil pools, Vaca Muerta shale, Agrio shale, and liquids rich Mulichinco.

## SUMMARY FINANCIAL AND OPERATIONAL RESULTS

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Financial Canadian -** $000s (except per share amounts) | | | | |
| Oil and gas revenue | **30,860** | 4,840 | **46,310** | 12,327 |
| Funds flow from operations[1] | **8,750** | 1,828 | **13,368** | 2,239 |
| Per share - basic & diluted[1] | **0.02** | 0.01 | **0.03** | 0.01 |
| Net income (loss) | **(2,267)** | (118) | **(5,480)** | (2,758) |
| Per share – basic and diluted | **(0.00)** | (0.00) | **(0.01)** | (0.01) |
| Business combination | **-** | - | **74,406** | - |
| Capital expenditures | **12,543** | 7,171 | **27,256** | 30,175 |
| Working capital | **17,958** | 8,925 | **17,958** | 8,925 |
| **Equity outstanding –** 000s | | | | |
| Common shares | **539,783** | 338,698 | **539,783** | 338,698 |
| Stock options | **25,433** | 20,430 | **25,433** | 20,430 |
| **Operating[2]** | | | | |
| *Average Daily Sales* | | | | |
| Crude oil and condensate – Bbls/d | **3,377** | 401 | **1,592** | 338 |
| Natural gas – Mcf/d | **7,135** | 3,838 | **4,604** | 3,340 |
| NGLs – Bbls/d | **140** | 137 | **125** | 129 |
| Total - boe /d[3] | **4,707** | 1,177 | **2,485** | 1,024 |
| *Average Sales Prices* | | | | |
| Crude oil and condensate - $/Bbl | **87.16** | 89.51 | **87.48** | 83.01 |
| Natural gas - $/Mcf | **4.81** | 2.43 | **5.10** | 3.05 |
| NGLs - $/Bbl | **48.56** | 54.54 | **54.58** | 53.33 |
| Total - $/boe[3] | **71.28** | 44.72 | **68.27** | 44.11 |
| *Operating Netbacks [4]* | | | | |
| $/boe[3] | **34.29** | 14.82 | **33.76** | 14.61 |

(1) This table contains the term "funds flow from operations", which is a non-GAAP measure and should not be considered an alternative to, or more meaningful than "cash flows from operating activities" as determined in accordance with International Financial Reporting Standards ("IFRS") as an indicator of the Company's performance. Funds flow from operations and funds flow from operations per share (basic and diluted) do not have any standardized meanings prescribed by IFRS and may not be comparable with the calculation of similar measures for other entities. Management uses funds flow from operations to analyze operating performance and leverage and considers funds flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investment. The reconciliation between funds flow from operations and cash flows from operating activities can be found in "Management's Discussion and Analysis". Funds flow from operations per share is calculated using the basic and diluted weighted average number of shares for the period, consistent with the calculations of earnings per share.

(2) Sales represent production volumes adjusted for inventory changes in Argentina.

(3) Refer to - "Reserves and Other Oil and gas Disclosure” in Advisory.

(4) Operating netback is a non-GAAP measure calculated as the average per boe of the Company’s oil and gas sales, less royalties and operating costs.

## OUTLOOK FOR FOURTH QUARTER OF 2014 AND 2015

The Company had previously established a $36 million capital budget for the second half of 2014. Madalena expects to spend an estimated $26 million of such amount by the end of 2014 with certain drilling and operational activities related to the Company's international program being carried over into 2015. The Company continues to be well positioned heading into an active 2015 year and expects to be in a positive working capital position with no debt at the end of 2014.

The Company's current base production is approximately 4,400 boe/d plus an additional estimated 200 bopd which is currently shut-in on its El Vinalar block pending maintenance work. This production is expected to be restored prior to the end of 2014. In addition, Madalena also has an estimated 500 boe/d of production additions to be brought on stream in Q1-2015 from recent drilling and completion operations conducted in Q4-2014.

Madalena has recently commenced drilling a Vaca Muerta shale delineation well on its Coiron Amargo block and plans to start drilling a fourth horizontal well into its Sierras Blancas light oil play in Q4-2014. The Company is also currently in the field conducting various production optimization activities on its Argentina properties.

With Madalena positioned with a solid production base for reinvestment, the Company expects to be very active in 2015 with plans to drill a number of wells focused on properties with scaleability and large exploitation upside both unconventionally and conventionally.

The Company is focused on maintaining a balanced approach comprised of implementing horizontal drilling and completions technology across its oil assets both in Argentina and Canada and the delineation of the Company's unconventional shales and tight sand resources in Argentina.

Among the Company's portfolio of assets, six high impact plays are proposed to be drilled and completed throughout 2015 and will focus on:

Coiron Amargo

- Continued horizontal drilling of the Company's Sierras Blancas light oil assets at Coiron Amargo across six different pools on the block;
- Vertical and horizontal multi-frac wells to further delineate and evaluate the Vaca Muerta shale oil potential at Coiron Amargo;

Puesto Morales

- Applying horizontal multi-frac technology to advance the Company's Loma Montosa oil resource play at Puesto Morales which is scaleable with regional scope;

Curamhuele

- Re-entry activities at Curamhuele to drill, complete and test the potential of the unconventional Agrio shale for light oil, offsetting a recent industry discovery on an adjacent block;
- Re-entry activities at Curamhuele to drill, complete and test the unconventional liquids-rich Mulichinco play which is over 200 meters thick on the block; and

Canada

- Horizontal development drilling and advancement of the Company's proprietary completion technology on its emerging Nordegg oil and gas resource play in west-central Alberta, Canada.

Madalena's 2015 business plan also involves advancing business development initiatives related to its non-core properties. As such, the Company will continue to pursue potential non-core asset sales, select strategic joint ventures or farmouts to create additional shareholder value.

In addition to drilling a number of plays in 2015 and working on business development initiatives, the Company also plans to conduct workover programs and overall facility enhancement activities to continue to optimize its existing producing fields.

**FINANCIAL RESULTS**

**Reconciliation of Cash Flow from Operating Activities and Funds Flow from Operations**

As detailed previously in this MD&A, funds flow from operations is a term that does not have any standardized meaning under GAAP. Madalena's method of calculating funds flow from operations may differ from that of other companies, and accordingly, may not be comparable to measures used by other companies. Funds flow from operations is calculated as cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital.

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| (000s) | **2014** | 2013 | **2014** | 2013 |
| Cash flow from operating activities | **18,866** | (47) | **19,812** | (89) |
| Change in non-cash working capital | **(10,149)** | 1,908 | **(6,500)** | 2,421 |
| Decommissioning costs incurred | **33** | 34 | **56** | 93 |
| Funds flow from operations | **8,750** | 1,895 | **13,368** | 2,425 |

**Funds flow from operations, Net Income (Loss) and Comprehensive Loss**

| Canadian $000s (except per share amounts) | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Funds flow from operations | **8,750** | 1,895 | **13,368** | 2,425 |
| Per share - basic & diluted | **0.02** | 0.01 | **0.03** | 0.01 |
| Net income (loss) | **(2,267)** | (118) | **(5,480)** | (2,758) |
| Per share – basic & diluted | **(0.00)** | (0.00) | **(0.01)** | (0.01) |
| Comprehensive income (loss) | **4,480** | (3,952) | **(7,704)** | (7,990) |

Madalena's funds flow from operations for the three months ended September 30, 2014 (the "Quarter") increased to $8.8 million from $1.9 million in the third quarter of 2013. The increase in funds flow from operations between the 2014 and 2013 third quarters was principally due to the acquisition of the Gran Tierra Argentine business unit (the "Acquisition") in June 2014.

Madalena's funds flow from operations for the nine months ended September 30, 2014 ("YTD") increased to $13.4 million from $2.4 million in the nine months ended September 30, 2013. The increase in funds flow from operations between the 2014 and 2013 YTD periods was principally due to the acquisition of the Gran Tierra Argentine business unit in June 2014.

The net loss for the Quarter was $2.3 million (2013 – $0.1 million). Net lease operating income increases generated from the Acquisition were offset by business combination costs, increased general and administration costs, impairment losses, increased depletion and income taxes. The net loss for the YTD was $5.5 million (2013 – $2.8 million). Net lease operating income increases from the Acquisition were offset by business combination costs, impairment losses, increased depletion and income taxes.

On July 1, 2014, The Company changed its functional currency for Madalena Austral S.A. from the Argentine peso ("peso") to the United States dollar ("USD"), resulting in all of the Company's Argentine subsidiaries having a USD functional currency.

The exchange impact between USD and the Canadian dollar ("CAD"), which is our presentation currency, is reflected in comprehensive income (loss).

A summary of foreign exchange impact follows:

| Canadian $000s | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Impacting net loss: | | | | |
| Foreign exchange gain (loss) | **32** | 1,396 | **2,063** | 2,559 |
| Impacting comprehensive income (loss): | **6,747** | (3,834) | **(2,224)** | (5,232) |
| Foreign exchange gain (loss) | **6,779** | (2,438) | **(161)** | (2,673) |

During the Quarter and YTD, the Company realized a foreign exchange gain of $32,000 (2013 – $1.4 million) and $2.1 million (2013 – $2.6 million), respectively. These gains were a result of beneficial exchange rates between the Argentine peso and the CAD that existed in the market at the time of funding the Argentina exploration and development activity from Canada.

The Company changed its functional currency on July 1, 2014 from Argentine peso to USD. Consequently, future exchange rate fluctuations between the USD and the CAD will impact other comprehensive income or loss. Prior to July 1, 2014, exchange rate fluctuations between the Argentine peso to CAD impacted other comprehensive income or loss.

For the Quarter, the USD increased by 5% against the CAD causing a $6.8 million exchange gain on translation of foreign currencies (2013 - $3.8 million loss). For the YTD, the Company had a $2.2 million loss (2013 - $5.2 million loss). The impact on other comprehensive income for the YTD is due to a 24% decline of the Argentine peso against the CAD for the first six months of 2014 which was then offset by the 5% increase in the USD against the CAD.

## Sales Volumes

| Average daily sales volumes | Three months ended September 30 **2014** | 2013 | Nine months ended September 30 **2014** | 2013 |
|---|---|---|---|---|
| **Argentina** | | | | |
| Crude oil (Bbls/d) | **3,090** | 171 | **1,294** | 175 |
| Natural gas (Mcf/d) | **4,416** | 106 | **1,772** | 129 |
| Total daily production (boe/d) | **3,826** | 189 | **1,590** | 197 |
| **Canada** | | | | |
| Crude oil and condensate (Bbls/d) | **288** | 230 | **298** | 163 |
| Natural gas (Mcf/d) | **2,719** | 3,732 | **2,832** | 3,211 |
| Natural gas liquids (Bbls/d) | **140** | 137 | **125** | 129 |
| Total daily production (boe/d) | **880** | 988 | **895** | 827 |
| **Corporate** | | | | |
| Total daily production (boe/d) | **4,707** | 1,177 | **2,485** | 1,024 |
| % Oil & NGLs | **75%** | 46% | **69%** | 46% |

*Argentina*

Crude oil sales volumes for the Quarter increased to 3,090 bbls/d from 171 bbls/d for the comparable quarter in 2013 a result of the Acquisition and increased oil volumes from our Coiron Amargo concession. Crude oil sales volumes for the YTD increased to 1,294 bbls/d from 175 bbls/d for the comparable quarter in 2013 a result of the Acquisition and increased oil volumes from our Coiron Amargo concession.

Natural gas sales volumes for the Quarter increased to 4,416 mcf/d from 106 mcf/d for the comparable quarter in 2013 a result of the Acquisition and increased natural gas volumes from our Coiron Amargo concession. Natural gas sales volumes for the YTD increased to 1,772 bbls/d from 129 bbls/d for the comparable quarter in 2013 a result of the Acquisition and increased natural gas volumes from our Coiron Amargo concession.

*Canada*

Sales volumes during the Quarter decreased 11% to 880 boe/d (49% Oil & NGLs), from 988 boe/d (37% Oil & NGLs) in Q3 – 2013. Decreased production was due to natural production declines.

YTD production increased 8% to 895 boe/d (47% Oil & NGLs), from 827 boe/d (35% Oil & NGLs) YTD 2013 as production additions from the Ostracod project more than offset production declines from the Company's base production.

**Average Realized Prices**

| Canadian $ | Three months ended September 30 2014 | 2013 | Nine months ended September 30 2014 | 2013 |
|---|---|---|---|---|
| **Argentina** | | | | |
| Crude oil – ($/Bbl) | **87.11** | 81.92 | **86.86** | 79.72 |
| Natural gas – ($/Mcf) | **5.19** | 4.94 | **5.26** | 4.42 |
| Total per boe | **76.34** | 77.00 | **76.59** | 73.92 |
| **Canada** | | | | |
| Crude oil and condensate – ($/Bbl) | **87.71** | 95.16 | **90.15** | 86.54 |
| Natural gas – ($/Mcf) | **4.18** | 2.36 | **5.00** | 3.00 |
| Natural gas liquids ($/Bbls) | **48.56** | 54.54 | **54.58** | 53.33 |
| Total per boe | **49.23** | 38.55 | **53.48** | 37.02 |

Argentina realized oil and gas prices are directly related to a government controlled, regulated and set pricing environment, which is established by the Argentinean regulators. Oil and gas prices in Argentina are typically made independently of comparative benchmarks outside of Argentina and do not necessarily follow world commodity prices. The Company anticipates that oil and gas prices in the fourth quarter will be comparable to those received in the Quarter.

The increase in 2014 in the selling prices for oil and gas in Argentina was primarily a result of the strengthening USD against the CAD.

As of November 25, 2014, 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, 2014 to Oct. 31, 2014 | 500 GJ/d | $3.45 CDN | $3.45 CDN | AECO |
| Natural gas fixed | April 1, 2014 to Oct. 31, 2014 | 300 GJ/d | $3.55 CDN | $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 |
| Natural gas fixed | Nov 1, 2014 to Oct. 31, 2015 | 500 GJ/d | $3.52CDN | $3.52 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 |
| Crude oil call options | Jan 1, 2015 to Dec. 31, 2015 | 50 bbl/d | - | $95.00 US | WTI |
| Crude oil swaps | 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 payable and an unrealized loss of $34,689 (2013 – unrealized loss of $4,374). Realized losses for the Quarter and YTD were $85,230 (2013 - realized gains $78,252) and $214,933 (2013 – realized gains $78,252) 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.

## Revenue

| Canadian $000s, except per boe | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Argentina** | | | | |
| Crude oil | **24,760** | 1,288 | **30,696** | 3,812 |
| Natural gas | **2,109** | 48 | **2,545** | 155 |
| | **26,869** | 1,336 | **33,241** | 3,967 |
| **Canada** | | | | |
| Crude oil and condensate | **2,321** | 2,009 | **7,339** | 3,856 |
| Natural gas | **1,046** | 810 | **3,868** | 2,630 |
| Natural gas liquids | **624** | 685 | **1,862** | 1,874 |
| | **3,991** | 3,504 | **13,069** | 8,360 |
| Corporate Total | **30,860** | 4,840 | **46,310** | 12,327 |
| Corporate - $/ boe | **71.28** | 44.72 | **68.27** | 44.11 |

*Argentina*

Oil and gas sales were $26.9 million (2013 – $1.3 million) for the Quarter and $33.2 million (2013 - $4.0 million) for the YTD due to the contribution of oil and gas sales from the Acquisition, increased oil and gas sales from the Coiron Amargo concession and improved prices realized from both the sale of oil and gas due to a strengthening USD.

*Canada*

Oil sales increased to $2.3 million (2013 - $2.0 million) in the Quarter due to increased production which were partially offset by lower prices realized on the sale of oil. Oil sales increased to $7.3 million (2013 - $3.9 million) YTD, primarily due to increased production and a slight increase in oil prices. Natural gas sales were $1.0 million (2013 - $0.8 million) in the Quarter as increased prices realized from the sale of gas were partially offset by decreased gas production. Natural gas sales were $3.9 million (2013 - $2.6 million) YTD as increased prices realized from the sale of gas were partially offset by decreased gas production.

## Royalties

| Canadian $000s | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Argentina** | | | | |
| Royalties | **3,907** | 206 | **4,795** | 640 |
| As % of revenue from Argentina | **15%** | 15% | **14%** | 16% |
| **Canada** | | | | |
| Royalties | **462** | 518 | **1,535** | 1,071 |
| As % of revenue from Canada | **12%** | 15% | **12%** | 13% |
| **Corporate total** | **4,369** | 724 | **6,332** | 1,711 |

*Argentina*

Royalty expense in the Quarter and YTD increased due to higher production volumes. Royalties consist of payments paid to provincial governments and land owners that are determined on a production and/or rental basis.

*Canada*

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. Royalty expense in the Quarter decreased due to lower royalty rates on new horizontal wells drilled on crown lands. Royalty expense YTD increased due to higher prices received on production volumes.

**Operating Costs**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| Canadian $000s, except per boe | **2014** | **2013** | **2014** | **2013** |
| **Argentina** | | | | |
| Operating costs | **9,910** | 735 | **11,933** | 2,167 |
| $/boe | **28.16** | 42.36 | **27.50** | 40.36 |
| **Canada** | | | | |
| Operating costs | **1,734** | 1,778 | **5,142** | 4,367 |
| $/boe | **21.42** | 19.56 | **21.04** | 19.34 |
| **Corporate total** | **11,644** | 2,513 | **17,075** | 6,534 |

*Argentina*

Operating costs including transportation in Argentina were $28.16 and $27.50 per boe in the Quarter and YTD, respectively, and have been significantly reduced from 2013 as the benefits from the optimization of surface fluid handling and gas conservation facilities at Coiron Amargo were realized. Management expects average operating costs to continue in the $27 – 29/boe range through 2015.

*Canada*

In Canada, operating costs have remained consistent in the $20 per boe range and management expects average operating costs to continue in the $20 – 22/boe range in the near term.

**Netbacks** [(1)]

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| Canadian $ | **2014** | **2013** | **2014** | **2013** |
| **Argentina** | | | | |
| Revenue | **76.34** | 77.00 | **76.59** | 73.92 |
| Royalties | **(11.10)** | (11.87) | **(11.05)** | (11.92) |
| Operating expenses | **(28.16)** | (42.36) | **(27.50)** | (40.36) |
| Netbacks | **37.09** | 22.77 | **38.05** | 21.64 |
| **Canada** | | | | |
| Revenue | **49.23** | 38.55 | **53.48** | 37.02 |
| Royalties | **(5.70)** | (5.70) | **(6.29)** | (4.74) |
| Operating expenses | **(21.42)** | (19.56) | **(21.04)** | (19.34) |
| Netbacks | **22.11** | 13.29 | **26.15** | 12.94 |

| Canadian $ | Three months ended September 30 2014 | 2013 | Nine months ended September 30 2014 | 2013 |
|---|---|---|---|---|
| **Corporate** | | | | |
| Revenue | **71.28** | 44.72 | **68.27** | 44.11 |
| Royalties | **(10.09)** | (6.69) | **(9.33)** | (6.12) |
| Operating expenses | **(26.89)** | (23.21) | **(25.17)** | (23.38) |
| Netbacks | **34.29** | 14.82 | **33.76** | 14.61 |

(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.

The Company anticipates netbacks to average $32 – 35/ boe through 2015.

**General and Administration ("G&A") Expenses**

| Canadian $000s | Three months ended September 30 2014 | 2013 | Nine months ended September 30 2014 | 2013 |
|---|---|---|---|---|
| Argentina | **2,919** | 405 | **4,412** | 1,270 |
| Canada | **2,015** | 681 | **4,265** | 3,094 |
| | **4,934** | 1,086 | **8,677** | 4,364 |

G&A expenses for the Quarter were higher than the comparable period in 2013 in Argentina as a result of the incremental G&A from the Acquisition and increased administration costs from the existing operations. In Canada, increased compensation and office and administration costs, including the relocation of head office, for the Quarter as compared to Q3-2013 were the primary causes for increased G&A expenses.

**Business Combination Expenses**

Business combination expenses relating to the Acquisition were $0.1 million (2013 - $nil) for the Quarter and $1.9 million (2013 - $nil) for the YTD, consisting primarily of legal and financial advisory fees.

**Accretion**

In Argentina, accretion expense was $37,000 (2013 – $16,000) for the Quarter and $75,000 (2013 – $53,000) YTD. In Canada, accretion expense was $30,000 (2013 - $17,000) for the Quarter and $88,000 (2013 - $51,000) 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 $0.5 million in the Quarter (2013 - $0.3 million) and $1.2 million YTD (2013 - $0.7 million).

### Depletion and Depreciation

| Canadian $000s | Three months ended September 30 2014 | 2013 | Nine months ended September 30 2014 | 2013 |
|---|---|---|---|---|
| Argentina | **8,882** | 464 | **10,920** | 1,512 |
| Canada | **1,215** | 1,326 | **3,525** | 2,959 |
| | **10,097** | 1,790 | **14,445** | 4,471 |
| $/boe | **23.32** | 16.53 | **21.29** | 15.99 |

Depletion and depreciation expense for the Quarter and YTD increased due to higher depletion rates and production volumes as a result of the Acquisition.

### Impairment

The Company has recorded an impairment charge on its Canadian exploration and evaluation assets of $0.6 million (2013 – nil) and $3.2 million (2013 – nil) for the Quarter and YTD, respectively. The impairment charge for the Quarter related to costs incurred during the Quarter to complete the abandonment process on previously drilled and impaired wells.

### 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 $0.04 million (2013 - $0.1 million) and $0.7 million (2013 - $0.4 million), respectively. All legal fees from this firm have been paid as at September 30, 2014.

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 nil and $5,838, respectively (2013 - $50,215 for the comparative Quarter and $238,963 for the comparative YTD).

**Business Combination and Capital Expenditures**

| Canadian $000s | Three months ended September 30 2014 | 2013 | Nine months ended September 30 2014 | 2013 |
|---|---|---|---|---|
| **Argentina business combination** | **-** | - | **74,406** | - |
| **Capital Expenditures** | | | | |
| **Argentina** | | | | |
| Land | **-** | 1,002 | **15** | 1,136 |
| Geological and geophysical | **121** | (249) | **1,857** | 1,180 |
| Drilling and completions | **4,081** | 1,358 | **9,562** | 3,503 |
| Well equipment and facilities | **636** | (113) | **931** | 1,124 |
| Other | **280** | 232 | **1,182** | 1,100 |
| Argentina Total | **5,118** | 2,230 | **13,547** | 8,043 |
| **Canada** | | | | |
| Land | **53** | 53 | **74** | 167 |
| Geological and geophysical | **70** | 28 | **111** | 45 |
| Drilling and completions | **6,155** | 3,732 | **10,219** | 17,838 |
| Well equipment and facilities | **587** | 1,036 | **2,681** | 3,817 |
| Other | **560** | 92 | **624** | 265 |
| Canada total | **7,425** | 4,941 | **13,709** | 22,132 |
| **Total Capital Expenditures** | **12,543** | 7,171 | **27,256** | 30,175 |

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 Argentina 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.

Capital expenditures for the Quarter in Argentina were primarily related to drilling activities at Coiron Amargo and work-overs at Puesto Morales. Activity during the YTD related to the Acquisition, drilling activity at Coiron Amargo and the shooting of a 75 square km 3D seismic program at Curamhuele.

In Canada, activity YTD has primarily been directed to the Ostracod and Nordegg oil projects.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

***Liquidity, working capital and shareholders' equity***

| Canadian $000s | September 30 2014 | December 31 2013 |
|---|---|---|
| Working capital | **17,958** | 8,016 |
| Shareholders' equity | **162,632** | 79,003 |

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 or enter into joint venture partnerships to fund its capital commitments.

At September 30, 2014, the Company has available to it, 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. When drawn, 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 available to it with the National Bank of Canada to a maximum of $3 million, with interest charged on amounts drawn at the bank's prime rate plus 1.5% per annum.

Both facilities are subject to a periodic review by the bank and the next review, which was scheduled for September 1, 2014, is currently underway. The facilities were unutilized at September 30, 2014.

As the credit facilities are demand in nature, they may be called at any time. Accordingly, there is no assurance that the credit facilities will be renewed when future reviews are completed.

<u>Argentine Foreign Currency Restrictions</u>

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 $2.2 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.

**Share capital issued and options granted**

*Outstanding Share Capital*

In the first quarter of 2014, the Company issued 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.

In June 2014, the Company issued 98,100,000 common shares at a price of $0.51 per common share for aggregate gross proceeds of $50.0 million.

In June 2014, the Company issued 29,831,537 common shares at a price of $0.51 per common share, pursuant to the Acquisition.

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.

During the Quarter and YTD, 6,200,000 options were granted to certain employees, consultants and new directors of the Company 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.

**Financial Instruments**

Other than the commodity contracts discussed earlier in this report, the Company's 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 involve critical accounting estimates. There are significant uncertainties related to the estimated costs and the timing of settlement of decommissioning obligations, and the impact on the financial statements could be material. 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 lives, and changes in technology.

*Argentina*

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 its Argentina portfolio will be settled by USD.

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. 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.

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 – 17.2 %) in Argentina and up to 2.8% (December 31, 2013 – up to 3.0%) in Canada.

**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 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 vertical 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 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.

## ANNUAL AND QUARTERLY FINANCIAL RESULTS

### Quarterly Financial Results

| Canadian $000s, except per share amount and shares outstanding | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
|---|---|---|---|---|
| Revenues | **30,860** | 9,144 | 6,306 | 5,633 |
| Net income (loss) | **(2,267)** | (3,510) | 297 | (20,527) |
| Shares outstanding – millions | **540.0** | 525.4 | 396.8 | 364.0 |
| Net income (loss) per share – basic and diluted | **(0.00)** | 0.01 | (0.00) | (0.06) |

| | 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 - millions | 338.7 | 316.8 | 316.1 | 314.3 |
| Net loss per share – basic and diluted | (0.00) | (0.00) | (0.01) | (0.02) |

Generally, the Company's increase in revenues during the Quarter can be attributed to increasing oil production in Argentina.

The Company recorded impairment charges in Q3-2014, Q2-2014, Q4-2013 and Q4-2012 of $0.6 million, $1.9 million, $19.7 million and $2.5 million, respectively, impacting the net loss recognized of $2.3 million, $3.5 million, $20.5 million and $5.1 million in Q2-2014, Q4-2013 and Q4-2012, respectively. The Company also incurred $1.7 million of business combination costs relating to the Acquisition in Q2-2014.

The Company issued 32.8 million shares during Q1 2014 for gross proceeds of $23.0 million, issued 128.2 million shares during Q2 2014 for gross proceeds and partial consideration for the Acquisition, which totalled $65.3 million and 14.7 million shares for gross proceeds of $7.5 million during Q3-2014.

## 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 2013 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, not otherwise disclosed in this quarter, 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, 2013.

### 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, 2014, as required, the Company adopted the amendments to IAS 32 and IFRIC 21. 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, 2013.

**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 2014, 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, 2013.

**Changes in Accounting Policies**

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.

Effective July 1, 2014, based on management's evaluation, taking into consideration the currency that most strongly influences sale prices and in which management makes primary operating and capital decisions, in addition to the currency in which funding requirements are met, management changed the functional currency of one of its subsidiaries, Madalena Austral S.A., from the Argentine Peso ("ARS") to the United States Dollar ("USD"). 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, the functional currency of all Argentine and Barbados companies is the United States dollar ("USD").

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

**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.

**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 2013 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 and its involvement in Argentina. Actively managing these risks improves the Company's ability to effectively execute its business strategy. The factors that impact 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, 2013. 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, 2013.

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, 2013.

**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 ability to repatriate funds from Argentina, 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 MD&A 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 and Agrio shales are unconventional resource plays which may be subject to high initial decline rates.

**Analogous Information**

Certain information in this MD&A may constitute "analogous information" as defined in National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), including, but not limited to, information relating to areas, assets, wells, industry activity and/or operations that are in geographical proximity to or believed to be on-trend with lands held by Madalena. Such information has been obtained from public sources, government sources, regulatory agencies or other industry participants. Management of Madalena believes the information may be relevant to help define the reservoir characteristics within lands on which Madalena holds an interest and such information has been presented to help demonstrate the basis for Madalena's business plans and strategies. However, management cannot confirm whether such analogous information has been prepared in accordance with NI 51-101 and the Canadian Oil and Gas Evaluation Handbook and Madalena is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor. Madalena has no way of verifying the accuracy of such information. There is no certainty that the results of the analogous information or inferred thereby will be achieved by Madalena and such information should not be construed as an estimate of future production levels or the actual characteristics and quality Madalena's assets. Such information is also not an estimate of the reserves or resources attributable to lands held or to be held by Madalena and there is no certainty that such information will prove to be analogous in the future. The reader is cautioned that the data relied upon by Madalena may be in error and/or may not be analogous to such lands to be held by Madalena.

**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 |
| WI | Working interest |