MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2015

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This Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is based on information available to May 28, 2015 and should be read in conjunction with Madalena Energy Inc.'s ("Madalena" or the "Company") unaudited condensed interim consolidated financial statements for the three months ended March 31, 2015 and the accompanying notes as well as the audited consolidated financial statements for the year ended December 31, 2014 and the accompanying notes. This MD&A contains forward-looking information about the Company's current expectations, estimates, projections and assumptions. See the Advisory for information on the risk factors that could cause actual results to differ materially and the assumptions underlying the Company's forward-looking information. Madalena's Management prepared the MD&A, while the Audit Committee of the Madalena Board of Directors (the "Board") reviewed and recommended its approval by the Board. Additional information relevant to the Company's activities contained in its continuous disclosure documents, including quarterly consolidated interim financial statements and the Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com and on the Company's website at www.madalenaenergy.com.

Basis of Presentation

This MD&A and the unaudited condensed interim consolidated financial statements and comparative information have been prepared in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") applying IAS 34. Unless otherwise indicated, all dollar amounts are in Canadian dollars. Production volumes are presented on a before royalties basis.

Non-GAAP Measures

Certain financial measures in this document do not have a standardized meaning as prescribed by IFRS, such as funds flow from operations and netbacks and therefore are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in order to provide shareholders and potential investors with additional measures for analyzing the Company's ability to generate funds to finance its operations and information regarding its liquidity. The additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The definition and/or reconciliation of each non-GAAP measure is presented in the Netbacks Summary and Reconciliation of Cash Flow from Operating Activities and Funds Flow from Operations sections of this MD&A.

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

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

Introduction

Madalena is a Calgary, Alberta, Canada-based junior oil and gas exploration, development and production company with operations both internationally in the Neuquén and NorOeste basins of Argentina and domestically within the greater Paddle River area of Alberta, Canada. Madalena's strategy is to create value through the generation of a portfolio of high quality oil and gas assets in proven hydrocarbon areas with significant development potential. The Company is focused on building a growth oriented, sustainable business model. This incorporates a balanced approach between lower risk development and high impact exploration/delineation activities targeting both conventional assets and unconventional resource plays.

Prior to June 25, 2014, the Company's existing Argentine operations included production from one concession at Coiron Amargo, which produced approximately 300 boe/d in the first quarter of 2014.

On June 25, 2014, the Company acquired all of the outstanding shares of the Argentine business unit of Gran Tierra Energy Inc. for cash consideration of $59.2 million (including cash of $11.2 million) and 29,831,537 common shares at a fair value of $0.51 per common share (the "Acquisition"). The Acquisition significantly increased Madalena's Argentine reserves, production and undeveloped land position and added a fully functional independent business unit in Argentina, with an experienced technical and operational team. Current corporate production is approximately 4,000 boe/d, of which 95% is from Argentina.

All information disclosed below for the three months ended March 31, 2015 includes the results of the Acquisition whereas the comparable first quarter results for 2014 do not, as the Acquisition occurred subsequent to March 31, 2014.

Sales Volumes

	Three months ended March 31	
	2015	2014
Argentina		
Crude oil (Bbls/d)	**2,653**	295
Natural gas (Mcf/d)	**3,895**	80
Total daily production (boe/d)	**3,302**	309
Canada		
Crude oil and NGLs (Bbls/d)	**148**	349
Natural gas (Mcf/d)	**816**	2,899
Total daily production (boe/d)	**284**	832
Corporate		
Total daily production (boe/d)	**3,586**	1,141
% Oil & NGLs	**78%**	57%

Argentina

Madalena's primary producing concessions are at Surubi, Puesto Morales and Coiron Amargo. Other producing concessions include El Chivil, El Vinalar and Palmar Largo. All concessions produce oil and Puesto Morales and Coiron Amargo also produce natural gas. Approximately 75% of Madalena's current production comes from Surubi and Puesto Morales.

Sales volumes for the the three months ended March 31, 2015 ("the Quarter") increased to 3,302 boe/d from 309 boe/d in the three months ended March 31, 2014 ("Q1 - 2014"). The Company's significant growth, when compared to Q1-2014, can be attributed to the Acquisition and new horizontal wells at Coiron Amargo that have been brought on-stream since March 31, 2014. Sales volumes were 80% crude oil weighted in the Quarter compared to 95% crude oil weighted in Q1-2014.

Madalena expects Q2 - 2015 sales volumes to average approximately 3,800 boe/d (an increase from the average of 3,302 boe/d in the Quarter) as a result of the successful horizontal well at Puesto Morales and a full quarter of production from the Coiron Amargo CAN-16h well.

Canada
Sales volumes for the Quarter were 284 boe/d compared to 832 boe/d in Q1 – 2014. Decreased production was primarily due to the temporary shut-down of the Keyera Paddle River gas plant on February 1, 2015. This shut-down was a direct result of the current economic conditions and the recent commodity price declines in North America.

Madalena expects Q2 - 2015 sales volumes to average approximately 175 boe/d (88% oil and liquids). The reduced production for Q2 is a result of additional shut-in volumes at the Niton field, which was recently cut back 60% due to a TransCanada Pipeline nomination restriction. This restriction is expected to continue until the fourth quarter of 2015.

The Company has been evaluating various alternatives to bring the remaining shut-in volumes (estimated at 400 boe/d) in the Paddle River area back on-stream and expects to restore the majority of the Company's Western Canadian production in the coming months.

Average Realized Prices

	Three months ended March 31	
Canadian $	**2015**	2014
Argentina		
Crude oil and NGLs – $/bbl	**90.43**	85.31
Natural gas – $/mcf	**5.30**	4.60
Total - $/boe	**78.91**	82.82
Canada		
Crude oil and NGLs – $/bbl	**35.87**	78.59
Natural gas – $/mcf	**2.81**	5.87
Total - $/boe	**26.78**	53.44
Corporate		
Crude oil and NGLs – $/bbl	**87.54**	81.66
Natural gas – $/mcf	**4.87**	5.84
Total - $/boe	**74.78**	61.38

Argentina
The Government of Argentina sets the benchmark (Medanito) price for oil. Over the last few years world prices (WTI and Brent) increased sharply while the Argentine prices did not keep pace. Conversely, when world prices fell sharply in the latter half of 2014, Argentina prices remained relatively stable. Although Argentine prices are currently approximately 15% higher than Brent pricing, there can be no assurances that prices in Argentina will remain above Brent and/or WTI.

The increase in oil prices for the Quarter compared to Q1 – 2014 was a result of the strengthening United States dollar ("US$") against the Canadian dollar and a higher Medanito oil price for the Quarter of US$76.33 compared to US$72.83 for Q1-2014.

The Medanito crude quality oil posting for April and May, 2015 remains at US$76.00/Bbl. The Company's average discount to this posting is approximately US$4.00/Bbl for quality and transportation differentials. Although there are no indications of any change to the oil pricing market in Argentina, posted prices can be changed by the regulators on a month to month basis.

Gas prices in Argentina are fixed by the government regulator in US$/mmbtu. Gas prices have been set at US$5.30/mmbtu for the Argentine winter period of May to September 2015.

On February 2, 2015 the Government of Argentina announced a new oil incentive program. The program runs from January 1, 2015 to December 31, 2015 but could be extended for one year. To stimulate production, the Government has set a US$3.00/Bbl royalty free bonus payment on all production for companies that grow their production or maintain it at greater than 95% of Q4 - 2014 volumes. For the first quarter of 2015, Madalena believes it has qualified and has made an application for this bonus payment. The Company also expects to qualify in Q2-2015.

The price received per boe for the Quarter was $78.91, slightly lower than the $82.82 realized in Q1-2014 due to the reduction in the crude oil sales weighting from 95% in Q1-2014 to 80% in the Quarter. The Company anticipates Argentina prices to average $75.00 per boe (excluding the benefits of the new oil incentive program mentioned above) during Q2 – 2015, assuming a US$ to Canadian dollar of 1.25:1.

Canada

For the Quarter, Madalena realized a 50% decrease in per boe selling price to $26.78 for the Quarter compared to $53.44 for Q1 – 2014 as a result of lower crude oil and natural gas prices.

The Company anticipates Canadian prices to average $30 per boe during Q2 – 2015.

As of March 31, 2015, the Company has the following physical oil contract in place:

Type	Period	Volume	Price Floor	Price Ceiling	Index
Crude oil call options	Jan 1, 2015 to Dec. 31, 2015	50 bbl/d	-	$95.00 US	WTI

The fair value of commodity contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. The fair value of commodity contracts for the period ended March 31, 2015 was a net payable of $2,000 (December 31, 2014 – net receivable of $189,000). Realized gains for the period ended March 31, 2015 were $189,000 (December 31, 2014 – realized losses $168,000) and are included in loss on commodity contracts on the statement of income (loss) and comprehensive income (loss). The commodity contracts are classified as level 2 within the fair value hierarchy.

On March 23, 2015, the Company monetized its natural gas contract, realizing a gain of $92,000, which is included in gain on commodity contracts as discussed above.

Foreign Exchange Fluctuations

Canadian $	Three months ended March 31 **2015**	2014	**% Change**
Average US$ to CDN dollar	**1.24**	1.10	**12.7**
Average Argentine Peso to US$	**0.115**	0.133	**(13.5)**
Period end US$ to CDN dollar	**1.27**	1.11	**14.4**
Period end Argentine Peso to US$	**0.113**	0.124	**(8.9)**

The table above provides various exchange rates that illustrate the quarterly foreign exchange fluctuations between the Argentine peso ("AR$"), Canadian dollar and the US$. The table illustrates the continuing devaluation of the AR$ against the US$ and the strength of the US$ against the Canadian dollar.

Revenue

	Three months ended March 31	
Canadian $000s, except per boe	**2015**	**2014**
Argentina		
Crude oil	**21,590**	2,267
Natural gas	**1,860**	33
	23,450	2,300
Canada		
Crude oil and NGLs	**479**	2,474
Natural gas	**206**	1,532
	685	4,006
Corporate Total	**24,135**	6,306
Corporate - $/boe	**74.78**	61.38

Argentina

Oil and gas revenue was $23.5 million for the Quarter compared to $2.3 million for Q1–2014 due to the additional production volumes realized from the Acquisition, increased production from successful horizontal drilling at Coiron Amargo and improved prices from both oil and gas resulting from a strengthening US$.

Canada

Oil and gas revenue was $0.7 million in the Quarter compared to $4.0 million in Q1 – 2014 due to lower sales volumes resulting from the Keyera Paddle River plant shut-down on February 1, 2015 and lower oil and gas prices.

Royalties

	Three months ended March 31	
Canadian $000s, except per boe	**2015**	2014
Argentina		
Royalties	**3,248**	330
As % of revenue from Argentina	**14%**	14%
Canada		
Royalties	**77**	434
As % of revenue from Canada	**11%**	11%
Corporate total	**3,325**	764
Corporate - $/boe	**10.30**	7.44

Argentina

Royalty expenses were $3.2 million for the Quarter compared to $0.3 million in Q1–2014 due to higher production volumes as a result of the Acquisition. The Company expects royalty rates in 2015 to be consistent with 2014.

Canada
Royalty expenses were $0.1 million for the Quarter compared to $0.4 million in Q1–2014 due to the decline in oil and gas production volumes.

The Company expects royalty rates in 2015 to be consistent with 2014.

Operating Costs

	Three months ended March 31	
Canadian $000s, except per boe	**2015**	2014
Argentina		
Operating costs	**9,159**	851
$/boe	**30.82**	30.65
Canada		
Operating costs	**943**	1,649
$/boe	**36.86**	22.00
Corporate total	**10,102**	2,500
Corporate - $/boe	**31.30**	24.33

Argentina
Operating costs during the Quarter increased to $9.2 million from $0.9 million in Q1–2014 as a result of the Acquisition. On a per boe basis, operating costs were for the Quarter increased 1% to $30.82 per boe from $30.65 per boe in Q1 – 2014.

Management expects operating costs to average approximately $30 per boe in Q2 - 2015.

Canada
Operating costs during the Quarter decreased to $0.9 million from $1.6 million in Q1–2014 as a result of lower production volumes that were offset by higher per unit costs. On a per boe basis, operating costs for the Quarter increased to $36.86 per boe from $22.00 per boe in Q1–2014, primarily as result of fixed costs related to shut-in production.

Management expects average operating costs to average $32 per boe in Q2 - 2015.

Netbacks Summary [(1)]

Canadian $/boe	Three months ended March 31 **2015**	2014
Argentina		
Revenue	**78.91**	82.82
Royalties	**(10.93)**	(11.89)
Operating expenses	**(30.82)**	(30.65)
Netbacks	**37.16**	40.28
Canada		
Revenue	**26.78**	53.44
Royalties	**(3.02)**	(5.78)
Operating expenses	**(36.86)**	(22.00)
Netbacks[(2)]	**(13.10)**	25.66
Corporate total		
Revenue	**74.78**	61.38
Royalties	**(10.30)**	(7.43)
Operating expenses	**(31.30)**	(24.33)
Netbacks	**33.18**	29.62

(1) The term "netback" is a non-GAAP measure and may not be comparable with the calculation of other entities. Netback is calculated as the average unit sales price, less royalties and operating expenses and represents the cash margin for every barrel of oil equivalent sold. The Company uses this measure to analyze operating performance and considers netback a key measure as it demonstrates its profitability relative to current commodity prices.

(2) The majority of the Canadian production was shut-in on February 1, 2015.

General and Administration ("G&A") Expenses

Canadian $000s	Three months ended March 31 **2015**	2014
Argentina		
Gross G&A	**1,919**	198
Capitalized	**(318)**	-
	1,601	198
Canada		
Gross G&A	**1,666**	651
Capitalized	**(250)**	-
	1,416	651
Corporate total		
Corporate G&A total	**3,017**	849

Argentina

Gross G&A expenses for the Quarter were $1.9 million compared to $0.2 million in Q1–2014. The increase was primarily a result of the Acquisition, which increased production tenfold and added a fully functional independent business unit in Argentina, with an experienced technical and operational team. The Company currently employs 43 office employees in Argentina compared to three in 2014. With the increase in personnel, the Company has the human resources to effectively manage complex operations. The Company intends to optimize in areas where efficiencies can be realized.

During the Quarter, $0.3 million of directly attributable G&A costs were capitalized to property, plant and equipment.

G&A expenses for Q2-2015 for Argentina, net of amounts capitalized, are estimated at approximately $1.5 million.

Canada
Gross G&A expense for the Quarter was $1.7 million compared to $0.7 million in Q1-2014. The increase was primarily due to the Acquisition related increases including additional employees in financial reporting, additional consulting services, primarily in geophysical and engineering and added professional fees related to audit, tax, accounting and reserve report preparation. The Company has seven full-time employees, which reflects a reduction of two employees since the end of 2014. This reduction is attributed to lower Canadian operations activity as the focus of the Company has shifted to Argentina. The Company intends to optimize in areas where efficiencies can be realized.

During the Quarter, $0.3 million of directly attributable G&A costs were capitalized to property, plant and equipment in Argentina.

G&A expenses for Q2-2015 for Canada, net of amounts capitalized, are estimated at approximately $1.2 million.

Finance Income and Expenses

	Three months ended March 31	
Canadian $000s	**2015**	2014
Bank charges and fees	**521**	180
Foreign exchange (gain) loss	**(134)**	(1,593)
Accretion	**108**	47
Interest expense (other income)	**92**	(30)
	587	(1,396)

Finance Income and Expenses consist of bank charges, foreign exchange gains and losses, accretion of provisions and interest expense (other income).

Bank Charges and Fees
Bank charges and fees relate to various forms of taxation in Argentina above and beyond royalties and income taxes. Bank charges and fees for the Quarter increased to $0.5 million from $0.2 million in Q1-2014 as a result of increased Acquisition related transaction activity. Bank charges for Q2–2015 are estimated at approximately $0.6 million.

Foreign exchange (gain) loss
During the Quarter, as a result of transaction activity, the Company recorded a foreign exchange gain of $0.1 million compared to a gain of $1.6 million for Q1 – 2014. The gain for Q1–2014 was a result of beneficial exchange rates between AR$ and the Canadian dollar that existed in the market at the time of funding the Argentina exploration and development activity from Canada.

Share-based Compensation
The Company has issued stock options as incentive programs that allow officers, directors, consultants and certain employees to purchase shares in the Company. Share based compensation was $0.2 million in the Quarter compared to $0.3 million for Q1-2014.

Depletion and Depreciation ("D&D")

Canadian $000s	Three months ended March 31 2015	2014
Argentina	**7,422**	910
$/boe	**24.97**	32.72
Canada	**318**	1,008
$/boe	**12.43**	13.46
Total	**7,740**	1,918
$/boe	**23.98**	18.67

Argentina
With the increase to property, plant and equipment of $88.5 million as a result of the Acquisition, D&D increased to $7.4 million in the Quarter compared to $0.9 million in Q1-2014 due to increased production on the acquired assets. On a per boe basis, D&D for the Quarter declined to $24.97 per boe from $32.72 per boe in Q1 – 2014 due to the higher production resulting from the Acquisition.

Canada
D&D expenses for the Quarter decreased to $0.3 million from $1.0 million in Q1-2014 as a result of lower production. On a per boe basis, D&D for the Quarter decreased to $12.43 per boe from $13.46 per boe in Q1–2014.

Impairment
At March 31, 2015, Madalena determined that there were no new indications of impairment for any of its Argentine or Canadian Cash Generating Units. In Q1-2014, the Company recorded an impairment charge of $0.7 million on its Canadian exploration and evaluation assets, relating to two wells abandoned during that period.

Income Taxes

Canadian $000s	Three months ended March 31 2015	2014
Argentina		
Current income tax expense	**1,414**	67
Deferred income tax expense (recovery)	**(522)**	-
Canada		
Deferred income tax expense (recovery)	**-**	(52)
Total		
Current income tax expense	**1,414**	67
Deferred income tax expense (recovery)	**(522)**	(52)

Argentina
In Argentina, Madalena has four operating entities – three of which were acquired pursuant to the Acquisition. Two of the three acquired entities incur current income taxes. The income tax rate in Argentina is 35%. The two entities that are not taxable are subject to minimum taxes, which are generally taxed at 1% of net assets. Current income tax expense (including minimum tax) for the Quarter was $1.4 million compared to $0.1 million for Q1-

2014. The Company only paid minimum tax in Q1-2014 and did not incur income taxes. The Company is evaluating various alternatives to consolidate its Argentina operations, which are anticipated to result in potential tax savings. Tax implications will likely defer any benefit until 2016 or 2017.

The Company booked a deferred income tax recovery of $0.5 million during the Quarter (Q1-2014 - nil).

Current income taxes for Q2 – 2015 are estimated at approximately $1.2 million.

Canada
The deferred income tax recovery relates to the flow-through shares issued by the Company in 2013.

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

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

	Three months ended March 31	
Canadian $000s	**2015**	2014
Cash flow from operating activities	**8,566**	2,488
Change in non-cash working capital	**(3,469)**	1,058
Change in other non-current assets	**909**	-
Decommissioning costs incurred	**-**	23
Funds flow from operations	**6,006**	3,569

Funds flow from operations, Net income (loss) and comprehensive income (loss)

Canadian $000s	**Three months ended March 31**	
(except per share amounts)	**2015**	2014
Funds flow from operations	**6,006**	3,569
Per share - basic & diluted	**0.01**	0.01
Net income (loss)	**(1,771)**	297
Per share - basic & diluted	**0.00**	0.00
Comprehensive income (loss)	**10,207**	(6,283)

Madalena's funds flow from operations for the Quarter increased to $6.0 million from $3.6 million in Q1 - 2014. The increase in funds flow from operations was principally due to the Acquisition.

The net loss for the Quarter was $1.8 million (Q1 - 2014 – net income of $0.3 million), predominately as increases from net lease operating income generated from the Acquisition were offset by increased general and administration costs, increased depletion and income taxes.

Foreign exchange gains and losses associated with translating the Company's Argentine and Barbadian subsidiaries from US$ to Canadian dollars are accounted for through Accumulated Other Comprehensive Loss ("AOCI"). Until July 1, 2014, the impact related to AR$ versus Canadian dollar rate fluctuations, which were captured in AOCI. Commencing July 1, 2014, the impact only relates to US$ versus Canadian dollar rate fluctuations, as the functional currency of the Company's pre-existing Argentine subsidiary was changed from the AR$ to the US$.

A summary of foreign exchange impact follows:

Canadian $000s	Three months ended March 31 2015	2014
Foreign currency translation adjustment	**11,978**	(6,580)

For the Quarter, the US$ increased by 9.2% against the Canadian dollar causing a $12.0 million exchange gain on translation of subsidiaries with functional currencies other than the Canadian dollars (Q1 - 2014 - $6.6 million loss). For the quarter ended Q1-2014, AR$ decreased by 15.4% against the Canadian dollar as we were then translating the Company's Argentine subsidiary from AR$ to Canadian dollars prior to the change in functional currency to US$ on July 1, 2014.

Capital Expenditures

Canadian $000s	Three months ended March 31 2015	2014
Argentina		
Land	**129**	15
Geological and geophysical	**-**	1,697
Drilling and completions	**13,102**	4,327
Well equipment and facilities	**939**	68
Other	**(72)**	887
Argentina total	**14,098**	6,994
Canada		
Land	**-**	22
Geological and geophysical	**-**	7
Drilling and completions	**394**	3,706
Well equipment and facilities	**35**	1,769
Other	**41**	50
Canada total	**470**	5,554
Total capital expenditures	**14,568**	12,548

Argentina

The Company drilled two wells during the Quarter; a horizontal well at Coiron Amargo (CAN-16(h) and a horizontal multi-frac well at Puesto Morales (PMS-1135). The CAN-16(h) was placed on production March 15, 2015 while the PMS-1135 started producing oil on April 2 with solution gas conservation commencing on April 9, 2015.

In Q1-2014, capital expenditures were focused on the CAS x-15 well and the shooting of seismic at Curamhuele.

Canada

There was virtually no activity in Canada during the Quarter, compared with $5.6 million in Q1-2014. This was a result of the Company's focus being redirected to Argentina in response to reduced commodity prices realized in Canada.

Transactions with Related Parties

A former director and current Secretary of the Company is a partner of a law firm that provides legal services to the Company. During the Quarter, the Company incurred fees of $0.1 million (Q1-2014 - $0.1 million) from this firm for legal fees related to legal matters. All legal fees from this firm are included in general and administrative costs in the statement of income (loss) and comprehensive income (loss) and are included in accounts payable and accrued liabilities at March 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.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity, working capital and shareholders' equity

Canadian $000s	**March 31 2015**	**December 31 2014**
Working capital	**3,187**	**11,777**
Shareholders' equity	**146,355**	**135,752**

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 the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, existing credit facilities 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.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company has both capital and operating obligations in 2015. The balance of the Company's 2015 capital expenditure budget is 100% allocated to Argentina, where the majority of the Company's reserves and production are located (see note 11 in the financial statements for additional details). This budget is reviewed monthly and updated as necessary depending on varying factors including current and forecast prices, actual capital deployment and general industry conditions.

At March 31, 2015, $11.2 million, or 80%, of Madalena's cash on hand was deposited with banks in Argentina (December 31, 2014 - $9.0 million, 67%).

At March 31, 2015, the consolidated working capital position of the Company was $3.2 million (December 31, 2014 - $11.8 million), consisting of working capital of $5.1 million (December 31, 2014 - $12.5 million) in Argentina and a working capital deficiency of $1.9 million (December 31, 2014 – working capital deficiency of $0.7 million) in Canada.

Argentine Debt Facility

As at March 31, 2015, there were no credit facilities in place in Argentina. With 90% of the Company's conventional oil and gas assets in Argentina and a solid cash flow platform from its operations, Madalena has sufficient assets to leverage its balance sheet. On May 28, 2015, as an initial step in its anticipated broader debt financing strategy, one of Madalena's Argentine subsidiaries, Madalena Energy Argentina S.R.L ("MEA"), closed a AR$90 million ($12.5 million) loan with Industrial and Commercial Bank of China (Argentina) S.A. ("ICBC"). There funds were advanced on closing and will be 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 approximately 11%, resulting in a current rate of approximately 32%. Surplus funds from the ICBC facility are expected to be invested by Madalena in short-term deposits that currently are yielding approximately 22% in Argentina. The loan principal is repayable in seven equal quarterly instalments, starting on the sixth month after the funds are advanced.

Security for this loan is provided by the assignment of MEA's receivables resulting from the sale of crude oil. The facility includes an annual financial covenant for MEA whereby their ratio of debt to earnings before income taxes, depletion, interest and other non-cash items must be equal to or less than 1:1.

Canadian Debt Facility

At March 31, 2015, Madalena had a credit facility in place against its Canadian based assets. The facility is restricted to activity in Canada only and is not available for funding any of its Argentine operations. Subsequent to the March 31, 2015, in conjunction with the annual review, the operating demand loan credit facility was reduced to $7 million, of which the maximum draw is currently limited to $3.5 million, with interest charged at the bank's prime rate plus 1% per annum. The acquisition/development demand loan credit facility, with interest charged at the bank's prime rate plus 1.5% per annum, remains available to a maximum of $3 million. Both facilities are subject to a periodic review by the bank and the next review is scheduled on or before June 30, 2015. As of March 31, 2015, the Company had utilized $2.5 million (December 31, 2014 - $nil) of the operating demand loan credit facility and had cash on hand in Canada in the amount of US$2.1 million. The acquisition/development demand loan credit facility was unutilized at March 31, 2015 and December 31, 2014.

The operating demand facility includes a working capital ratio covenant, whereby the working capital deficiency (excluding working capital from any of its Argentina subsidiaries and any unrealized hedging gains or losses) may not exceed $3.5 million. At March 31, 2015, the Company is in compliance with this covenant.

The operating demand credit facility is a demand loan and may be called at any time. There is no assurance that the credit facility will be renewed when the next scheduled review is completed. In addition, as a result of the low commodity price environment in Canada, the Company anticipates a reduction in funds generated from operations in Canada. Consequently, the Company may require access to alternative sources of funds.

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. The Company's ability to repatriate funds from Argentina is controlled by the Argentina government through the Central Bank. There are currently a number of monetary and currency exchange control measures in Argentina that include restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad.

During the first quarter of 2015 and to year date in 2015, the Company repatriated US$0.8 million and US$1.9 million, respectively. Based on the current budget and anticipated inflows and outflows of cash, no additional repatriation of funds is contemplated for the second quarter.

Share Capital Issued and Options Granted

Outstanding Share Capital

During the Quarter, 533,333 common shares were issued pursuant to the exercise of options for cash proceeds of $155,000. No options were granted during the Quarter. Since the end of the Quarter, 716,666 common shares were issued pursuant to the exercise of options by former employees of the Company for cash proceeds of $226,833.

As at May 28, 2015, the Company had 541.0 million shares and 23.1 million options outstanding.

Financial Instruments

Other than the commodity contracts discussed earlier in this report, the Company's financial instruments comprise cash and cash equivalents, trade and other receivables, bank debt and trade and other payables. Carrying values reflect the current fair value of the Company's financial instruments due to their short-term to maturity.

Decommissioning Obligations

Decommissioning obligations result from net ownership interests in property, plant and equipment and involve critical accounting estimates. There are significant uncertainties related to the estimated costs and the timing of settlement of decommissioning obligations, and the impact on the financial statements could be material. The main factors that can cause expected decommissioning obligations to change are changes to laws and regulations, construction of new facilities, changes in reserve estimates and lives and changes in technology.

Argentina

The business combination in Argentina added a significant number of producing wells and with this expanded operating portfolio, the Company expects that decommissioning obligations for its Argentina portfolio will be settled in US$.

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

At March 31, 2015, inflation rates of 1% and 2% were used in Argentina and Canada, respectively (December 31, 2014 – 1% and 2% for Argentina and Canada, respectively). The risk free rate used to discount the liability was 2.3% (December 31, 2014 – 2.5%) in Argentina and 2.4% (December 31, 2014 –2.5%) in Canada.

Commitments and Contingencies

Development and Exploration Commitments

<u>*Coiron Amargo Block (35% working interest)*</u>
In October 2013 the exploration period for Coiron Amargo Sur was extended until November 8, 2014 based on a work commitment program for the southern portion of the block. The Company drilled a vertical Vaca Muerta shale well in late 2014 which satisfied the last of the work commitments prior to entering into a new contract phase.

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 US$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.

<u>*Curamhuele Block (90% working interest)*</u>
The Curamhuele Block is operated by Madalena. In September 2013 the first exploration period was extended until November 8, 2014 by the Province of Neuquén. On December 19, 2014, the Province granted an extension to September 2015 to satisfy the remaining work commitments on the block.

At March 31, 2015, Madalena's future work commitments associated with the Curamhuele block were approximately US$12.0 million plus VAT. To satisfy this remaining work commitment, Madalena is preparing to conduct a re-entry program prior to September 2015. After satisfying these remaining work commitments, Madalena expects to either convert certain areas of the acreage into an exploitation (development) concession and/or enter into a new exploration period(s) or unconventional evaluation phase to further appraise the block. The Company has posted a performance bond for amounts committed under this concession agreement. The assets of Madalena Austral S.A., a subsidiary of the Company, are held as security for the bond.

Cortadera Block (37.8% working interest)

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

In 2014, Madalena and its working interest partners satisfied all of its remaining commitments related to the first exploration period on the block and now have the option to enter into a second exploration period extending to October 25, 2018 and a third exploration period extending to October 25, 2021, or extend acreage at Cortadera through potential further evaluation and/or exploitation phases. Madalena is currently taking steps with its partners and the Province to formalize a second exploration period.

Puesto Morales Block (100% working interest)

The Company acquired its interest in the 31,254 acre block in the Neuquén Basin as part of the Acquisition. The block produces oil and natural gas from the Sierras Blancas and Loma Montosa formations. The exploitation permit expires on Jan 22, 2016. An application for block extension has been submitted to the Province of Rio Negro and the Company expects an approval for a ten year extension to be granted in 2015.

Santa Victoria Block (100% working interest)

This block was part of the recent Acquisition and includes a 100% working interest in this block located in the NorOeste Basin. The contract is currently in the second of three exploration phases. This phase requires a minimum commitment of US$3.75 million plus VAT to be conducted by April 2015. In March 2015, the Company submitted an application for a three year extension. Negotiations are currently ongoing with the Province.

Leased Office Premises

The Company is responsible for the following rental commitments:

Canadian $000s	2015	2016	2017	2018	2019
Leased office premises	671	890	637	470	480

Contingencies - 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. All but one has 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. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and their outcome could have a significant effect on the Company's assets, liabilities, business, financial condition and results of operations.

QUARTERLY FINANCIAL RESULTS

Quarterly Financial Results

Canadian $000s, unless otherwise noted	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Revenues	**24,135**	**26,635**	30,860	9,144
Net income (loss)	**(1,771)**	**(30,524)**	(2,267)	(3,510)
Shares outstanding – 000s	**540.3**	**539.8**	539.8	525.0
Net income (loss) per share – basic and diluted	**(0.00)**	**(0.07)**	(0.00)	(0.01)

Canadian $000s, unless otherwise noted	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Revenues	6,306	5,633	4,840	3,877
Net income (loss)	297	(20,527)	(118)	(320)
Shares outstanding (‘000s)	396.9	364.0	338.7	316.8
Net income (loss) per share – basic and diluted	0.00	(0.06)	(0.00)	(0.00)

Generally, the Company’s increase in revenues during the Quarter, Q4-2014 and Q3-2013 can be attributed to increasing oil production in Argentina resulting from the Acquisition and successful horizontal drilling in Argentina.

No impairment was recorded in the Quarter. The Company recorded impairment charges in of $28.0 million, $0.6 million, $2.6 million and $19.7 million in Q4-2014, Q3-2014, Q2-2014 and Q4-2013, respectively, impacting the net loss recognized. The Company also incurred $1.7 million and $0.2 million of business combination costs relating to the Acquisition in Q2-2014 and Q3-2014, respectively.

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

CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES

For more details regarding the Company’s critical accounting judgments, estimates and accounting policies the following should be read in conjunction with the Company’s Consolidated Financial Statements for the year ended December 31, 2014.

Management is required to make judgments, estimates and assumptions in the application of accounting policies that could have a significant impact on the Company’s financial results. Actual results may differ from those estimates and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. The Company’s critical accounting policies and estimates are reviewed annually by the Audit Committee of the Board. Further details on the basis of presentation and significant accounting policies can be found in the Company’s notes to the Consolidated Financial Statements for the year ended December 31, 2014.

Critical Accounting Judgments in Applying Accounting Policies

Critical judgments are those judgments made by Management in the process of applying accounting policies that have the most significant effect on the amounts recognized in the Company’s Consolidated Financial Statements and accompanying notes for the year ended December 31, 2014. Further information on Management’s critical accounting judgments in applying accounting policies can be found in the notes to the Consolidated Financial Statements for the year ended December 31, 2014.

Critical accounting estimates

Critical accounting estimates are those estimates that require Management to make particularly subjective or complex judgments about matters that are inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognized in the period in which the estimates are revised. For 2014, there were no changes to the Company's key sources of estimation uncertainty, although with the Acquisition, the Company had to review those estimates in light of this business combination. Further information on the Company's key sources of estimation uncertainty can be found in the notes to the Consolidated Financial Statements for the year ended December 31, 2014.

Future Accounting Pronouncements

A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2014. In May 2014, the IASB issued IFRS 15 Revenues from Contracts with Customers ("IFRS 15"). IFRS 15 provides a single, principles based five-step model to be applied to revenue recognition from all contracts with customers and applies to an annual reporting period beginning on or after 1 January 2018. The impact of this standard on the Company has not been determined.

In July 2014, the IASB issued IFRS 9, Financial Instruments, which is effective January 1, 2018 and is available for early adoption. The impact of this standard on the Company has not been determined.

RISK MANAGEMENT

For a full understanding of the risks that impact the Company, the following discussion should be read in conjunction with the Company's Consolidated Financial Statements for the year ended December 31, 2014.

The Company is exposed to a number of risks through the pursuit of its strategic objectives. Some of these risks impact the oil and gas industry as a whole and others are unique to its operations and its involvement in Argentina. Actively managing these risks improves the Company's ability to effectively execute its business strategy. The factors that impact the Company's exposure to liquidity risk, safety risk, capital project execution and operating risk, reserves replacement risk, environmental risk and regulatory risk has not changed substantially since December 31, 2014. For a further and more in-depth discussion of the Company's risk management see the Company's Consolidated Financial Statements for the year ended December 31, 2014.

A description of the risk factors and uncertainties affecting the Company can be found in the Advisory and a full discussion of the material risk factors affecting the Company can be found in the Company's Annual Information Form for the year ended December 31, 2014.

ADVISORY

Forward Looking Statements

This MD&A may include forward-looking statements including opinions, assumptions, estimates and management's assessment of future plans and operations, expected depletion, depreciation and accretion expenses, expectations as to the taxability of the Company and planned capital expenditures and the timing and funding thereof. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intent," "may," "project," "plan", "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Forward-looking statements are subject to a wide range of risks and uncertainties, and although the Company believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be realized. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, but not limited to, risks associated with petroleum and natural gas exploration, development, exploitation, production, marketing and transportation, the volatility of petroleum and natural gas prices, currency fluctuations, the ability to implement corporate strategies the ability to repatriate funds from Argentina, the state of domestic capital markets, the ability to obtain financing, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, changes in petroleum and natural gas acquisition and drilling programs, delays resulting from inability to obtain required regulatory approvals, delays resulting from inability to obtain drilling rigs and other services, labour supply risks, environmental risks, competition from other producers, imprecision of reserve estimates, changes in general economic conditions, ability to execute farm-in and farm-out opportunities, and other factors, all of which are more fully described from time to time in the reports and filings made by the Company with securities regulatory authorities.

Statements relating to “reserves” or “resources” are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described can be profitably produced in the future.

The forward looking statements contained in this MD&A are expressly qualified by this cautionary statement. Readers are cautioned not to place undue reliance on forward-looking statements, as no assurances can be given as to future results, levels of activity or achievements. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking statements.

Reserves and Other Oil and Gas Disclosure

Any references in this MD&A to test rates, flow rates, initial and/or final raw test or production rates, early production, test volumes behind pipe and/or "flush" production rates are useful in confirming the presence of hydrocarbons, however, such rates are not necessarily indicative of long-term performance or of ultimate recovery. Such rates may also include recovered "load" fluids used in well completion stimulation. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Madalena. In addition, the Vaca Muerta and Agrio shales are unconventional resource plays which may be subject to high initial decline rates.

Analogous Information

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

Numerical Amounts

The reporting and the measurement currency is the Canadian dollar. Natural gas reserves and volumes are converted to barrels of oil equivalent (boe) on the basis of six thousand cubic feet (mcf) of gas to one barrel (bbl) of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

This MD&A uses the term "netback" which is a term that does not have standardized meanings under GAAP and this non-GAAP measurement may not be comparable with the calculation of other entities. The Company uses this measure to analyze operating performance.

The term "netback", which is calculated as the average unit sales price, less royalties and operating expenses, represents the cash margin for every barrel of oil equivalent sold. The Company considers this a key measure as it demonstrates its profitability relative to current commodity prices. This term does not have any standardized meaning prescribed by GAAP and, therefore, might not be comparable with the calculation of a similar measure for other companies.

ABBREVIATIONS

The following is a summary of the abbreviations used in this MD&A:

Oil and Natural Gas Liquids

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

Natural Gas

Mcf	thousand cubic feet
WI	Working interest