MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE, 2018

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(Unless otherwise indicated, all dollar amounts are in United States dollars ("USD"))

This Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is based on information available to August 21, 2018 and should be read in conjunction with Madalena Energy Inc.'s ("Madalena" or the "Company") unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2018 and the accompanying notes as well as the audited consolidated financial statements for the year ended December 31, 2017 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 condensed interim consolidated 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 accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board applying IAS 34. Unless otherwise indicated, all dollar amounts are in United States dollars ("USD"). Sales 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 (used in) 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 and Reconciliation of Cash Flow from (used in) Operating Activities and Funds Flow from (used in) Continuing Operations sections of this MD&A.

Funds flow from (used in) continuing operations per share is calculated using the same basic and diluted weighted average number of shares for the period, consistent with the calculations of loss 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 an independent, Canadian upstream oil and gas company headquartered in Argentina, with operations in four provinces of Argentina where it is focused on delineation of unconventional resources in the Vaca Muerta shale, Lower Agrio shale and Loma Montosa tight oil plays. The Company is implementing horizontal drilling and completions technology to develop both its conventional and unconventional resource plays.

Madalena trades on the TSX Venture Exchange under the symbol MVN and on the OTCQX under the symbol MDLNF. Madalena's Argentine upstream oil and gas operations as well as the corporate segment are discussed in the "Continuing Argentine Operations and Corporate Segments" section of this MD&A. Unless specifically noted, all current and comparative reporting periods' operating and financial disclosures and discussion are in reference to the continuing Argentine operations and corporate segments.

Outlook

The company intends to actively pursue the acquisition of producing assets with development upside both in Argentina and the wider Latam Region. Madalena will execute a two pronged strategy targeting both unconventional and conventional assets**.**

Highlights in 2018

Coirón Amargo Sur-Este ("CASE")

Pan American Energy LLC ("PAE") has successfully completed and tested the second horizontal multi-frac well CAS.x-14 in the Vaca Muerta Shale Formation at the Coiron Amargo Sur Este ("CASE") block in Neuquen, Argentina. CAS.x-14 well reached a peak production of 880 barrels of oil per day through 3mm choke with 5235 psi and a 30 day average production of 600 barrels of oil per day.

Going Concern and Capital Commitments

The financial statements have been prepared in accordance with IFRS applicable to a going concern, which contemplate the realization of assets and the settlement of liabilities in the normal course of business as they become due. Continuing as a going concern is dependent upon the Company's ability to amend capital commitments outlined in Note 15, which is expected to be achieved through negotiations with the provincial authorities. Failure to amend the commitments could result in insufficient sources to fund anticipated capital commitments. The Company's ability to continue as a going concern and discharge its obligations would be dependent on obtaining alternative equity, debt financing, and/or proceeds from asset sales which could be challenging.

Foreign Exchange Fluctuations

The table below provides various exchange rates that illustrate the quarterly foreign exchange fluctuations between the USD, the Argentine Peso ("ARS"), and the Canadian dollar ("CAD"). The table illustrates the impact of both the ARS and CAD changes relative to the USD in the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017. Foreign exchange changes in CAD and ARS impact the unrealized foreign exchange gains and losses recorded in the condensed interim consolidated statements of income (loss).

USD	Three months ended June 30 2018	2017	% Change[1]	Six months ended June 30 2018	2017	% Change[1]
Average CAD to USD	**0.775**	0.744	**(4.2%)**	**0.783**	0.749	**(4.4%)**
Average ARS to USD	**0.043**	0.064	**33.1%**	**0.046**	0.064	**27.3%**
Period end CAD to USD	**0.759**	0.771	**1.5%**	**0.759**	0.771	**1.5%**
Period end ARS to USD	**0.035**	0.060	**42.4%**	**0.035**	0.060	**42.4%**

(1) Differences calculated from the numbers within the table are due to rounding.

Continuing Argentine Operations and Corporate Segments

Sales Volumes

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Crude oil and NGLs (bbls/d)	**1,608**	1,719	**1,627**	1,808
Natural gas (mcf/d)	**1,423**	2,049	**1,513**	2,027
Total daily sales (boe/d)	**1,845**	2,061	**1,879**	2,146
% oil	**87%**	83%	**87%**	84%

Madalena's primary producing concessions are at Surubi, Puesto Morales and Coirón Amargo-Norte ("CA-Norte"). Other producing concessions include El Chivil, El Vinalar and Palmar Largo. All concessions produce oil and Puesto Morales and CA-Norte also produce natural gas. Approximately 79% of Madalena's current production comes from Surubi, Puesto Morales, and CA-Norte.

Crude oil and NGL sales volumes for the three months ended June 30, 2018 ("the Quarter" or "Q2-2018") decreased to 1,608 bbls/d from 1,719 bbls/d for the three months ended June 30, 2017 ("Q2-2017"). The change compared to Q2-2017, can be attributed to production declines at Puesto Morales and Surubi. Natural gas sales volumes for the Quarter of 1,423 mcf/d decreased compared to 2,049 mcf/d for Q2-2017 due to lower production at Puesto Morales and CA-Norte.

For the six months ended June 30, 2018 ("YTD"), crude oil and NGL sales volumes decreased to 1,627 boe/d from 1,808 boe/d for the six months ended June 30, 2017 ("YTD-2017"). The change can be attributed to natural production declines at all producing concessions. Natural gas sales volumes YTD decreased to 1,513 mcf/d from 2,027 mcf/d due to production declines in Rinconada-Puesto Morales and CA-Norte.

Madalena expects Q3-2018 sales volumes to average approximately 1,806 boe/d (88% oil).

Average Realized Prices

USD	Three months ended June 30 2018	2017	Six months ended June 30 2018	2017
Crude oil and NGLs - $/bbl	**61.95**	52.85	**60.91**	54.01
Natural gas - $/mcf	**5.71**	5.83	**5.40**	5.49

Total - $/boe	**58.39**	49.90	**57.08**	50.69

Argentina's Government has realigned local oil prices with international references since October 2017. The Government of Argentina sets the benchmark (Medanito) price for oil. Although the Argentine refiners used by the Company have paid an average unofficial crude oil price of $66.30 per barrel for the three months ended June 30, 2018 (2017 - $55.90), official Medanito crude oil averaged $72.69 per barrel for the three months ended June 30, 2018 (2017 - $48.58). In January 2017, Madalena was advised that a majority of producers and refiners in Argentina, at the request of the government, have signed a 2017 Medanito crude oil pricing agreement (the "Agreement") allowing for convergence with international Brent pricing over the coming months. Such agreement stated that in case international Brent pricing reached and remained above the monthly Medanito floor price for 10 consecutive days, the Agreement would be suspended. And, in case international Brent pricing fell below $45.00 for 10 consecutive days, the Agreement would be reviewed. On September 13, 2017 the above suspension condition was reached and the agreement finalized in October, 2017. As from October, market prices were agreed upon between refiners and producers considering the international Brent price as a reference.

The average price the Company received for oil for the Quarter was $61.95/bbl, higher than the $52.85/bbl realized in Q2-2017 mainly as a result of the higher Medanito pricing.

The average price received for oil YTD was $60.91/bbl, higher than the $54.01/bbl realized YTD-2017 for the same reasons as noted for the Quarter.

Gas prices in Argentina are subject to seasonal demand and are negotiated between the producer and the buyer. For the period May to September 2018, which is the Argentine winter, the price was set at $5.30/mmbtu. Winter prices in 2017 were $5.40/mmbtu. Summer pricing for the period from October 2018 to April 2019 has been set at $4.10/mmbtu (October 2017 - April 2018 - $4.31/mmbtu).

The average total price received for the Quarter was $58.39/boe, higher than the $49.90/boe realized in Q2-2017.

The average total price received for YTD was $57.08/boe, higher than the $50.69/boe realized YTD-2017.

The Company anticipates Argentina prices to average approximately $55.26 per boe during Q3-2018.

Oil and Natural Gas Revenue

	Three months ended June 30		**Six months ended June 30**	
USD 000s, except boe	**2018**	**2017**	**2018**	**2017**
Crude oil	**9,063**	8,269	**17,935**	17,679
Natural gas	**739**	1,088	**1,478**	2,015
	9,802	9,357	**19,413**	19,694
$/boe	**58.39**	49.90	**57.08**	50.69

Oil and gas revenue was $9.8 million for the Quarter compared to $9.4 million for Q2-2017, an increase of 5% due to a 17% increase in prices received per boe and a 10% decline in sales volumes.

YTD oil and gas revenues decreased to $19.4 million compared to $19.7 million YTD-2017, a decline of 1% due to a 12% decline in sales volumes and a 13% increase in prices received per boe.

Royalties

USD 000s, except boe	Three months ended June 30		Six months ended June 30	
	2018	**2017**	**2018**	**2017**
Royalties and Turnover taxes	**1,602**	1,675	**3,087**	3,307
As % of revenue	**16%**	18%	**16%**	17%
$/boe	**9.54**	8.93	**9.08**	8.51

Royalty expenses were $1.6 million for the Quarter compared to $1.7 million in Q2-2017, with the decrease due to lower production volumes. The Royalty rate was 16% for the Quarter compared to 18% in Q2-2017.

YTD, royalties and turnover taxes were $3.1 million compared to $3.3 million YTD-2017, and decreased due to lower sales volumes.

The Company expects royalty rates for Q3-2018 to be consistent with this Quarter.

Operating Costs

USD 000s, except boe	Three months ended June 30		Six months ended June 30	
	2018	**2017**	**2018**	**2017**
Compensation costs	**1,210**	1,040	**2,065**	2,045
Transportation and processing	**1,014**	1,957	**2,722**	3,944
Maintenance, workovers and other	**1,995**	3,193	**4,904**	5,715
	4,219	6,190	**9,691**	11,704
$/boe	**25.13**	33.01	**28.49**	30.13

Operating costs during the Quarter decreased 32% to $4.2 million from $6.2 million in Q2–2017 mainly as a result of lower workovers $0.8 million, lower processing expenses $0.7 million, and due to the 43% devaluation of the peso. On a per boe basis, operating costs for the Quarter decreased 24% to $25.13/boe from $33.01/boe in Q2-2017 for the same reasons as noted above.

Operating costs YTD were $9.7 million compared to $11.7 million YTD-2017. The decrease was mainly due to lower workovers and pulling activities $0.9 million, lower processing expenses $0.7 million as a result of the Company hired 35 operators that belonged to the supplier of contracted labor in the South, Petrogas, and due to the devaluation of the peso in Q2. On a per boe basis, YTD costs were $28.49 per boe, decreased from $30.13 per boe YTD-2017 for the same reasons as noted above.

Management expects operating costs for Q3-2018 to be consistent with this Quarter.

Netbacks [(1)]

USD/boe	Three months ended June 30 2018	Three months ended June 30 2017	Six months ended June 30 2018	Six months ended June 30 2017
Oil and gas revenue	**58.39**	49.90	**57.08**	50.69
Royalties	**(9.54)**	(8.93)	**(9.08)**	(8.51)
Operating expenses	**(25.13)**	(33.01)	**(28.49)**	(30.13)
Netbacks	**23.72**	7.96	**19.51**	12.05

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

General and Administration ("G&A") Expenses

USD 000s	Three months ended June 30 2018	Three months ended June 30 2017	Six months ended June 30 2018	Six months ended June 30 2017
Argentina				
Gross G&A				
Compensation costs	**295**	471	**712**	1,498
Other	**285**	788	**674**	1,349
	580	1,259	**1,386**	2,847
Capitalized	**(93)**	(127)	**(225)**	(371)
	487	1,132	**1,161**	2,476
Corporate				
Gross G&A				
Compensation costs	**65**	300	**117**	530
Other	**916**	1,519	**1,712**	1,917
	981	1,819	**1,829**	2,447
Capitalized	**-**	-	**-**	-
	981	1,819	**1,829**	2,447
Consolidated				
Net G&A total	**1,468**	2,951	**2,990**	4,923

Argentina

Gross G&A expenses for the Quarter decreased by $0.7 million to $0.6 million due to lower compensation costs as a result of lower staff and due to the peso devaluation $0.2 million and due to lower office expenses and professional fees $0.5 million. The Company currently employs 17 office employees in Argentina, a reduction of 7 since Q2-2017. The Company continues to optimize in areas where efficiencies can be realized.

During the Quarter, $0.1 million (Q2-2017 - $0.1 million) of directly attributable G&A costs in Argentina were capitalized to property, plant and equipment.

YTD, gross G&A costs decreased by $1.5 million to $1.4 million mainly due to lower compensation costs $0.8 million and lower other expenses due to lower office expenses and professional fees $0.8 million. YTD, amounts capitalized were $0.2 million compared to $0.4 million YTD-2017.

Corporate

Gross G&A expenses for the Quarter decreased to $1 million compared to $1.8 million in Q2-2017. The decrease was mainly due to lower compensation costs a result of lower staff $0.2 million and due to lower consultant special projects charged in Q2-2017 $0.7 million.

On a YTD basis, G&A expenses decreased by $0.7 million to $1.8 million compared to YTD-2017. The decrease is due to lower compensation costs $0.4 million and lower consultant special projects charged in 2017 $0.7 million, partially offset by incremental Services Agreement fees incurred due to the Hispania agreement of $0.4 million.

During the Quarter, there were no directly attributable G&A costs in Canada capitalized to property, plant and equipment in Argentina (Q2-2017 - nil).

Restructuring

	Three months ended June 30		Six months ended June 30	
USD 000s	**2018**	**2017**	**2018**	**2017**
Argentina	**-**	**1,431**	**-**	**1,431**
Corporate	**-**	**771**	**-**	**771**
Consolidated	**-**	**2,202**	**-**	**2,202**

Argentina

No expenses relating to severance payments made to management and employees were incurred during the Quarter (Q2 and YTD-2017 – $1.4 million).

Corporate

No expenses relating to severance payments made to management and employees were incurred during the Quarter (Q2 and YTD-2017 – $0.8 million).

Finance (Income) and Expenses

	Three months ended June 30		Six months ended June 30	
USD 000s	**2018**	**2017**	**2018**	**2017**
Argentina				
Bank charges and fees	**122**	242	**294**	546
Foreign exchange (gain) loss – unrealized	**1,065**	22	**1,245**	56
Accretion of decommissioning obligations	**-**	50	**20**	114
Interest (income) and other expenses	**28**	(141)	**5**	(258)
	1,216	173	**1,564**	458
Corporate				
Foreign exchange gain – realized	**-**	-	**-**	(2)
Foreign exchange loss – unrealized	**-**	189	**(77)**	381

Accretion of debt component of convertible debentures issued	**17**	16	**33**	34
Interest (Income) and other expenses	**-**	(2)	**16**	11
Fair value adjustment on held for sale shares	**-**	10	**-**	150
	17	213	**(28)**	574
Consolidated	**1,233**	386	**1,537**	1,032

Argentina

Bank Charges and Fees

Bank charges and fees relate to various forms of taxation in Argentina outside of royalties and income taxes. Bank charges and fees for the Quarter was $0.1 million (Q2-2017 - $0.2 million).

YTD, bank charges and fees were $0.3 million compared to $0.6 million YTD-2017. The decrease was also due to reduced transaction activity.

Bank charges for Q3-2018 are estimated at approximately $0.2 million.

Accretion of decommissioning liabilities

Accretion expense was nil for the Quarter (Q2-2017– $50 thousand).

YTD, accretion expense was $20 thousand compared to $0.1 million YTD-2017.

Foreign exchange loss – unrealized

During the Quarter the Company recorded an unrealized foreign exchange loss of $1.1 million compared to an unrealized loss of $22 thousand in Q2-2017. YTD, the Company recorded a $1.2 million compared to a $56 thousand loss in YTD-2017. Quarterly and YTD fluctuations in unrealized gains and losses are a result of changing foreign exchange rates and underlying movements in the net assets of the Argentine subsidiaries.

Interest (Income) and other expenses

Interest (income) and other expenses relates primarily to interests over a labor contingency of $28 thousand. In Q2-2017 Interest (income) and other expenses relates primarily to common investments funds.

YTD, Interest (Income) and other expenses relates primarily to interests over a labor contingency. YTD-2017, a recovery of receivables previously written-off amounting to $0.2 million, common investments funds $0.1 million, offset by interest expense on the Argentine Industrial and Commercial Bank of China (Argentina) S.A. ("ICBC") loan (see heading "Credit Facilities").

Corporate

Foreign exchange (gain) loss

During the Quarter, the Company recorded an unrealized foreign exchange gain of nil (Q2-2017 loss of $0.2 million). The USD:CAD foreign exchange rate depreciated by 2.1% since March 31, 2018 (Q2-2017 – 2.4% rate appreciation since March 31, 2017).

Accretion of debt component of convertible debentures issued

Accretion expense was $17 thousand for the Quarter (Q2-2017– $16 thousand). This accretes the liability component up to its principal value over the period of time to maturity.

Share-based and Long-term Incentive Compensation

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. During the Quarter, 11,400,000 (2017 – nil) options were granted to directors, officers, and employees of the Company, at an exercise price of CAD $0.22 per share.

Share based compensation expense was $0.5 million in the Quarter compared to a recovery of $0.6 million for Q2-2017. No share-based compensation expense was capitalized during the Quarter (Q2-2017 - nil).

On a YTD basis, share based compensation expense was $0.6 million (recovery YTD-2017 - $0.4 million). No share-based compensation expense was capitalized (YTD-2017 - nil).

Long-term Incentive Compensation

During 2016, the Company issued Long-term incentive units under a Long-term incentive plan ("LTIP") that allow employees to benefit as a result of appreciation of the trading price of Madalena's common shares from the issue date, through the payment of cash upon vesting. On August 26, 2016, 6.5 million Units were issued to certain employees at an exercise price of CAD $0.145 per common share.

LTIP compensation expense was $8 thousand in the Quarter (Q2-2017 $20 thousand).

On a YTD basis, LTIP compensation expense was $55 thousand (YTD-2017 - $33 thousand).

Depletion and Depreciation ("D&D")

	Three months ended June 30		Six months ended June 30	
USD 000s	**2018**	**2017**	**2018**	**2017**
Argentina	**1,925**	3,650	**3,590**	7,401
$/boe	**11.46**	19.46	**10.56**	19.05
Corporate	**-**	9	**-**	18
Consolidated	**1,925**	3,659	**3,590**	7,419

Argentina

D&D decreased to $1.9 million in the Quarter compared to $3.7 million in Q2-2017 due to a reduced depletable base caused by the combination of reduced future development costs, the change performed by the company in the basis of reserves used for depletion since Q1-2018 from proved and probable reserves to proved producing and developed non-producing reserves, minimal capital spending and lower production. On a per boe basis, D&D for the Quarter decreased to $11.46/boe from $19.46/boe in Q2-2017 primarily due to the same reasons as noted above.

YTD, D&D decreased to $3.6 million from $7.4 million due to lower production and per boe costs went from $10.56/boe to $19.05/boe due to primarily due to the same reasons as noted for the Quarter.

Corporate

D&D expenses for corporate relate only to depreciation on office equipment.

Impairment

At June 30, 2018 and 2017, Madalena determined there were no triggers for impairment for any of its Cash Generating Units or for its Exploration and evaluation assets.

Income Tax Expense (Recovery)

	Three months ended June 30		Six months ended June 30	
USD 000s	**2017**	**2016**	**2017**	**2016**
Current	**-**	(2,832)	**-**	1,200
Deferred	**2,382**	2,056	**1,758**	(2,406)
Total	**2,382**	(776)	**1,758**	(1,205)

Madalena has three legal entities in Argentina. The income tax rate in Argentina is 30%. The entities that do not have taxable income 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 nil compared to a recovery of $2.8 million for Q2-2017.

The Company recorded a deferred income tax expense of $2.4 million during the Quarter (Q2-2017 – deferred income tax expense - $2.0 million).

Reconciliation of Cash Flow from (used in) Operating Activities and Funds Flow from (used in) Continuing Operations

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

	Three months ended June 30		Six months ended June 30	
USD 000s	**2018**	**2017**	**2018**	**2017**
Cash flow from (used in) operating activities	**1,244**	(4,656)	**1,471**	(6,143)
Change in non-cash working capital	**1,225**	4,042	**2,070**	2,421
Change in other long-term assets	**-**	(166)	**-**	(58)
Funds flow from (used in)	**2,469**	(780)	**3,541**	(3,780)

Funds flow from (used in) Continuing Operations, Net Income (Loss) and Comprehensive Income (Loss) from Continuing Operations

	Three months ended June 30		Six months ended June 30	
USD 000s	**2018**	**2017**	**2018**	**2017**
Funds flow from (used in)	**2,469**	(780)	**3,541**	(3,780)
Per share – basic and diluted	**(0.00)**	(0.01)	**(0.00)**	(0.01)
Net loss	**(3,514)**	(5,449)	**(4,136)**	(8,716)
Per share – basic and diluted	**(0.01)**	(0.01)	**(0.01)**	(0.02)
Comprehensive loss	**(3,514)**	(5,325)	**(4,136)**	(8,428)

Madalena's funds flow from continuing operations for the Quarter increased by $3.3 million from Q2-2017.

The net loss from continuing operations for the Quarter was $3.6 million (Q2-2017 - loss of $5.3 million), primarily due to lower operating costs and general and administrative expenses.

A summary of the foreign exchange impact as it relates to the foreign currency translation adjustment is as follows:

	Three months ended June 30		Six months ended June 30	
USD 000s	**2018**	**2017**	**2018**	**2017**
Foreign currency translation gain	**-**	124	**-**	288

During the Quarter, the Company didn't record any foreign currency translation (Q2-2017 – expense of $0.1 million). During the period the USD appreciated by 2.1% against the CAD (Q2-2017 – depreciated by 2.4%).

Capital Expenditures

	Three months ended June 30		Six months ended June 30	
USD 000s	**2018**	**2017**	**2018**	**2017**
Argentina				
Land and associated renewal fees	**-**	-	**(23)**	-
Geological and geophysical	**(67)**	1	**114**	149
Drilling and completions	**-**	-	**-**	1
Well equipment and facilities	**1,974**	55	**2,278**	135
Other	**76**	117	**228**	554
Argentina total	**1,983**	173	**2,597**	839
Corporate				
Other	**-**	-	**-**	-
Corporate total	**-**	-	**-**	-
Consolidated	**1,983**	173	**2,597**	839

Argentina

Capital expenditures for the Quarter were primarily related to well equipment and facilities of $2 million at Coirón Amargo-Sur Este ("CASE") for CAS.x-14 well.

On a YTD basis, Capital expenditures were primarily related to well equipment and facilities of $2.2 million at Coirón Amargo-Sur Este ("CASE") for CAS.x-14 well. YTD-2017, the Company had minimal capital spending.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk

USD 000s	June 30 2018	December 31 2017
Working capital (deficit) surplus		
Argentina	**(768)**	538
Canada	**(1,369)**	(1,582)
	(2,137)	(1,044)
Convertible debentures	**1,208**	1,274
Shareholders' equity	**33,891**	36,999

The Company's liquidity risk is highlighted in the Outlook section, above, which also outlines that during 2017, the Company entered into a series of agreements that are expected to substantially alleviate this risk.

The Working Capital Loan is a multi-drawdown facility, which shall be used for general working capital purposes. Interest accrues at 7% per annum. Principal and interest on each drawdown is repayable thirty-six months after an advance of funds.

The Capex Loan is a multi-drawdown convertible loan. The loan similarly accrues interest at 7% per annum, with each drawdown and accrued interest repayable thirty-six months after drawdown. The Capex Loan is convertible into units of the Company ("Units") with each Unit comprised of one common share ("Common Share") and 0.22 of a Common Share purchase warrant ("Warrant"), with each Warrant entitling the holder to purchase an additional Common Share. The Capex Loan is convertible based on a conversion price equal to a 5% premium to the 20-day volume weighted average price ("VWAP") of the Common Shares on the last trading date prior to a particular drawdown ("Conversion Price") in respect of the Common Shares comprising the Units. The exercise price of the Warrants issued upon conversion is also at a 5% premium to that 20-day VWAP. These Warrants expire 18 months after the date of issuance. Both Hispania and Madalena have the right to convert the whole or part of the principal and interest owing hereunder into Units on or before repayment, although Madalena's right to compel conversion is limited in some circumstances.

Both loans are secured, limited to the Company's interests in the Rinconada-Puesto Morales concession.

In addition, a services agreement ("Services Agreement") was entered into for an initial term of one year, but may be extended. Pursuant to this agreement, Hispania's personnel will provide:

- technical, operational, strategic and financial advice, direction and assistance in relation to the operation of Madalena's oil and natural gas properties, undeveloped lands and related assets in Argentina;
- advice to Madalena's officers and the board of directors regarding the business of Madalena and such other services as requested by Madalena from time to time.

In association with the Services Agreement, Hispania continue to receive monthly service fees of up to $150 thousand, and Madalena issued Warrants to Hispania in six consecutive monthly tranches of 4,758,333 Warrants, with the last tranche being issued on November 8, 2017. These Warrants will have an exercise price equal to the price of the Common Shares on the last trading day prior to issuance and will expire 18 months thereafter.

On September 13, 2017, the shareholders of the Company passed an ordinary resolution approving KD Energy International Capital Limited as a new "Control Person" (as such term is defined in the TSX Venture Exchange Corporate Finance Manual) of the Company. In connection therewith, the convertible loan agreement dated May 8, 2017 for an amount up to USD $16.5 million is now available to be drawn upon by the Company in accordance with the terms thereof.

At June 30, 2018, the consolidated working capital deficit of the Company was $2.1 million (December 31, 2017 -$1 million deficit), consisting of working capital deficit of $0.8 million (December 31, 2017 - working capital positive of $0.6 million) in Argentina and a working capital deficit of $1.4 million (December 31, 2017- $1.6 million deficit) in Canada.

At June 30, 2018, $1 million, or 81%, of Madalena's cash and cash equivalents was deposited with banks in Argentina (December 31, 2017 - $5.7 million, 100%), and is held in ARS.

Repatriation of Funds to Canada

Funds are required to enable the Company to maintain compliance its manage the regulatory, reporting, audit, legal and tax requirements of a TSX-V listed company.

During the Quarter, $1.4 million was repatriated from Argentina (Q2-2017 – $0.9 million). On a YTD basis, $2.1 million was repatriated from Argentina (YTD-2017 – $2.6 million).

Share Capital Issued, Options Granted and Long-term Incentive Plan

Outstanding Share Capital

No common shares were issued in the Quarter (Q2-2017 – nil).

On a YTD basis, 200 thousand common shares were issued pursuant to the exercise of convertible debenture option of $40 thousand (YTD-2017 – nil).

11,400,000 options were granted during the Quarter and YTD to certain employees and directors of the Company with exercise prices of CAD $0.22 per share (Q2-2017 and YTD-2017 – nil).

As at August 21, 2018, the Company had 544.1 million shares, 17.4 million options and 28.5 million warrants outstanding.

Fair value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, trade and other receivables, certain items in other long-term assets and liabilities, current portion of long-term debt, trade and other payables, taxes payable, convertible debentures issued, the carrying values of which approximate their fair values due to their short-term nature with the exception of: (i) convertible debentures issued, which relates to the debt component of these instruments and are accreted up to their principal value over the term of the debenture using the effective interest rate method and (ii) certain other long-term assets and liabilities whose calculated fair value approximates its carrying value.

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 life, changes in technology, and discount and/or inflation rates applied.

The Company expects the decommissioning obligations for its obligation to be invoiced in USD and settled in ARS.

Changes to Madalena's estimates of decommissioning, restoration and similar liabilities 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 estimated costs, timing of settlement, changes in laws, regulatory requirements, discount rates, and effects of inflation.

At June 30, 2018, an inflation rate of 2.9% was used (December 31, 2017 – 2.1%). The risk free rate used to discount the liability at June 30, 2018 was 2.91% (December 31, 2017 – 2.65%). The impact of the change in the risk free rate and inflation rate amounted to a $0.8 million increase to the decommissioning obligations during the three month period ended June 30, 2018.

YTD, the inflation rate change increased the decommissioning obligations by $1.4 million.

Commitments and Contingencies

Development and Exploration Commitments

Coirón Amargo Norte ("CA-Norte"- 35% WI)

Madalena and its partners at the CA concession in the province of Neuquén are responsible for paying 100% of the costs during the exploration and evaluation phase, with Gas y Petróleo del Neuquén S.A. ("GyP"), a provincial government entity, receiving a 10% carry whereby all other partners, including Madalena, are responsible for paying their proportionate share of GyP's WI. Currently, exploration and evaluation phases are contained in CA-Sur, in the southern portion of CA.

In an exploitation or development phase, GyP is responsible for its 10% interest of the incurred capital costs through an assignment of GyP's 10% interest in future production revenue streams to Madalena and its partners. Currently, exploitation and development phases are contained in CA-Norte, in the northern portion of CA, for which there are no current work commitments. .

Coirón Amargo Sur Este (CASE - 35% WI)

PAE agreed, subject to certain conditions, to provide Madalena with a loan of up to $40 million, on a limited recourse basis, to be drawn-down as required to fund certain CASE capital expenditures. This limited recourse loan would bear interest at 7% per annum and is repayable in five years from the net revenue generated from the capital expenditure program. Transaction fees of $0.5 million were incurred to complete this agreement. There was a loan draw down of $2.4 million and a repayment of $1.1 million as of June 30 2018.

Pursuant to the new arrangements, Madalena work commitments at CASE were amended as follows:

USD 000s	2018	2019(1)
Concession commitments at CASE	-	1,787(2)

(1) Committed values are reflected at Madalena's 35% WI at March 31, 2018 plus Madalena's proportionate share of GyP's carry. On November 13, 2017 the company received the provincial approval due to the re-entry of well Cas.x-15 for $2.1 million.

(2) Subject to the results in 2017 to be completed, before November 8, 2019.

The new exploration and evaluation permit for CASE expires on November 8, 2019, following which Madalena will be eligible to enter into a development concession.

Curamhuele Block (90% WI-operated)

USD 000s	2018	2019
Concession commitments	-	8,225

At Curamhuele, an exploration permit in the province of Neuquén, the Company is responsible for paying 100% of the costs during the exploration phase to maintain its 90% WI.

The Company has proposed a horizontal multi-frac re-entry in CH.x-1 for $8.2 million to be incurred by March 9, 2019 under the Evaluation Lot Period. On May 5th, 2017, by means of Resolution 119/17, the Province finally notified the approval to enter into the Evaluation Lot Period. Once this commitment is completed, the company has the option to extend this period for another 2 years or to enter into the Exploitation Period.

Puesto Morales Block (100% WI-operated)

USD 000s	2018	2019	Beyond
Concession commitments	24,700	7,000	600

The Company is in discussions with the provincial authority for a re-schedule and conversion of the present commitments in a new exploration plan.

Santa Victoria Block (100% WI - operated)

The contract contain up to three exploration and evaluation phases, of which the second expired in April 2015. The second phase required additional work commitments of $4.0 million for which no qualifying expenditures have been made. A performance bond of $3.6 million is in place over the commitments under this exploration and evaluation permit. On November, 2017 an application has been submitted and negotiations continue and are currently ongoing with the province of Salta for reconversion of the Exploration Area into a non-conventional exploration permit.

El Chivil Block (100% WI – operated)

The concession's one year extension expiry occurred on September 7, 2016 and during the Quarter, the province of Formosa granted a further six month extension to negotiate a 10-year development period extension, which expired on May 1, 2017. The Company is in discussions with the province of Formosa.

El Vinalar Block (100% WI – operated)

Salta province granted a block extension to file an investment plan, which expired on November 11, 2016. On January, 2018 the Company notified the province of Salta that it is not interested in a contract extension. El Vinalar facilities and wells have been mothballed.

QUARTERLY FINANCIAL RESULTS

Continuing Operations

USD 000s, unless otherwise noted	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Oil and natural gas revenues	**9,802**	9,612	8,601	9,893
Net income (loss)	**(3,514)**	(622)	(19,386)	(5,702)
Shares outstanding – millions	**544.0**	544.0	543.8	543.8
Net income (loss) per share – basic and diluted	**(0.01)**	(0.00)	(0.04)	(0.01)

USD 000s, unless otherwise noted	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Oil and natural gas revenues	9,357	10,336	10,543	11,728
Net income (loss)	(5,449)	(3,267)	(9,402)	(12,715)
Shares outstanding – millions	543.8	543.8	543.8	543.8
Net income (loss) per share – basic and diluted	(0.01)	(0.01)	(0.02)	(0.02)

The Company's increase in oil and gas revenues during the Q2-2018 and Q1-2018 mainly as a result of higher oil prices, and decrease during the Q4-2017, Q2-2017, Q1-2017, Q4-2016 and Q3-2016, that can be primarily attributed to lower sales volumes at Puesto Morales and Surubi. The Company also experienced commodity price declines in the second half and in 2016.

The Company recorded pre-tax impairment charges of $22.2 million in Q4-2017, $6.2 million in Q4-2016, $12.0 million in Q3-2016.

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, 2017.

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, 2017.

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, 2017. 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, 2017.

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. During the Quarter, there were no changes to the Company's key sources of estimation uncertainty. Further information on the Company's key sources of estimation uncertainty can be found in the notes to the consolidated financial statements for the year ended December 31, 2017.

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, 2017.

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, 2017. 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, 2017.

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, 2017.

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, the outcome of the strategic review process, 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 USD. 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
mmbtu million British Thermal Units