CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Madalena Energy Inc.

We have audited the accompanying consolidated financial statements of Madalena Energy Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Madalena Energy Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Madalena Energy Inc. has financial commitments in 2016 for development and exploration programs in excess of forecast operating cash flows in 2016, as well as uncertainty as to whether additional capital can be raised on terms acceptable to the Company to meet the shortfall. These conditions, along with other matters as set forth in Note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

April 21, 2016
Calgary, Canada

Consolidated Statements of Financial Position

USD 000s	Note	As at December 31 2015	As at December 31 2014	As at January 1 2014
				(note 2)
Assets				
Current assets				
Cash and cash equivalents		**3,912**	11,572	13,945
Available for sale securities	12	**5,361**	-	-
Trade and other receivables		**17,882**	17,120	3,813
Inventory		**2,415**	2,478	255
Other current assets		**622**	1,019	755
		30,192	32,189	18,768
Property, plant and equipment	5, 6	**89,365**	97,476	36,715
Exploration and evaluation assets	7	**43,767**	37,824	33,583
Other long-term assets		**593**	2,032	1,420
		163,917	169,521	90,486
Liabilities				
Current liabilities				
Current portion of long-term debt	8	**3,944**	-	-
Trade and other payables		**23,216**	18,758	11,231
Taxes payable		**2,570**	3,280	-
Liability on flow-through shares		**-**	-	362
		29,730	22,038	11,593
Long-term debt	8	**1,972**	-	-
Other long-term liabilities	5, 17	**1,575**	4,296	-
Deferred income tax liability	15	**9,906**	4,313	-
Decommissioning obligations	5, 9	**20,641**	21,858	4,650
		63,824	52,505	16,243
Shareholders' Equity				
Share capital	10	**238,758**	237,928	154,375
Contributed surplus		**14,520**	13,555	12,054
Accumulated other comprehensive loss		**(32,062)**	(27,049)	(16,600)
Deficit		**(121,123)**	(107,418)	(75,586)
		100,093	117,016	74,243
		163,917	169,521	90,486

Going Concern (note 2)
Commitments and Contingencies (note 17)
Subsequent Events (notes 11 and 21)

See the accompanying Notes to the Consolidated Financial Statements.

On behalf of the Board:

[signed] "Gus Halas"
Gus Halas
Director

[signed] "Keith Macdonald"
Keith Macdonald
Director

Consolidated Statements of Loss and Comprehensive Loss

USD 000s, except per share amounts	Note	Year ended December 31 2015	2014
Revenues			
Oil and natural gas revenues		**83,648**	65,873
Royalties		**(13,651)**	(9,236)
Other income	12	**13,857**	-
		83,854	56,637
Gain on commodity contracts		**-**	109
		83,854	56,746
Expenses			
Operating	20	**36,006**	26,830
General and administrative	20	**10,617**	9,520
Finance (income) expenses	13	**(1,169)**	128
Business combination expenses	5	**-**	1,738
Share-based compensation	11	**1,077**	1,516
Depletion and depreciation	6	**26,318**	19,549
Impairment	6, 7	**13,758**	27,582
		86,607	86,863
Loss before income taxes		**(2,753)**	(30,117)
Income tax (expense)/recovery			
Current	15	**(5,359)**	(2,776)
Deferred	15	**(5,593)**	1,061
Total income tax expense		**(10,952)**	(1,715)
Net loss		**(13,705)**	(31,832)
Foreign currency translation adjustment		**(5,081)**	(10,449)
Available for sale investments	12	**68**	-
Comprehensive loss		**(18,718)**	(42,281)
Net loss per share			
Basic and diluted	10	**(0.03)**	(0.07)

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

USD 000s	Share Capital (Note 10)	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance at December 31, 2014	**237,928**	**13,555**	**(27,049)**	**(107,418)**	**117,016**
Net loss	**-**	**-**	**-**	**(13,705)**	**(13,705)**
Foreign currency translation adjustment	**-**	**-**	**(5,081)**	**-**	**(5,081)**
Stock options exercised	**830**	**(353)**	**-**	**-**	**477**
Share-based compensation	**-**	**1,318**	**-**	**-**	**1,318**
Available for sale investments (note 12)	**-**	**-**	**68**	**-**	**68**
Balance at December 31, 2015	**238,758**	**14,520**	**(32,062)**	**(121,123)**	**100,093**
Balance at December 31, 2013	154,375	12,054	(16,600)	(75,586)	74,243
Net loss	-	-	-	(31,832)	(31,832)
Foreign currency translation adjustment	-	-	(10,449)	-	(10,449)
Gross proceeds from financings	74,463	-	-	-	74,463
Share issue costs	(4,956)	-	-	-	(4,956)
Issued on business combination (note 5)	13,997	-	-	-	13,997
Stock options exercised	49	(21)	-	-	28
Share-based compensation	-	1,522	-	-	1,522
Balance at December 31, 2014	237,928	13,555	(27,049)	(107,418)	117,016

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

USD 000s	Note	Year ended December 31 2015	2014
Cash provided by (used in):			
Operating			
Net loss		**(13,705)**	(31,832)
Items not affecting cash:			
Depletion and depreciation	6	**26,318**	19,549
Impairment	6, 7	**13,758**	27,582
Accretion	9	**347**	266
Unrealized (gain)/loss on commodity contracts		**150**	(109)
Share-based compensation	11	**1,077**	1,516
Deferred income tax expense (recovery)	15	**5,593**	(1,061)
Unrealized (gain) loss on foreign exchange	13	**(3,922)**	564
Other non-cash items	17	**(1,815)**	-
Change in other long-term assets		**(492)**	(384)
Change in non-cash working capital	16	**(5,468)**	4,590
Decommissioning obligations settled	9	**(4)**	(203)
Cash flow from operating activities		**21,837**	20,478
Investing			
Property, plant and equipment additions	6	**(32,872)**	(20,845)
Evaluation and exploration asset additions	7	**(8,545)**	(15,260)
Business combination, net of cash acquired	5	**-**	(44,981)
Change in other long-term assets		**1,931**	(228)
Change in non-cash working capital	16	**972**	(10,621)
Net cash used in investing activities		**(38,514)**	(91,935)
Financing			
Issue of common shares	10	**477**	74,491
Share issue costs	10	**-**	(4,956)
Bank loan proceeds	8	**9,992**	-
Bank loan repayment	8	**(1,323)**	-
Change in non-cash working capital	16	**-**	291
Net cash from financing activities		**9,146**	69,826
Change in cash and cash equivalents		**(7,531)**	(1,631)
Cash and cash equivalents, beginning of year		**11,572**	13,945
Impact of foreign exchange on cash balances		**(129)**	(742)
Cash and cash equivalents, end of year		**3,912**	**11,572**

See the accompanying Notes to the Consolidated Financial Statements.

1. Reporting Entity

Madalena Energy Inc. (the "Company", "Parent 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 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. (the "Acquisition") (see note 5), and the consolidated financial statements include the results from June 25, 2014 of the following wholly-owned subsidiaries:

- Madalena Petroleum Ltd. (Canada)
- Madalena Petroleum Holdings Limited (Barbados)
- Madalena Petroleum Americas Limited (Barbados)
- Madalena Energy Argentina S.R.L (Argentina)
- Pet-Ja S.A. (Argentina)

2. Basis of Preparation

These consolidated financial statements have been prepared on the basis that the Company is a going concern and will continue to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. Although the Company generated significant cash flows from operating activities in 2015, these cash flows were, in part, the result of a number of one-time positive events that will not be repeated in 2016 (see note 12). As at December 31, 2015, the Company had working capital of approximately $0.5 million and significant future capital commitments to develop its properties. Further, in January 2016 the Argentina government reduced the benchmark oil price by 10% from $75.00 to $67.50 per barrel. Forecasted cash flow from operating activities will not be sufficient to fund the 2016 and 2017 anticipated capital commitments as outlined in note 17.

The Company's business is capital intensive and additional capital is required on a periodic basis. As part of its business plan, the Company regularly evaluates sources of funding. In 2015, particular emphasis was placed on accessing debt financing. During the last eight months of 2015, the Company was involved in discussions regarding a potential source of debt financing. The Company was unsuccessful in securing this funding as the terms and conditions of the facility were ultimately unacceptable to the Company. The current world-wide economic environment relating to the oil and gas industry has made access to capital challenging for many companies, Madalena included. As a result, although the Company exited 2015 with a largely unleveraged balance sheet, the Company continues to face liquidity challenges.

The ability of the Company to continue as a going concern is dependent upon the Company's ability to access additional funding to meet its anticipated 2016 and 2017 capital commitments and/or opportunities to monetize its assets. Potential additional sources of capital include: (i) credit facilities on acceptable terms (ii) proceeds from the sale of non-core assets; (iii) proceeds from equalization payments, if any, received from a possible partner at

Curamhuele; and (iv) the issuance of equity on acceptable terms. There is no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern.

The need to raise capital to fund ongoing operations creates a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the consolidated statements of financial position classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Statement of Compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). These consolidated financial statements follow the same accounting policies and methods of computation for all periods presented as outlined in note 3.

The consolidated financial statements were approved and authorized for issue by the Company's Board of Directors on April 21, 2016.

Basis of Measurement
The consolidated financial statements have been prepared on the historical cost basis, except for available for sale financial assets and commodity contracts which are recorded at fair value through other comprehensive income and profit or loss, respectively.

Functional and Presentation Currency
Prior to December 31, 2015, the Company had presented its consolidated financial statements using the Canadian dollar ("CAD"). As a result of increasing focus on the Company's Argentine operations and the reducing size of the Canadian operations over the past two years, the Company believed that changing its presentation currency effective December 31, 2015 to the United States Dollar ("USD") would provide improved comparability of results period over period. The Company's Argentine operations have a USD functional currency and translating their results from USD to CAD for reporting purposes was creating significant volatility in the consolidated financial statements due to the significant changes in the CAD and USD exchange rates. For comparative purposes, historical financial statements have been recast to reflect the financial results had they always been presented using the USD. To accomplish this change, foreign denominated assets and liabilities were translated at the closing rate in effect at the end of the comparative periods; revenues, expenses and cash flows were translated at the average rate in effect for the comparative periods; and equity transactions were translated at historical rates. Three balance sheets are presented as a result of the change in presentation currency.

The functional currency of the Parent Company is CAD. The USD is the functional currency of all subsidiaries. The Argentine peso ("ARS") was the functional currency of Madalena Austral S.A. up to June 30, 2014, at which time it changed to USD (see below).

Use of Estimates and Judgments
The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the change is identified, and prospectively in future periods.

Critical Judgments in Applying Accounting Policies
The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

- The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs is based on management's judgment in regard to shared infrastructure, geographical proximity of properties, commodity and/or petroleum type and similar exposure to market risk.

- Judgment is required when assessing if impairment indicators exist and therefore whether impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land, and other relevant assumptions.

- The Company's concessions in Argentina are, from time to time, subject to renewal which requires approval from regulatory authorities. As there is no indication that pending extensions will not be approved or revised contracts will not be entered into, management has used judgment to conclude that all extensions or a revised form of a block contract will be approved. If the Company fails to obtain block contract renewals, the carrying value of the Company's property, plant and equipment and exploration and evaluation assets could be negatively impacted. Further, commitments entered into for concessions are based on the agreement signed at the time of concession entry, extension or renewal. To the extent that commitments have not been fulfilled by the expiry date, the Company may enter into negotiations to extend or renew. Should the concession not be extended or renewed, the Company may be responsible for any outstanding commitments.

- The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves or commercial resources have been found.

- 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 that the specified parties must act together even though the Company's interests in these arrangements may not be the same as the other parties to the arrangement. Madalena has classified and accounted for its interests in joint arrangements, both in Canada and Argentina, as joint operations.

- Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

- Determination of and Change in Functional Currency:

  In determining the functional currency of the Company's Argentine subsidiaries, an analysis of several factors is required, including which currency principally affects expenses incurred, which currency impacts sales prices of products sold, in which currency receipts from operating activities are retained, and in which currency is financing expected. As each of these factors have mixed indicators that support both the USD and the ARS, judgment was required to appropriately identify the USD as the functional currency of each of the Company's Argentine subsidiaries.

Prior to July 1, 2014, the Company had assessed that the functional currency of its sole Argentine subsidiary at the time, Madalena Austral S.A. ("MASA"), was the ARS. Upon completion of the acquisition of the Argentine business unit of Gran Tierra Energy Inc. on June 24, 2014 (see note 5), the Company reassessed the functional currency of each of its Argentine subsidiaries, including MASA, and concluded that the factors impacting the determination of the entities' functional currency had, on balance, changed to support the USD as the functional currency rather than the ARS. Accordingly, effective July 1, 2014, the functional currency of MASA was changed on a prospective basis from the ARS to the USD.

Judgments made by management in determining the appropriate functional currency at that time and on an on-going basis include an analysis of primary and secondary indicators, as follows:

(a) Primary indicators of functional currency included the review of the currency that mainly influences sales prices; the currency whose competitive forces and regulations mainly determine sales price; and the currency that mainly influences labour, material and other costs. Specific relevant factors that management considered included:

- the government of Argentina sets the benchmark price for oil in USD per barrel and although the benchmark prices do not always follow world oil price changes in a predictable manner, the government is aware of and takes into consideration world prices when establishing the benchmark;
- although settled in ARS, all oil and gas sales are invoiced in USD and various credits and incentives that the Company is entitled to through the government of Argentina are expected to be denominated in USD;
- the Company's budget is prepared and managed in USD;
- the majority of anticipated spending in the next 3 – 5 years is expected to be weighted to USD denominated expenditures, mainly as a result of the anticipated capital spending budgets in Argentina, although influenced as well by USD denominated operating costs. The size of the expenditures being made will result in the engagement of international companies that will require USD as the invoicing currency; and
- MASA had evolved over a period of time up to July 1, 2014 from a company with minimal production to one with more meaningful production, making sales a more relevant factor in the determination of functional currency. As the plans for MASA evolved, the capital investment growth, together with the Acquisition on June 24, 2014, meant that the use of international vendors became prevalent, with those vendors demanding USD invoicing.

(b) Secondary indicators of functional currency determination include the currency in which funds from financing are generated; the currency in which funds from operations are retained; the degree of autonomy of the foreign operation; the frequency of the transactions with the reporting entity; the cash flow impact on the reporting entity and the ability of the foreign operation to finance its own activities. Relevant indicators considered in management's assessment included:

- as the expectation of growth existed, the anticipated financing currency was and continues to be the USD. Although ARS loans are available, given the Company's planned growth, any financing of significance is expected to be USD denominated;
- funds retained in Argentina are in ARS.

While the above noted factors are mixed in support of both the USD and ARS, Management concluded that when considered collectively, it was appropriate to change MASA's functional currency to the USD on July 1, 2014. Furthermore, it remains appropriate as of the date of these consolidated financial statements that each of the Company's Argentine subsidiaries have a USD functional currency.

Key Sources of Estimation Uncertainty

The following are key estimates and the assumptions made by management affecting the measurement of balances and transaction in these consolidated financial statements:

- Estimation of recoverable quantities of proven and probable and/or contingent reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. These estimates are reviewed at least annually, through the engagement of qualified independent reserves evaluators. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment.
- The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities, if applicable, and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, and the estimate of the specific discount rates for these liabilities in order to determine the present value of these obligation settlements.
- In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable and/or contingent reserves being acquired. These estimates impact the potential for recognizing goodwill or a bargain purchase gain, future depletion and impairment.
- A number of accounting policies and disclosures require that fair value measurements be determined, specifically, business combinations and financial instruments. In determining fair value, the Company uses observable market data as much as possible. The fair value hierarchy used:

a) Level 1 – quoted prices in active markets for identical assets or liabilities;

b) Level 2 – observable prices for similar assets or liabilities, either directly or indirectly determined; and

c) Level 3 – unobservable input sources.

3. Significant Accounting Policies

(a) Basis of Consolidation

i. Subsidiaries

Subsidiaries are entities controlled by Madalena. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements, unless IFRS indicates otherwise.

ii. Jointly Controlled Operations and Assets

Some of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the related revenue and related costs.

Madalena currently has 11 concessions in Argentina. Of the concessions owned by Madalena in Argentina, five are governed by 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. The Company has determined these agreements to result in joint operations, and accounts for these operations in accordance with its proportionate working interest.

The Company's working interest in the UTEs is as follows:

- El Surubi (85%)
- Palmar Largo (14%)
- Coiron Amargo (35%)
- Curamhuele (90%)
- Cortadera (38%)

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 is allocated revenue and operating costs in accordance with its working interest.

(b) Foreign Currency

Foreign currency transactions are translated into the respective functional currencies of Madalena and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss.

The results and financial position of the Parent Company is translated into USD for presentation purposes as follows:

i. assets and liabilities for each statement of financial position presented are translated at the period end rate at the date of that balance sheet;

ii. income and expenses for each year are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated on the dates of the transactions); and

iii. all resulting exchange differences are recognized as a foreign currency translation adjustment in a separate component of equity called 'accumulated other comprehensive income'.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and are presented in the foreign currency translation adjustment in equity. Where these are not considered to form part of the net investment, these foreign currency gains and losses are recognized as part of finance income and expenses in the consolidated statements of loss and comprehensive loss.

When a foreign operation is disposed of, the proportionate share of the cumulative exchange differences previously recognized in equity would be recognized in the statement of loss, as part of the gain or loss on sale.

(c) Financial Instruments

i. Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Fair value through profit or loss
Financial assets or liabilities (including derivative assets) are classified in this category if it is held for trading. Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through profit or loss. See also financial liabilities, fair value through profit or loss, below.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value, such financial assets are subsequently measured at amortized cost less impairment. Loans and receivables are comprised of trade and other

receivables. Impairments are determined through review and assessment of collectability of the amounts, given the counter-party in question, aging and other relevant factors in the circumstances.

Held-to-maturity investments
These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale financial assets
Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized as other comprehensive income and classified as a component of equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the profit or loss. When financial assets classified as available for sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss.

ii. Financial liabilities
Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Fair value through profit or loss
This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

The Company enters into certain financial derivative contracts in order to manage exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Proceeds and costs realized from holding the derivative contracts are recognized in profit and loss at the time each transaction under a contract is settled. The fair value of derivative contracts is based on an approximation of the amounts that would be received or paid to settle these instruments at the end of the period, with reference to forward commodity prices using remaining contracted volumes discounted at a credit adjusted rate.

Other financial liabilities
This category includes trade and other payables, which are recognized at amortized cost. Non-current liabilities are recorded at the amount at which they are expected to be settled or amortized cost.

(d) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash held at banks and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Business combinations

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate consideration transferred, measured at the acquisition date fair value. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in profit and loss. If the cost of the acquisition is more than the fair value of the net assets acquired, the difference is recognized on the statement of financial position as goodwill. Acquisition costs incurred are expensed.

(f) Property, Plant and Equipment and Exploration and Evaluation Assets

i. *Pre-license costs*

Exploration and evaluation ("E&E") costs incurred prior to receiving the legal rights to explore an area are expensed when incurred.

ii. *Exploration and evaluation assets*

Exploration licenses, unproved property acquisition costs, geological and geophysical costs and costs directly associated with an exploration well and appraisal activities are capitalized within E&E assets. Madalena had initially capitalized value added tax ("VAT") incurred in Argentina in one of its subsidiaries, Madalena Energy Argentina S.R.L (Argentina), as there was uncertainty regarding recovery during the pre-production phase at the time when all costs were capitalized to E&E assets. The costs are accumulated in cost centers by well, field or exploration area pending determination of their technical feasibility and commercial viability. Upon determination of technical feasibility and commercial viability, E&E assets are first tested for impairment and then reclassified from E&E assets to property, plant and equipment. E&E assets are not depleted but are assessed for impairment when there are indicators of impairment.

The technical feasibility and commercial viability of E&E assets is considered to be determinable when proven plus probable reserves are determined to exist. A review of each exploration area is carried out to ascertain whether proven plus probable reserves have been discovered and there is a reasonable assessment of the economics associated with the future production of those reserves, required government and regulatory approvals have been obtained or are likely to be obtained and management has made the decision to proceed with development and production of those reserves by incurring the future capital costs attributed to them. Upon determination of proven plus probable reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment. If the cost of the asset is greater than the fair value, then the excess is written off.

iii. Property, plant and equipment assets

Property, plant and equipment ("PP&E") assets are measured at cost less accumulated depletion, depreciation and amortization and accumulated net impairment losses. Development and production assets are accumulated into major area cost centers and represent the cost of developing the commercial reserves and initiating production. Capitalized costs include the purchase price or construction cost of the asset, any costs directly attributable to bringing the asset into operation, the estimate of any decommissioning obligation and borrowing costs for qualifying assets, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

iv. *Subsequent costs*

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing components of equipment are recognized as property, plant and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed as incurred. Such capitalized amounts generally represent costs incurred in developing proven and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. VAT incurred on development and production assets in Madalena Energy Argentina S.R.L (Argentina) was initially capitalized and then VAT collected on sales to customers was reduced from the PP&E asset to the extent of the VAT amounts previously capitalized. Once VAT capitalizations have been offset, VAT is then recorded as a receivable and is not recognized as part of PP&E. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

An asset within PP&E is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

Exchanges of assets within PP&E are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Unless the fair value of the asset received is more clearly evident, the cost of the acquired asset is measured at the fair value of the asset given up. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on de-recognition of the asset given up is recognized in profit and loss.

v. *Depletion and depreciation*

Depletion of oil and natural gas properties and depreciation of production equipment are calculated based on the establishment of depletable components, using the unit-of-production method. Components are generally determined at a field level. The component's volumes of total proven and probable oil and natural gas reserves and production before royalties, as determined by independent petroleum reservoir engineers is the unit basis for calculating depletion. Natural gas reserves and production are converted to equivalent barrels of oil based upon the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil, calculated in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*. The depletion base includes all capitalized costs and estimated future development costs of proven and probable undeveloped reserves.

Corporate assets primarily consist of office furniture and equipment and leasehold improvements, which are stated at cost less accumulated depreciation and are depreciated over the estimated useful lives of the assets. Office furniture and equipment is depreciated at rates ranging from 10 to 33%.

vi. *Impairment*

The carrying amounts of the Company's PP&E and E&E assets are reviewed at each reporting date to determine whether an indication of impairment exists. If any such indication exists, then the asset's recoverable amount is estimated. In addition, E&E assets are assessed for impairment when they are reclassified to property, plant and equipment and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell of a CGU can also be determined by using assumptions that an independent market participant may take into account. This evaluation could use discounted future net cash flows of proved and probable reserves using forecast prices and costs including the development of prospective lands.

Madalena's management determines value in use for each CGU by estimating the present value of estimated future net cash flows from continued production through exploitation of its proved and probable reserves. Management applies a present value to these cash flows using a pre-tax discount rate range depending on the category of reserves being discounted. The discount rates reflect current market assessments and the risks specific to the assets.

E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill, should it exist, allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(g) Share-Based Compensation

The grant date fair value of equity settled options granted to employees and directors is recognized as share-based compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is subsequently adjusted each period to eventually reflect the actual number of options that vest. Upon exercise of the stock options, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase in share capital.

(h) Decommissioning Obligations

Obligations for dismantling, decommissioning and site disturbance remediation may arise as a result of the Company's activities. Once it is determined that an obligation exists, a decommissioning obligation is recorded for the estimated cost of site restoration, with the offset capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expected expenditures, including their timing, that are required to remediate the property. The decommissioning obligation reflects current market assessments of the time value of money and the risks specific to the liability. The discount and inflation rates used to present value the obligation is based on the risk free rate associated with the currency by which payment is most influenced. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, and for changes in discount and inflation rates as required. These changes are accounted for prospectively. The increase in the decommissioning obligation due to the passage of time is recognized as finance costs (accretion) whereas increases/decreases due to changes in the estimated future cash flows are capitalized and amortized based on the methodology that is consistent with the asset to which it is capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. Should the asset to which the obligation is related, be disposed of, the decommissioning obligation associated with it is derecognized.

The Company does not recognize decommissioning obligations on facilities in Argentina where it has determined that there is no legal or constructive obligation to perform such activities.

(i) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the purchaser, which is when legal title passes to the purchaser and when collection is reasonably assured. This is generally at the time product enters the pipeline or is shipped.

(j) Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax also includes the amounts paid or accrued for minimal presumed income tax, which is an Argentine tax on assets, levied on those companies with no taxable income.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(k) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

(l) Earnings (Loss) Per Share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(m) Inventory

Inventory consists of oil in tanks and third party pipelines, as well as 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. Allocated to inventory is a relevant share of operating, royalty expense and depletion. Depending on inventory levels, this could increase or decrease inventory otherwise recorded.

(n) Value-added tax

VAT collected on sales to customers is initially reduced from the PP&E asset to the extent of the VAT amounts previously capitalized. Once VAT capitalizations have been offset, VAT is then recorded as a receivable. 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.

4. Accounting Changes

(i) Change in Presentation and Functional Currency

Disclosure of the change in presentation and functional currency has been included in note 2.

(ii) Future Accounting Pronouncements

In July 2014, the IASB issued IFRS 9 "Financial Instruments" to replace International Accounting Standard ("IAS") 39 "Financial Instruments Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial instruments with a single model that has only two classifications categories: amortized cost and fair value.

In May 2014 the IASB issued IFRS 15 "Revenue from Contracts with Customers" to replace IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

(Tabular amounts are stated in thousands of United States dollars, except per share amounts and as otherwise stated)

New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

As of January 1, 2018, Madalena will be required to adopt the above two standards.

In January 2016, IASB issued IFRS 16 “Leases”. The goal of the standard is to bring leases on the balance sheet for lessees. There will be a single lease accounting model for all leases, there will no longer be a classification test between finance and operating leases. As of January 1, 2019, Madalena will be required to adopt this standard.

Management is evaluating the impact these standards may have on Madalena’s consolidated financial statements.

5. Business Combination

On June 25, 2014, the Company acquired all of the outstanding shares of the Argentine business unit of Gran Tierra Energy Inc. (“Gran Tierra”) for cash consideration of $55.4 million, including acquired cash of $10.4 million, and 29,831,537 common shares, at a fair value of CAD $0.51 per common share (the “Acquisition”). 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 in Argentina based on externally prepared reserve reports dated December 31, 2014 based on escalating price forecasts on proven plus probable reserves discounted at 20% and updated internally. The operations from the Acquisition have been included in the results of Madalena commencing June 25, 2014. The business combination was accounted for using the acquisition method, based on initial fair values, and subsequently adjusted as at December 31, 2014 as follows:

	Fair values
Net assets acquired	
Property, plant and equipment	82,529
Exploration and evaluation assets	2,923
Working capital	10,614
Other long-term liabilities (note 17)	(4,982)
Deferred tax liability	(4,989)
Decommissioning obligations	(16,696)
	69,399
Consideration	
Cash	55,402
Common shares	13,997
	69,399

In 2015, the Company identified that the allocation of the respective fair values of property, plant and equipment to each of the legal entities required revision, based on the underlying assets acquired within each of the legal entities. The total amount allocated to property, plant and equipment is correct, as noted in the table above; however, the resulting deferred taxes allocated to each entity differed, due to the fact that the tax position within each legal entity is not the same. This correction was recorded in 2015 and the impact to the consolidated statement of loss and other comprehensive loss was approximately $1.3 million where deferred income tax recovery was increased.

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 the Company's pre-existing Argentine concessions.

The fair value of exploration and evaluation assets was based on prices estimated for similar items.

The fair value of receivables acquired was $22.8 million which approximates their gross contractual flows. The fair value of acquired receivables has been collected and no material receivables remain uncollected.

The Company incurred transaction costs of $1.7 million in conjunction with the Acquisition which have been recorded as business combination expenses in the consolidated statement of 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 year ending December 31, 2014 would have been $79.5 million and $0.7 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 December 31, 2014 were $42.5 million and $0.4 million, respectively.

6. Property, Plant and Equipment

USD 000s	Oil and Natural Gas Assets	Corporate and Office	Total
Cost			
At December 31, 2013	50,901	254	51,155
Additions	20,810	619	21,429
Transferred from E&E assets (note 7)	3,866	-	3,866
Acquired on business combination	82,029	500	82,529
Effect of change in foreign exchange rates	(6,937)	(61)	(6,998)
At December 31, 2014	150,669	1,312	151,981
Additions	30,851	810	31,661
Effect of change in foreign exchange rates	(7,586)	(130)	(7,716)
At December 31, 2015	**173,934**	**1,992**	**175,926**

USD 000s	Oil and Natural Gas Assets	Corporate and Office	Total
Accumulated depreciation and depletion			
At December 31, 2013	(14,270)	(170)	(14,440)
Depreciation and depletion	(19,595)	(131)	(19,726)
Impairment	(22,887)	-	(22,887)
Effect of change in foreign exchange rates	2,515	33	2,548
At December 31, 2014	(54,237)	(268)	(54,505)
Depreciation and depletion	(25,981)	(388)	(26,369)
Impairment	(11,651)	-	(11,651)
Effect of change in foreign exchange rates	5,918	46	5,964
At December 31, 2015	**(85,951)**	**(610)**	**(86,561)**

USD 000s			
Net book value			
At December 31, 2014	96,432	1,044	97,476
At December 31, 2015	**87,983**	**1,382**	**89,365**

At December 31, 2015, Madalena determined that indicators of impairment existed in each of its Argentine CGUs. These indicators of impairment were a result of a decline in oil prices resulting in lower netbacks in certain CGUs in addition to the increase in discount rate to be applied in the CGU impairment calculations due to the increased country risk identified as at December 31, 2015. As a result, an impairment test was performed for each CGU. As at December 31, 2015, one of the three Argentine CGUs was determined to be impaired as the estimated recoverable amount was lower than the carrying amount. The recoverable amount, calculated as $32.0 million, resulted in a pre-tax impairment charge of $8.4 million for the year ended December 31, 2015. There were no indicators of impairment in any of the Argentine CGUs in 2014 and accordingly, no impairment was recorded.

The impaired CGU's recoverable value was estimated using a value in use calculation based on future net cash flows expected to be derived from the CGU's proved plus probable reserves from the externally prepared December 31, 2015 reserve report using a pre-tax discount rate ranging from 22% to 28% depending on the category of reserves, and the following forward commodity price estimates:

(Tabular amounts are stated in thousands of United States dollars, except per share amounts and as otherwise stated)

Year	Oil Price (USD/bbl)	Natural Gas Price (USD/mcf)
2016	65.23	4.95
2017	65.55	4.95
2018	65.63	5.05
2019	65.63	5.15
2020	65.54	5.26
2021	67.29	5.36
2022	72.04	5.47
2023	76.76	5.58
2024	79.99	5.69
2025	81.86	5.80
2026	82.14	5.91
2027	88.48	6.03

Had the discount rate used been 1% higher for the range of discount rates used, an additional impairment charge of $0.9 million would have resulted for the year ended December 31, 2015.

In early January 2016, there was a 10% oil price decrease in Argentina, which has been reflected in the pricing estimates above. An additional 1% decrease in the price deck would have resulted in a further impairment charge of $1.0 million for the year ended December 31, 2015.

In assessing its Canadian CGU for impairment at December 31, 2015, the Company concluded that triggers for impairment existed due to the continued reduction in both short and long-term forward Canadian petroleum and natural gas prices. The Company's testing of its Canadian CGU recoverable value, established as fair value less costs to sell, relative to its carrying value, amounted to $1.8 million, and revealed a pre-tax impairment charge of $3.3 million (2014- $22.9 million), of which $2.0 million had been recorded by September 30, 2015. The recoverable amount was determined based on the amount that would be obtained for the sale of the CGU in an arm's length transaction between knowledgeable and willing parties.

At December 31, 2014, the Company observed indicators of impairment due to the decline in current and forward commodity prices for oil and natural gas. The Company's testing of its Canadian CGU recoverable value, determined to be value in use, relative to its carrying value, amounting to $33.8 million, revealed a pre-tax impairment charge of $22.9 million. The impairment test was based on proved plus probable reserves, using a pre-tax discount rate of 15% and forward commodity price estimates escalating from CAD $60.98/bbl to $109.49/bbl from 2015 to 2029.

At December 31, 2015, the net book value of the Argentine and Canadian PP&E assets were $83.0 million (December 31, 2014 - $86.6 million) and $6.4 million (December 31, 2014 - $10.9 million), respectively.

The depletion expense calculation for the year ended December 31, 2015 included $92.7 million and $7.8 million for Argentina and Canada respectively, for estimated future development costs associated with proven and probable reserves (December 31, 2014 – $73.1 million and $11.3 million).

During 2015, approximately $1.9 million (2014 - $0.5 million) of directly attributable general and administration costs and $0.2 million (2014 – nil) of share-based compensation were capitalized to property, plant, and equipment.

There is no remaining VAT capitalized to PP&E assets in Argentina at December 31, 2015 (December 31, 2014 - $2.4 million).

7. Exploration and Evaluation Assets

USD 000s	
Cost	
At December 31, 2013	33,583
Additions	15,878
Acquired on business combination	2,923
Transfer to PP&E assets (note 6)	(3,866)
Impairment	(4,695)
Effect of change in foreign exchange rates	(5,999)
At December 31, 2014	37,824
Additions	8,716
Impairment	(2,107)
Effect of change in foreign exchange rates	(666)
At December 31, 2015	**43,767**

E&E assets consist of the Company's intangible exploration projects in Argentina and Canada with pending determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. E&E assets are not depreciated or depleted.

At December 31, 2015, the net book value of the Argentine and Canadian E&E assets were $41.6 million (December 31, 2014 - $32.8 million) and $2.2 million (December 31, 2014 - $5.0 million), respectively.

The Company's testing of its Canadian E&E assets' recoverable value, established as fair value less costs to sell, relative to its carrying value, amounted to $2.2 million, and revealed a pre-tax impairment charge of $2.1 million (2014 - $4.7 million), of which $2.0 million had been recorded by September 30, 2015. The impairment was due to continued depressed commodity prices and continued decrease in crown land prices in its undeveloped land holdings in relation to current prices in the area.

No triggers for impairment were identified and as a result no impairment of E&E was booked on the Argentine operations in 2015 or 2014.

8. Operating Loan and Long-Term Debt

USD 000s	December 31 2015	December 31 2014
Argentina		
Credit facility - ICBC	**5,916**	-
Current	**3,944**	-
Long-term	**1,972**	-
	5,916	-

Argentina

On May 28, 2015, Madalena Energy Argentina S.R.L (Argentina) ("MEA"), obtained an ARS 90 million credit facility with Industrial and Commercial Bank of China (Argentina) S.A. ("ICBC"). The ARS 90 million converted to USD $10 million using the ARS to USD exchange rate on May 28, 2015. These funds were utilized on an as needed basis to provide Madalena's Argentine business unit the necessary liquidity to execute its 2015 capital budget. The loan bears interest at the variable rate of the Buenos Aires Deposits of Large Amount Rate ("BADLAR") plus 8%, resulting in a current borrowing rate of approximately 37%. The loan is repayable in seven equal quarterly instalments of ARS 12.9 million, which began on November 30, 2015, at which time was equivalent to $1.3 million using the exchange rate on that date, and on a go forward is equivalent to $1.0 million using the December 31, 2015 exchange rate.

Security for this loan is provided by the assignment of MEA's receivables that arise from the sale of crude oil. The facility includes a quarterly financial covenant, whereby MEA's ratio of debt to earnings before income taxes, depletion, interest and other non-cash items must be equal to or less than 1:1. The earnings before income taxes, depletion, interest and other non-cash items is calculated on a four quarter rolling basis. At December 31, 2015, MEA was in compliance with this covenant, and is expected to be for the coming year.

Canada

As of September 30, 2015, Madalena had a credit facility in place against its Canadian based assets that included the availability of a CAD $3.5 million operating demand loan and a CAD $3.0 million acquisition/development demand loan, of which CAD $2.9 million was drawn on the operating demand loan and the acquisition/development demand loan was unutilized. During the fourth quarter of 2015, the operating demand loan in the amount of CAD $2.9 million was fully settled and the credit facility was closed. This facility was treated as a cash equivalent during the year.

9. Decommissioning Obligations

	Year ended December 31	
USD 000s	**2015**	**2014**
Balance, beginning of year	**21,858**	4,650
Assumed in business combination (note 5)	**-**	16,696
Incurred from development activities	**210**	325
Incurred from exploration activities	**-**	142
Accretion expense (note 13)	**347**	266
Revision of estimates	**(1,028)**	545
Obligations settled	**(4)**	(203)
Effect of change in foreign exchange rates	**(742)**	(563)
Balance, end of year	**20,641**	21,858

The total undiscounted amount of cash flows required to settle Madalena's decommissioning obligations at December 31, 2015 is approximately $26.5 million (December 31, 2014 – $27.3 million) with the majority of the costs to be incurred between 2018 and 2032. 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.

At December 31, 2015, inflation rates of 1% and 2% were used in Argentina and Canada, respectively (December 31, 2014 – 1% and 2%). The risk free rate used to discount the liability at December 31, 2015 was 2.7% (December 31, 2014 – 2.5%) in Argentina and a range of 0.5-2.0% (December 31, 2014 - 1.6-3.0%) in Canada. The majority of the Argentine decommissioning obligations are expected to be invoiced in USD and settled in ARS.

The revision of estimates which decreased decommissioning liabilities by $1 million for the year ended December 31, 2015 is comprised of a reduction of $0.3 million for reserve life changes, a reduction of $1 million for well cost estimate changes, and offset by $0.3 million in discount period changes.

10. Share Capital

The Company is authorized to issue an unlimited number of common shares and preference shares. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share. No preference shares were outstanding at December 31, 2015 or 2014.

Share Capital – Common Shares

	Number of Shares 000s	Share Capital $000s
Balance at December 31, 2013	364,029	154,375
Shares issued on financing	145,672	74,463
Share issue costs	-	(4,956)
Issued on business combination (note 5)	29,832	13,997
Stock options exercised/share-based compensation	250	49
Balance at December 31, 2014	539,783	237,928
Stock options exercised	2,300	830
Balance at December 31, 2015	**542,083**	238,758

2015

During the year, 2.3 million stock options were exercised at prices ranging from CAD $0.21-$0.35 for cash proceeds of $0.5 million.

2014

On February 11, 2014, the Company closed a bought deal financing of 32,857,225 common shares at a price of CAD $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 $20.8 million (CAD $23.0 million).

On June 24, 2014, the Company closed a bought deal financing of 98,100,000 common shares at a price of CAD $0.51 per common share, for aggregate gross proceeds of $46.6 million (CAD $50.0 million).

On June 25, 2014, in connection with the Acquisition, the Company issued 29,831,537 common shares to Gran Tierra at a price of CAD $0.51 per common share for partial consideration in the Acquisition totaling $14.0 million (CAD $15.2 million).

On July 7, 2014, the Company closed the over-allotment option in full of the $46.6 million bought deal described above, issuing 14,715,000 common shares of the Company at a price of CAD $0.51 per common share for gross proceeds of $7.0 million (CAD $7.5 million).

Net Loss Per Share

There is no dilutive impact to the weighted average number of common shares at December 31, 2015 or 2014. All share options were excluded from the calculation of diluted earnings per share as their effect is anti-dilutive. The following table provides the weighted average number of common shares used in the per share calculations:

	Year ended December 31	
	2015	**2014**
Weighted average number of common shares- basic & diluted – 000s	**541,017**	467,361
Net loss	**(13,705)**	(31,832)
Per share - basic & diluted ($/share)	**(0.03)**	(0.07)

(Tabular amounts are stated in thousands of United States dollars, except per share amounts and as otherwise stated)

11. 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 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 for those options exercised during the year ended December 31, 2015 was CAD $0.34 (December 31, 2014 - CAD $0.61).

During the year ended December 31, 2015, 15,963,000 options (December 31, 2014 – 7,000,000) were granted to certain employees, consultants and directors of the Company at an exercise price between CAD $0.28 and CAD $0.30. Subsequent to December 31, 2015, 8,650,000 options were granted to certain employees, consultants and directors of the Company, at an exercise price of CAD $0.27 per share.

Fair value was estimated at the period end date using the Black-Scholes valuation model, resulting in a per option fair value of CAD $0.18 (2014 – CAD $0.30) with weighted average assumptions as follows:

Inputs used to fair value share options

	Year ended December 31	
	2015	**2014**
Share price (CAD $)	**0.30**	0.46
Exercise price (CAD $)	**0.30**	0.46
Expected Volatility (%)	**80**	86
Forfeiture rate (%)	**9.8**	9.8
Option life (years)	**4.35**	4.85
Risk-free interest rate (%)	**0.59**	1.48

Expected volatility is estimated by considering historic daily share price volatility. The forfeiture estimate will be adjusted each period until the vesting date.

Share-based compensation expense arising from the issuance of stock options recognized for the year ended December 31, 2015 was $1.1 million (2014 - $1.5 million). In addition, $0.2 million (2014 – nil) of share based compensation was capitalized to PP&E during the year.

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 (CAD $)
Outstanding at December 31, 2013	19,530	0.40
Granted	7,000	0.47
Exercised	(250)	0.13
Forfeited	(353)	0.50
Expired or cancelled	(47)	0.11
Outstanding at December 31, 2014	25,880	0.42
Granted	15,963	0.30
Exercised	(2,300)	0.26
Forfeited	(1,954)	0.39
Expired	(2,770)	0.61
Outstanding at December 31, 2015	34,819	0.35
Exercisable at December 31, 2015	12,902	0.39

The range of exercise prices of the outstanding options

Exercise price (CAD)	Number of Options Outstanding 000s	Weighted Average Contractual Life of options outstanding (years)	Number of outstanding options that are exercisable 000s
0.28	400	4.98	-
0.29	5,210	2.23	4,677
0.30	15,563	4.67	-
0.35	5,002	2.66	3,143
0.41	1,060	2.18	707
0.42	2,020	1.47	2,020
0.44	150	3.71	50
0.46	350	3.73	117
0.50	4,314	3.53	1,438
0.69	450	0.92	450
0.96	300	0.12	300
	34,819	**2.75**	**12,902**

12. Argentina Oil Price Incentives

Petroleo Plus Settlement Bonds

On November 25, 2008, the government of Argentina introduced the Petroleo Plus program to reward producers who materially increase oil reserves and production through drilling and development by issuing export tax incentive credits. These credits were transferable and could be sold for cash to other domestic oil exporters. Madalena had not previously recognized the credits as revenue due to the uncertainty of the ability to sell the credits. On July 13, 2015, the government terminated the Petroleo Plus program effective December 31, 2014 and granted eligible companies the right to receive Argentina issued government bonds as full settlement of any outstanding export tax incentive credits, subject to certain conditions.

In September 2015, the Company received par value $11.1 million Argentina issued government bonds for settlement of these accumulated credits. Two different bonds, which are traded on the Buenos Aires Stock Exchange, were received in equal amounts – the BONAD 2018 and the BONAR 2024. The BONAD 2018 is denominated in USD, bears interest at 2.4%, matures in 2018 and has no selling restrictions. The BONAR 2024 is also denominated in USD, bears interest at 8.75% and matures in 2024. Until December 31, 2016, a maximum of 2% per month of the total received BONAR 2024 may be sold, after which no selling restrictions apply. In the event more than 2% per month is sold prior to this date, a penalty payment equal to 10% of the then market value of the bonds received will be incurred.

As no receivable or revenue had previously been recorded in the Company's consolidated financial statements, the benefits from the settlement of the Petroleo Plus program incentive credits were first recognized in the September 30, 2015 condensed interim consolidated financial statements. Upon receipt, the fair value of the bonds was determined based on quoted market prices, net of anticipated penalties and costs to dispose.

For the year ended December 31, 2015, revenue of $13.9 million related to the Petroleo Plus credits was recorded in the consolidated statements of loss and comprehensive loss under the caption other income.

As these bonds are available for sale financial instruments, they are re-valued to fair value each reporting period with gains/losses recorded through other comprehensive loss on the consolidated statements of loss and comprehensive loss. These bonds are classified as level 1 in the fair value hierarchy. At December 31, 2015, $7.1 million of these bonds had been disposed of and the fair value of the available for sale securities was $5.4 million, resulting in a gain of $0.1 million which was booked to other comprehensive loss for the year ended December 31, 2015. The Company recorded a $1.4 million foreign exchange loss in 2015, included in finance income and expenses on the consolidated statements of loss and comprehensive loss.

Interest received on the bonds in 2015 of $0.3 million has been recorded in finance income and expenses in the consolidated statements of loss and comprehensive loss. Interest is recorded as revenue upon receipt due to the uncertainty that the Company will be holding the bonds on the interest payment date.

Subsequent to December 31, 2015, the Company liquidated approximately 94% of the remaining bonds for proceeds of $5.3 million.

USD 3.00 per Barrel Oil Incentive

On February 2, 2015 the Government of Argentina announced a new oil incentive program, effective January 1, 2015. This new program was effective for all of 2015 but was not extended beyond 2015. To stimulate production, the Government of Argentina established a $3.00 per barrel royalty free bonus payment to be paid on all oil production for each company that increases its oil production or maintains it at greater than 95% of Q4-2014 volumes. This $3.00 per barrel incentive is incremental to the regulated oil price per barrel received in Argentina's domestic oil market.

The Company has recorded $2.9 million in oil and natural gas revenues on the consolidated statements of loss and comprehensive loss for the year ended December 31, 2015, pursuant to this incentive program.

13. Finance (Income) Expenses

Finance (income) expenses are made up of the following:

	Year ended December 31	
USD 000s	2015	2014
Bank charges	2,084	1,507
Foreign exchange gain	(3,922)	(1,447)
Accretion (note 9)	347	266
Interest and other (income) expense	322	(198)
	(1,169)	128

Foreign Exchange (Gain) / Loss

	Year ended December 31	
USD 000s	2015	2014
Realized foreign exchange (gains)/losses	-	(2,011)
Unrealized foreign exchange (gains)/losses	(3,922)	564
Total	(3,922)	(1,447)
Currency exchange rate at period end:		
$1 US = CAD	$1.38	$1.16
$1 US = ARS	12.95	8.55

14. Related Parties

A director of the Company is a partner of a law firm that provides legal services to the Company. During the year ended December 31, 2015, the Company incurred fees of $295,000 (2014 - $551,000) from this firm for legal services, of which $40,000 (2014 – $58,000) is included in trade and other payables at December 31, 2015. The costs were expensed in general and administrative costs in the consolidated statements of loss and comprehensive loss.

A director of one of the Company's subsidiaries provides legal services to the Company. During the year ended December 31, 2015, the Company incurred fees of nil (2014 - $36,000), for legal fees related to legal matters, of which nil (2014 - $30,000) was included in trade and other payables at December 31, 2015.

The transactions arose during the normal course of business and have been recorded at the exchange amounts, which are the amounts agreed upon by the related parties. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available in similar transactions with arm's length third parties.

(Tabular amounts are stated in thousands of United States dollars, except per share amounts and as otherwise stated)

15. Income Taxes

The provision for income tax differs from the result that would be obtained by applying the combined Canadian federal and provincial tax rate of 26% (2014 - 25%) to the loss before taxes. The difference results from the following:

	Year ended December 31	
	2015	**2014**
Loss before income tax	**(2,753)**	(30,117)
Tax rate	**26%**	25%
Expected income tax recovery	**716**	7,529
Recovery (expense) resulting from:		
Effect of foreign tax rates	**(3,168)**	(1,203)
Share-based compensation	**(383)**	(379)
Non-deductible transaction costs	**-**	(429)
Unrecognized deferred tax benefit and other	**(11,627)**	(6,335)
Canadian tax rate adjustments	**2,020**	-
Non-taxable differences on foreign operation	**1,916**	(580)
Minimum presumed (foreign) income tax	**(375)**	(578)
Other	**(51)**	(88)
Income tax expense	**(10,952)**	(2,063)
Flow through share premium	**-**	348
Total income tax expense	**(10,952)**	(1,715)

Current tax expense	**(5,359)**	(2,776)
Deferred tax (expense) recovery	**(5,593)**	1,061
Total income tax expense	**(10,952)**	**(1,715)**

The current income tax expense relates to current income tax and minimum income tax incurred in Argentina.

Deferred tax assets have not been recognized on the following temporary differences and credits:

	Year ended December 31	
Canada	**2015**	**2014**
Property, plant and equipment	**17,162**	21,036
Decommissioning obligations	**4,387**	4,423
Share issue costs	**3,601**	6,511
Capital losses	**22,692**	1,946
Non-capital losses	**58,956**	54,332
Foreign tax credits	**41,684**	12,586
Total unrecognized temporary differences	**148,482**	100,834

	Year ended December 31	
Argentina	**2015**	**2014**
Property, plant and equipment	**-**	9,995
Decommissioning obligations	**7,520**	7,229

(Tabular amounts are stated in thousands of United States dollars, except per share amounts and as otherwise stated)

Non-capital losses (expire 2016 to 2020)	**1,672**	22,054
Accruals & Other	**5,871**	8,374
Foreign tax credits	**5,229**	-
Minimum tax credits	**-**	1,680
Total unrecognized temporary differences	**20,292**	49,332

	Year ended December 31	
Barbados	**2015**	**2014**
Non-capital losses (expire 2017 to 2022)	**610**	428
Total unrecognized temporary differences	**610**	428

The following table summarizes the movements of the deferred income tax liability during the year:

	Year ended December 31						
	2013	**Acquired balances**	**Recognized in statement of income**	**Other**	**2014**	**Recognized in statement of income**	**2015**
Foreign exchange	-	(319)	43	-	(276)	(570)	(846)
Property, plant and equipment	(790)	(11,393)	2,720	(387)	(9,850)	(5,249)	(15,099)
Decommissioning obligations	146	4,134	(706)	-	3,574	(517)	3,057
Non-capital losses	644	1,791	(887)	-	1,548	492	2,040
Accruals and other	-	366	(50)	-	316	626	942
Minimum tax credits	-	434	(59)	-	375	(375)	-
	-	**(4,987)**	**1,061**	**(387)**	**(4,313)**	**(5,593)**	**(9,906)**

Canada, Argentina and Barbados have non capital losses expiring between 2026-2034, 2016-2020, and 2017-2023 respectively.

No deferred tax liability has been recognized for temporary differences associated with investments in subsidiaries and joint ventures as the Company is in a position to control the entities and it is considered probable that these timing differences will not reverse in the foreseeable future.

16. Supplemental Cash Flow Information

Changes in non-cash working capital

USD 000s	Year ended December 31 2015	2014
Available for sale securities	**(5,361)**	-
Trade and other receivables	**(762)**	(13,307)
Other current assets, including inventory	**460**	(2,487)
Trade, other and taxes payable	**3,748**	10,807
Impact of foreign exchange on working capital	**(2,581)**	(753)
Change in non-cash working capital(1)	**(4,496)**	(5,740)
Attributable to:		
Operating activities	**(5,468)**	4,590
Investing activities	**972**	(10,621)
Financing activities	**-**	291
	(4,496)	(5,740)

(1) Change in non-cash working capital excludes the current portion of long-term debt, as this is considered part of financing activities.

Other cash flow information

USD 000s	Year ended December 31 2015	2014
Interest paid	**2,145**	156
Interest received	**694**	151
Taxes paid	**4,900**	1,841

17. Commitments and Contingencies

Development and Exploration Commitments

Coiron Amargo Block (35% working interest – non-operated)

USD 000s	2016	2017	Beyond
Concession commitments	-	17,500	nil

On April 16, 2015, the Company received a three year evaluation phase contract from the Province of Neuquén for Coiron Amargo Sur. The Company's share of the work commitment is $17.5 million and must be incurred by November 8, 2017. Following this three year evaluation phase contract, Madalena is eligible to enter into a further exploitation (development) concession and/or enter into additional evaluation phase periods to further explore and appraise the Coiron Amargo Sur block. There is no work commitment on the northern portion (Coiron Amargo Norte) which is one of the Company's conventional producing assets representing 10-15% of the corporate production.

Curamhuele Block (90% working interest - operated)

The Curamhuele Block is operated by Madalena. In September 2013, the second exploration period was extended until November 2014 by the Province of Neuquén. In December 2014, the Province officially granted an extension to September 2015 to satisfy the remaining work commitments on the block.

In December 2015, Madalena further ratified an extension of its second exploration term with the Province of Neuquén to September 9, 2016, after which a further extension is available.

At December 31, 2015, the remaining work commitment relating to the existing Curamhuele block concession agreement was to complete the Yapai.x-1001 well in the Mulichinco and Lower Agrio shale. Subsequent to the year-end, the Company fulfilled this remaining work obligation, through the expenditure of approximately $2.8 million.

Madalena expects to convert certain areas of the acreage into an exploitation (development) concession and/or extend the exploration period and/or enter into an unconventional evaluation phase to further appraise the Curamhuele block.

The Company has posted a performance bond for $17.6 million relating to amounts committed under this exploration permit. The assets of Madalena Austral S.A., a subsidiary of the Company, are held as security for the bond. Once the province certifies that the Company has fulfilled its obligations, the Company anticipates that the bond will be cancelled.

Cortadera Block (38% working interest – non-operated)

On January 15, 2014, Madalena and its working interest partner signed an amended contract agreement for the extension of the initial exploration period and the definition of subsequent exploration periods.

In 2014, Madalena and its working interest partner satisfied the remaining commitments related to the first exploration period on the block and have the option to enter into a second exploration period extending to October 25, 2018 and potentially a third exploration period extending to October 25, 2021.

Madalena and its partner have submitted an application to the province of Neuquén requesting that the block pass into the second exploration period with the relinquishment of approximately 50% of the block and a commitment to shoot 3D seismic on a portion of the remainder of the block. As of April 21, 2016, Madalena has not received confirmation of approval of this application.

Rinconada-Puesto Morales Block (100% working interest - operated)

USD 000s	**2016**	**2017**	**Beyond**
Concession commitments	4,400	13,300	14,800

Madalena is the operator and holds a 100% working interest pursuant to a 10 year exploitation concession based on an agreement dated June 5, 2015 with the Province of Rio Negro that has received the requisite government approvals. As part of the terms and conditions of the 10 year extension, the Company has agreed to capital commitments of $40.3 million on the block over a 10 year period, which includes the drilling of new wells, re-entry activities and contract renewal fees. As of December 31, 2015, capital expenditures of approximately $7.8 million have qualified towards this commitment. The majority of the remaining commitment of $32.5 million in capital commitments is anticipated to be scheduled over the next four years, including $4.4 million in 2016. The majority of capital spending is expected to be incurred on drilling, completing and equipping the development of the Loma Montosa formation.

Santa Victoria Block (100% working interest - operated)
The contract is currently in the second of three exploration phases, with the second exploration phase expiring in April 2015. During the first quarter of 2015, with the second exploration phase expiring in April 2015, the Company submitted an application for a three year extension. Negotiations have continued throughout 2015 and are currently ongoing with the Province to reach a multi-year extension agreement.

As at December 31, 2015, the second exploration phase required additional work commitments of $3.75 million of which no qualifying expenditures had been made.

Other Commitments and Contingencies

Leased office premises
The Company is responsible for the following rental commitments, over the next 5 year period, as follows:

USD 000s	**2016**	**2017**	**2018**	**2019**	**2020**
Leased office premises	672	472	340	347	355

Other long-term liabilities
Other long-term liabilities primarily relate to a number of contingencies acquired with the Acquisition, which are considered by management to be in the normal course of business. The expected timeline for resolution is not known at this time, although all are expected to take more than one year to settle and all have been outstanding for over one year. As new information is obtained, amounts are adjusted to reflect management's best estimate of the amounts to be settled. During 2015, other long-term liabilities were reduced by $1.8 million as a result of the settlement of one of the contingencies.

A continuity relating to these liabilities is as follows:

USD 000s	**Year ended December 31 2015**
Balance, beginning of year	4,296
Settled through negotiation	(1,765)
Effect of change in foreign exchange rates (ARS to USD)	(956)
Balance, end of year	1,575

Certain legal claims made against the Company are currently awaiting court ruling. At this time, management believes it is not more likely than not that these contingent liabilities have an existing present obligation. Accordingly, no provision has been recorded at December 31, 2015. The current exposure is estimated to be up to $0.7 million.

18. 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.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it in 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, existing credit facilities (see note 8) and working capital. In order to maintain or adjust the capital structure, the Company may obtain new credit facilities, adjust its capital spending to manage current and projected debt levels, farm-out existing opportunities or issue shares.

In order to facilitate the management of its capital structure, the Company prepares annual capital expenditure budgets, which are updated throughout the year depending on varying factors including current and forecast prices, actual capital deployment and general industry conditions, if necessary. The Company's capital management is currently focused on completion of existing exploration commitments and providing for the Company's share of any development programs.

The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the next twelve months.

Liquidity risk

The Company evaluates its ability to meet its future obligations on a regular basis. Budgets are reviewed monthly and updated as necessary depending on varying factors including current and forecast prices, actual capital deployment and general industry conditions. The Company's business is capital intensive and additional capital is required on a periodic basis. As part of its business plan, the Company regularly evaluates sources of funding. In 2015, particular emphasis was placed on accessing debt financing. During the last eight months of 2015, the Company was involved in discussions regarding a potential source of debt financing. These efforts were unsuccessful in securing this funding on terms acceptable to the Company. The current world-wide economic environment relating to the oil and gas industry has made access to capital challenging for many companies, Madalena included. As a result, although the Company exited 2015 with a largely unleveraged balance sheet, (positive working capital of $0.5 million and before tax, NPV10 proved plus probable reserves value of $127.2 million, with $2.0 of long-term bank debt and $1.6 million of other long-term liabilities), the Company continues to face liquidity challenges. Unless the Company is able to raise additional capital or renegotiate its commitments, it does not expect that forecasted cash flows from operating activities will be sufficient to meet its anticipated 2016 and 2017 capital commitments. The Company is examining alternative sources of capital, including potential debt and equity financing and ways to monetize its assets, including, without limitation, asset sales or swaps, joint ventures or other transactions with industry partners, all with a view to enhancing liquidity and meeting commitments.

In January 2016 the Argentina government reduced the benchmark oil price by 10% from $75.00 to $67.50 per barrel. Capital commitments in 2016 and 2017 are expected to exceed anticipated future cash flow from operations and, accordingly, the Company has included a note on going concern uncertainty in these consolidated financial statements. In the event the Company cannot access the required funding and certain work commitments are not fulfilled prior to the commitment deadlines, the Company will attempt to extend its commitments with the regulators. There is no certainty that any extensions will occur in the future and failure to obtain such extensions may result in the loss of concessions and the rights attached to them.

At December 31, 2015, $2.1 million, or 54%, of Madalena's cash and cash equivalents was deposited with banks in Argentina (December 31, 2014 - $7.8 million, 67%), and held in ARS.

At December 31, 2015, the consolidated working capital position of the Company was $0.5 million (December 31, 2014 - $10.2 million), consisting of working capital deficiency of $0.4 million (December 31, 2014 - $12.4 million) in Argentina and working capital of $0.9 million (December 31, 2014 – working capital deficiency of $2.2 million) in Canada.

Argentine Foreign Currency Restrictions

Depending on the amount of inflows and outflows of cash, the Company may have surplus funds on hand in Argentina. As part of the Company's cash management, these surplus funds may be repatriated to Canada. Until December 16, 2015, the Company's ability to repatriate funds from Argentina was controlled by the Argentina government through the Central Bank. There were a number of monetary and currency exchange control measures in Argentina that included restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad, including the need to register intercompany debt to a foreign creditor. On December 16, 2015, a number of measures were implemented by the newly elected government that relaxed existing currency controls and allowed for easier movement of funds abroad. Currently, there are no restrictions on the repayment of debt. Since this date, the Company has not repatriated any additional funds to Canada.

During 2015, the Company repatriated $7.8 million of registered intercompany debt. Since December 31, 2015, the Company has not repatriated any additional funds. The Company anticipates additional funds may be repatriated during 2016, subject to surplus funds on hand in Argentina.

Credit risk

The Company's operations are conducted mainly in Argentina and to a lesser extent, Canada. The Company is exposed to credit risk in relation to its cash and cash equivalents, available for sale securities and trade and other receivables.

Cash and cash equivalents are held with highly rated international and Canadian banks, and therefore the Company does not believe these financial instruments are subject to material credit risk.

Available for sale securities are government bonds and have been highly liquid. As a result, the Company does not believe these financial instruments are subject to material credit risk.

In Argentina, the majority of the Company's oil production is sold to the Argentina subsidiaries of major international oil and gas companies. In Canada, receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers.

The Company does not anticipate any default as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers. As such, a provision for doubtful accounts has not been recorded at December 31, 2015 or December 31, 2014.

Maximum exposure to credit risk for loans and receivables by type of customer

USD 000s	Year Ended December 31 **2015**	2014
Federal and provincial governments and other	**9,226**	13,170
Oil and natural gas marketing companies	**8,656**	3,950
Total trade and other receivables	**17,882**	17,120

Amounts due from oil and gas marketing companies were subsequently collected by the Company.

Aged trade and other receivables

USD 000s	Year Ended December 31 **2015**	2014
Current (less than 90 days)	**16,026**	14,750
Past due (more than 90 days)	**1,856**	2,370
Total	**17,882**	17,120

Amounts totaling $1.9 million over 90 days were not provided for because these amounts are due from various Argentine governments. Based on the Company's past experience, collection occurs, however these are often slow to process. Currently, management has no reason to believe these amounts will not be collected. Of the total balance of $17.9 million, $17.7 million is receivable from Argentina (2014 - $15.8 million).

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

The Government of Argentina sets the benchmark (Medanito) price for oil. Medanito crude oil averaged $75.92 per barrel for 2015 (2014 - $80.35). In early 2016, the government regulator in Argentina advised that 2016 oil pricing is expected to be set at approximately $67.50 per barrel for Medanito crude quality oil; however, there can be no certainty that the oil price will not be further adjusted within the year.

Gas prices in Argentina are subject to seasonal demand and are negotiated between the producer and the buyer. Summer prices have been set at $4.20/mmbtu for the period from October 2015 to April 2016. For the period May to September 2016, which is the Argentine winter, the price has yet to be published. Winter prices in 2015 were $5.30/ mmbtu.

Interest rate risk

Had the BADLAR interest rate associated with the Argentine ICBC loan increased by 5%, associated interest expense would have increased by $0.5 million for the year ended December 31, 2015. A decrease of 5% on BADLAR would result in a decrease in associated interest expense of $0.1 million for the year ended December 31, 2015. The change amounts vary due to the fact that certain amounts in the interest rate formula are fixed.

Foreign currency exchange rate risk
The majority of the Company's exploration and development activities are conducted in Argentina and the majority of the Company's cash and cash equivalents are denominated in ARS. The Company is exposed to currency risk to the extent that revenue, expenses and monetary assets and liabilities are denominated in currencies that differ from the functional currency of the respective entity within the consolidated group.

The impact of changes in foreign exchange rates on gains and losses recorded when translating from ARS and/or CAD to USD at December 31, 2015 are not significant to the financial statements, with the exception of USD denominated intercompany liabilities recorded on the books of the Parent Company in CAD. These liabilities are not considered part of the net investment in the respective subsidiary, and as such create unrealized foreign exchange gains and losses. For the year ended December 31, 2015, the unrealized gain recorded for these intercompany liabilities amounted to $3.9 million (2014 – nil).

A change of the USD vs CAD exchange rate by 10% would have changed the unrealized foreign exchange gain recorded by $1.9 million (2014 – nil).

Fair value of financial instruments
The Company's financial instruments include cash and cash equivalents, available for sale securities, trade and other receivables, current portion of long-term debt, trade and other payables, taxes payable and long-term debt the carrying values of which approximate their fair values due to their short-term nature and in the case of the long-term debt, as a result of the variable interest rate. Commodity contracts (held for trading) and available for sale securities are recorded at fair value through the statements of loss and other comprehensive loss, respectively.

19. 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 areas and comprise Canada and Argentina. Corporate level expenses primarily comprise general and administrative costs in Canada. No other segmented categories are significant in relation to corporate head office. The Company does not have separate operations in Barbados. Barbados entities hold a direct interest in the Argentine businesses and the chief operating decision maker views Barbados as an extension of the Argentine operations. Together they collectively comprise the Argentina operating segment.

			As at and for the year ended December 31, 2015	
USD 000s	Argentina	Canada	Intersegment Eliminations	Total
Total assets	152,976	32,919	(21,978)	163,917
Total liabilities	80,118	5,684	(21,978)	63,824
Oil and natural gas revenues	81,726	1,922	-	83,648
Other income	13,857	-	-	13,857
Operating expenses	33,294	2,712	-	36,006
General & administrative expenses	6,305	4,312	-	10,617
Depletion and depreciation	25,578	740	-	26,318
Impairment	8,400	5,358	-	13,758
Current income tax expense	5,359	-	-	5,359
Net loss	5,959	7,746	-	13,705
Capital expenditures(1)	40,899	518	-	41,417

			As at and for the year ended December 31, 2014	
USD 000s	Argentina	Canada	Intersegment Eliminations	Total
Total assets	160,277	39,436	(30,192)	169,521
Total liabilities	72,235	10,462	(30,192)	52,505
Oil and natural gas revenues	51,810	14,063	-	65,873
Operating expenses	20,084	6,746	-	26,830
General & administrative expenses	4,083	5,437	-	9,520
Depletion and depreciation	14,948	4,601	-	19,549
Impairment	-	27,582	-	27,582
Current income tax expense	2,776	-	-	2,776
Net loss	252	31,580	-	31,832
Capital expenditures(1)	18,332	17,773	-	36,105

(1) Capital expenditures include cash additions to PP&E and E&E.

For the year ended December 31, 2015, three customers within the Argentina operating segment each individually accounted for more than 10% of oil and natural gas revenues, and amounted to $32.9 million, $24.3 million and $8.5 million. For the year ended December 31, 2014, two customers within the Argentina operating segment each individually accounted for more than 10% of oil and natural gas revenues and amounted to $20.7 million and $15.8 million. There were no Canadian operating segment customers with 10% or more of oil and gas revenues for the year ended December 31, 2015. During 2014, the Canadian operating segment had one such customer, with revenues amounting to $9.1 million.

Intersegment eliminations relate to intercompany loans between Canada and Argentina.

20. Supplemental disclosure

(a) Madalena's consolidated statements of loss and comprehensive loss are prepared primarily by nature of expenses, with the exception of employee compensation costs which are included in both the operating and general and administrative expense line items on the consolidated statements of loss and comprehensive loss. The following table details the amount of total employee compensation costs included in the operating and general and administrative expense line items in the consolidated statements of loss and comprehensive loss.

	Year ended December 31	
USD 000s	2015	2014
Operating expenses		
Compensation costs	**5,000**	2,460
Transportation and processing	**11,902**	9,565
Maintenance, workovers and others	**19,104**	14,805
	36,006	26,830
General & Administrative expenses		
Compensation costs	**6,618**	5,557
Other	**3,999**	3,963
	10,617	9,520

(b) Key management personnel are persons who have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes all directors and executives of the Company. The table below summarizes all key management personnel compensation paid and payable during the years ended December 31, 2015 and 2014.

	Year ended December 31	
USD 000s	2015	2014
Short-term employee benefits, including wages	**1,683**	2,432
Share-based compensation	**966**	1,085
	2,649	3,517

21. Subsequent Events

(a) Canadian asset sale

On February 8, 2016, First Mountain Exploration Inc. ("First Mountain"), Point Loma Energy Ltd. ("Point Loma") and Madalena entered into a non-binding letter of intent pursuant to which, among other things, it is proposed that Point Loma will acquire Madalena's non-core Canadian oil and gas assets (the "Non-Core Canadian Assets") for a deemed aggregate purchase price of approximately $4.0 million (CAD $5.5 million).

Proceeds will consist of 14,522,823 common shares of Point Loma , with a deemed value of $1.8 million (CAD $2.5 million), as well as a five-year $2.2 million (CAD $3 million) secured convertible debenture, bearing interest at 3% per annum, payable at the end of the debenture term.

(b) Termination contract

The chief executive officer ("CEO") of the Company was terminated on March 23, 2016. On the date of termination, the amount owing as severance to the former CEO under his employment agreement was $0.7 million.