



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

**(UNAUDITED)**



Condensed Interim Consolidated Statements of Financial Position  
(Unaudited)

USD 000s	Note	As at March 31 2019	As at December 31 2018
<b>Assets</b>			
Current assets			
Cash and cash equivalents		469	778
Trade and other receivables		6,872	6,187
Inventory		1,628	1,167
Other current assets		1,040	361
<b>Total current assets</b>		<b>10,009</b>	8,493
Property, plant and equipment	2	22,192	22,478
Exploration and evaluation assets	3	30,676	30,649
Lease right-of-use assets	4	77	-
Other long-term assets	7	104	102
<b>Total non-current assets</b>		<b>53,049</b>	53,229
<b>TOTAL ASSETS</b>		<b>63,058</b>	61,722
<b>Liabilities</b>			
Current liabilities			
Convertible debentures	8	1,240	1,198
Current portion of long term debt		468	52
Trade and other payables		10,344	7,935
Short-term lease liabilities	10	20	-
<b>Total current liabilities</b>		<b>12,072</b>	9,185
Deferred income tax liability		2,660	488
Decommissioning obligations	9	12,173	15,621
Long-term lease liabilities	10	59	-
Other long-term liabilities		1,364	1,182
<b>Total non-current liabilities</b>		<b>16,256</b>	17,291
<b>TOTAL LIABILITIES</b>		<b>28,328</b>	26,476
<b>Shareholders' Equity</b>			
Share capital	11	239,029	239,029
Contributed surplus		17,860	17,750
Equity component of convertible debenture	8	76	76
Accumulated other comprehensive loss		(26,941)	(26,941)
Deficit		(195,294)	(194,668)
<b>Total equity</b>		<b>34,730</b>	35,246
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>63,058</b>	61,722

Commitments and Other Long-term Liabilities (note 16)

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



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

USD 000s, except per share amounts	Note	Three months ended March 31	
		2019	2018
<b>Revenues</b>			
Oil and natural gas revenues	19	7,498	9,612
Royalties		(1,329)	(1,484)
Other income	19	199	89
		<b>6,368</b>	<b>8,217</b>
<b>Expenses</b>			
Operating	18	5,565	5,471
General and administrative	18	1,885	1,521
Finance (income) expenses	14	(889)	305
Share-based and long-term incentive compensation	12,13	96	75
Warrants Expenses	8	-	426
Depletion and depreciation	2	1,643	1,665
Depreciation of right-of-use assets	4	15	-
Gain on disposal	5	(3,462)	-
		<b>4,843</b>	<b>9,463</b>
<b>Loss before income taxes</b>		<b>1,525</b>	<b>(1,246)</b>
<b>Income tax recovery (expense)</b>			
Current		21	-
Deferred		(2,172)	624
		<b>(2,151)</b>	<b>624</b>
<b>Loss</b>		<b>(626)</b>	<b>(622)</b>
<b>Comprehensive Loss</b>		<b>(626)</b>	<b>(622)</b>
<b>Net Income (Loss) per share</b>			
Basic and diluted - continuing	11	(0.00)	(0.00)
Basic and diluted - total	11	(0.00)	(0.00)

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



Condensed Interim Consolidated Statements of Changes in Shareholders' Equity  
(Unaudited)

USD 000s	Share Capital (note 10)	Contributed Surplus	Equity Component of Convertible Debentures (note 8)	Accumulated Other Comprehensive Loss	Deficit	Total Equity
<b>Balance at December 31, 2018</b>	<b>239,029</b>	<b>17,750</b>	<b>76</b>	<b>(26,941)</b>	<b>(194,668)</b>	<b>35,246</b>
Net Loss	-	-	-	-	(626)	(626)
Share-based compensation (note 12)	-	110	-	-	-	110
Common shares issue – Convert debentures	-	-	-	-	-	-
Warrants (note 8)	-	-	-	-	-	-
<b>Balance at March 31, 2019</b>	<b>239,029</b>	<b>17,860</b>	<b>76</b>	<b>(26,941)</b>	<b>(195,294)</b>	<b>34,730</b>
<b>Balance at December 31, 2017</b>	<b>238,989</b>	<b>16,371</b>	<b>76</b>	<b>(26,941)</b>	<b>(191,496)</b>	<b>36,999</b>
Net Loss	-	-	-	-	(622)	(622)
Share-based compensation (note 12)	-	27	-	-	-	27
Common shares issue – Convert debentures	40	-	-	-	-	40
Warrants (note 8)	-	426	-	-	-	426
<b>Balance at March 31, 2018</b>	<b>239,029</b>	<b>16,824</b>	<b>76</b>	<b>(26,941)</b>	<b>(192,118)</b>	<b>36,870</b>

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



Condensed Interim Consolidated Statements of Cash Flows  
(Unaudited)

USD 000s	Note	Three months ended March 31	
		2019	2018
<b>Cash provided by (used in):</b>			
<b>Operating</b>			
Net Income (Loss)		(626)	(622)
Items not affecting cash:			
Depletion and depreciation	2	1,643	1,665
Depreciation of right-of-use assets	4	15	-
Accretion	14	131	36
Gain on disposal	5	(3,801)	-
Share-based and long-term incentive compensation	12,13	96	75
Warrant expenses		-	426
Deferred income tax recovery		2,172	(624)
Unrealized loss on foreign exchange	14	(681)	103
Lease commitment liability		-	(36)
Non-cash increase of contingent liability		21	49
Change in other long-term assets		-	-
Change in other long-term liabilities		-	-
Change in non-cash working capital	15	774	(845)
Cash flow from (used in) operating activities		(256)	227
<b>Investing</b>			
Property, plant and equipment additions	2	(1,122)	(144)
Evaluation and exploration assets additions	3	(23)	(472)
Change in non-cash working capital	15	697	(15)
Net cash from (used in) investing activities		(448)	(631)
<b>Financing</b>			
Long term debt proceeds		576	-
Long term debt repayment		(166)	-
Lease payment		(15)	-
Net cash used in financing activities		395	-
Change in cash and cash equivalents		(309)	(404)
Cash and cash equivalents, beginning of period		778	1,202
Impact of foreign exchange on cash balances		-	-
<b>Cash and cash equivalents, end of period</b>		<b>469</b>	<b>798</b>

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



## Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2019 and 2018 (Unaudited)

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

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### 1. Reporting Entity

Madalena Energy Inc. (the "Company" or "Madalena") is involved in the exploration, development and production of oil and natural gas in Argentina. Madalena's registered office is Suite 1600, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

The consolidated financial statements include the results of the following wholly-owned subsidiaries:

- Madalena Petroleum Ltd. (Canada) ("MPL")
- Madalena Energy Argentina S.R.L. (Argentina) ("MEA")
- Madalena Petroleum Americas Limited (Barbados) ("MPAL")
- Madalena Petroleum Holdings Limited (Barbados)
- Madalena Ventures International Inc. (Barbados)

On April 1, 2018, the business units of the Argentine branches of Madalena Petroleum Ltd ("MPL Argentina") and the Madalena Petroleum Americas Limited ("MPAL Argentina") were transferred to MEA.

On January 1, 2018, Pet-Ja S.A. (Argentina) amalgamated with MEA.

On January 1, 2017, Madalena Austral S.A. (Argentina) ("MASA") and MEA were amalgamated into one legal entity, continuing under the name of MEA.

#### Basis of Preparation

These condensed interim consolidated 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.

#### Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and are presented in United States Dollars ("USD"), unless otherwise indicated. These condensed interim consolidated financial statements follow the same accounting policies and method of computation as the annual consolidated financial statements for the year ended December 31, 2018. The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements follow the same accounting policies and methods of computation for all periods presented as outlined in note 3. The condensed interim consolidated financial statements were approved and authorized for issue by the Company's Board of Directors on May 15, 2019.



## Notes to the Condensed Interim Consolidated Financial Statements

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### Significant accounting policies

#### (a) Adoption of IFRS 16 Leases

Madalena applied IFRS 16 with an initial adoption date of January 1, 2019, resulting in a change to its accounting policy for lease contracts as detailed below. The Company applied IFRS 16 using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. As a result, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets in property, plant and equipment and lease liabilities for most leases.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

##### *i) Practical expedients*

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption to not recognize right-of-use assets and liabilities for leases with less than 12 months of lease term; and
- Applied the exemption to not recognize leases of low value assets on the consolidated balance sheet. Payments for these leases will be disclosed in the notes to the consolidated financial statements.

##### *ii) January 1, 2019 impact*

Upon adoption of IFRS 16, the Company identified a office lease in-scope under the standard. The Company recorded finance lease liabilities on contracts previously classified as operating lease under IAS 17. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at January 1, 2019. The incremental borrowing rate used in the calculation was 10.5 percent.

Madalena has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, which include information technology equipment and field equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

##### *iii) Reconciliation of commitments to lease liability*

The following table reconciles the Company's commitments at December 31, 2018 to the Company's lease liabilities as at January 1, 2019:



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2019 and 2018 (Unaudited)

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

Development and Exploration	91,848
Office lease	89
<b>Total at December 31, 2018</b>	<b>91,937</b>
Commitments that do not contain a lease	(91,848)
Discounting impact	(10)
<b>Lease liabilities as at January 1, 2019</b>	<b>79</b>

**(b) Policy applicable after January 1, 2019**

On transition to IFRS 16 and at inception of entering into a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company considers the following:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset, which occurs if either;
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

Madalena recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of right-of-use assets are determined based on the length of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The consideration used to measure the lease liability includes all fixed or variable lease payments under the arrangement. Subsequently, the lease liability is measured at amortized cost using the effective interest method and is re-measured when there is a change in the future lease payments.





Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2019 and 2018 (Unaudited)

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

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

USD 000s	Oil and Natural Gas Assets	Corporate	Total
<b>Cost</b>			
At December 31, 2017	143,401	2,121	145,522
Additions	3,142	156	3,298
Disposals	(1,188)	-	(1,188)
Change in decommissioning liabilities	(5,847)	-	(5,847)
Transfers from E&E assets	10,650	-	10,650
At December 31, 2018	150,158	2,277	152,435
Additions	1,122	-	1,122
Change in decommissioning liabilities	235	-	235
<b>At March 31, 2019</b>	<b>151,515</b>	<b>2,277</b>	<b>153,792</b>

USD 000s	Oil and Natural Gas Assets	Corporate	Total
<b>Accumulated depreciation and depletion</b>			
At December 31, 2017	(123,722)	(1,407)	(125,129)
Depreciation and depletion	(5,535)	(192)	(5,727)
Impairment	1,222	(323)	899
At December 31, 2018	(128,035)	(1,922)	(129,957)
Depreciation and depletion	(1,608)	(35)	(1,643)
<b>At March 31, 2019</b>	<b>(129,643)</b>	<b>(1,957)</b>	<b>(131,600)</b>

USD 000s			
<b>Net book value</b>			
At December 31, 2018	22,123	355	22,478
<b>At March 31, 2019</b>	<b>21,872</b>	<b>320</b>	<b>22,192</b>

At March 31, 2019 and 2018, Madalena determined there were no impairment indicators for any of its CGUs.

The depletion expense calculation for the three month period ended March 31, 2019 included as part of the depletable base, \$5.5 million for estimated future development costs associated with proved developed non-producing reserves (March 31, 2018 - \$3.2 million for estimated future development costs associated with proved and probable reserves).

During the three month period ended March 31, 2019, approximately \$0.1 million (2018 - \$0.1 million) of directly attributable general and administration costs were capitalized to property, plant and equipment.



Notes to the Condensed Interim Consolidated Financial Statements  
 As of and for the Three Months Ended March 31, 2019 and 2018 (Unaudited)  
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### 3. Exploration and Evaluation Assets ("E&E")

USD 000s	
<b>Cost</b>	
At December 31, 2017	39,869
Additions	2,219
Change in decommissioning liabilities	(789)
Transfers to PP&E assets	(10,650)
At December 31, 2018	30,649
Additions	23
Change in decommissioning liabilities	4
<b>At March 31, 2019</b>	<b>30,676</b>

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

In September 2018, Coiron Amargo Sur Este ("CASE") block in Neuquen, Argentina, was converted in an unconventional exploitation concession with a 35-year term and its assets for \$10.6 million was transferred to PP&E assets. Upon determination of technical feasibility and commercial viability, E&E assets attributable to those reserves, in that particular area, are first tested for impairment and then reclassified from E&E assets to property, plant and equipment

At March 31, 2019 and 2018, Madalena determined there were no impairment indicators relating to E&E assets.

### 4. Right-of-use assets

USD 000s	
<b>Cost</b>	
At January 31, 2019	92
<b>At March 31, 2019</b>	<b>92</b>
<b>Accumulated depreciation</b>	
At January 31, 2019	-
Depreciation	(15)
<b>At March 31, 2019</b>	<b>(15)</b>
<b>Net book value</b>	
At December 31, 2018	-
<b>At March 31, 2019</b>	<b>77</b>



Notes to the Condensed Interim Consolidated Financial Statements

As of and for the Three Months Ended March 31, 2019 and 2018 (Unaudited)

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

## 5. El Vinalar assignment

In December 2018, the Company entered into an agreement assigning Madalena's entire interest in the non-core and non-producing El Vinalar concession to a private Argentine oil and gas company. In January 2019, the Company made a payment of \$0.3 million. Madalena has deregonized the related to decommissioning obligations of \$3.8 million. Resulting in a net gain of \$3.5 million.

## 6. Long-term Debt and facility availability

### Canada

On May 8, 2017, Madalena entered into a series of agreements (the "Transactions") with Hispania Petroleum S.A., ("Hispania"), a private, family-owned Spanish energy Company and a related party of the Company, where José Peñafiel is director, which provides for a package of debt and mezzanine financing of up to \$23 million which are expected to alleviate Madalena's liquidity challenges through a Working Capital Loan of up to \$6.5 million and provide the Company access to growth capital for drilling and investment activities through a Capex Loan of up to \$16.5 million.

The Working Capital Loan is a multi-drawdown facility, which is available to be used for general working capital purposes. Interest accrues at 7% per annum. Principal and interest on each drawdown will be 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 was, prior to amendment (as more particularly described below) 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 was 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 Puesto Morales concession.

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 \$16.5 million is now available to be drawn upon by the Company in accordance with the terms thereof.

On April 7, 2019 the Company entered into an amended and restated convertible loan agreement (the "Amended and Restated Loan Agreement") with KD Energy and Hispania, and has extended the term of the Working Capital Loan agreement (the "Working Capital Loan Agreement"). Key amendments include an extension of the expiry date from May 8, 2020 to May 8, 2023, a change in the conversion price and exercise price of the Warrants to CAD 0.225 (subject to standard adjustments) the right of KD Energy to designate Jose David Penafiel and one additional representative to the board of directors during the term of the Amended and Restated Loan Agreement, and an expansion to the purposes for which the Company can draw on the loan to include acquisitions of oil and gas assets, subject to consent of KD Energy. The expiry date of the Working Capital Loan Agreement which is in the



Notes to the Condensed Interim Consolidated Financial Statements

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aggregate amount of \$6.5 million and carries an interest rate of 7% per annum has also been extended to May 8, 2023. The Amended and Restated Loan Agreement remains subject to approval by the Company's shareholders and the TSX Venture Exchange. The Company called a special meeting of shareholders to vote on the loan, which will be held on June 5, 2019.

As a March 31, 2019, neither loan has been drawn. The Company has no bank debt in Canada at March 31, 2019 and 2018.

**7. Other Long-term Assets**

Other long-term assets are comprised of long-term receivables for which the fair value approximates the carrying value. The long-term receivables primarily relate to ARS denominated taxes receivable of \$0.1 million (December 31, 2018 – \$0.1 million)

**8. Convertible Debentures and Warrants**

The Capex Loan, if drawn, can be convertible into Units with each Unit comprised of one Common Share and 0.22 of a Warrant. On April 7, 2019 the Company entered into the Amended and Restated Loan Agreement and extended the term of the Working Capital Loan Agreement. The Amended and Restated Convertible Loan Agreement remain subject to approval by the Company's shareholders and the TSX Venture Exchange. See note 6.

In conjunction with the initial Transactions entered into with Hispania, the Company entered into a services agreement which required the Company to issue six monthly tranches of share purchase warrants to Hispania commencing June 2017 (see notes 7 and 13). Each monthly tranche included 4,758,333 warrants that are exercisable after 6 months from the date of issuance. Each tranche will expire 18 months from the date of issuance. Each warrant entitles the holder to purchase one common share of the Company. The exercise price for the six tranches of 4,758,333 warrants issued was \$0.145/share, \$0.165/share, \$0.18/share, \$0.17/share, \$0.17/share and \$0.18/share respectively. As of May 8, 2019, all warrants have expired.

The services agreement with Hispania terminated on March 31, 2019.

The Company expensed nil for the three months periods ended March 31, 2019 in relation to these warrants (2018 – \$0.4 million).

	Number of options 000s	Weighted average exercise price
Outstanding at December 31, 2018	28,550	0.168
Expired in period	(19,033)	0.165
<b>Outstanding at March 31, 2019</b>	<b>9,517</b>	<b>0.175</b>
<b>Exercisable at March 31, 2019</b>	-	-

On July 13, 2016, the Company completed a private placement of \$1.2 million (CAD \$1.6 million) 12% secured convertible debentures, net of fees, primarily to insiders or existing shareholders, with a June 30, 2019 maturity date. The debentures are convertible into common shares of the Company at a conversion price of CAD \$0.25 per common share, any time after January 13, 2017. Interest on the debentures is payable semi-annually, in arrears, on December 31 and June 30. Interest accrued to December 31, 2017 amounting to \$0.1 million was fully paid at year end. The Company may, at its option and upon providing notice to the debenture holders, repay the outstanding indebtedness. Such repayments involve premiums that reduce as the date to maturity approaches. Although insiders participated in the private placement, the terms and conditions were the same as those available to third parties.

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These debentures are a level III financial liability with an embedded conversion feature. As a result, the equity and debt components must be bifurcated. The value assigned to the liability on July 13, 2016 was the present value of the contractually determined stream of future cash flows discounted at 15%, being the rate estimated to be equivalent to that which the market would apply to an instrument with comparable credit status and provide substantially the same cash flows, on the same terms, but without the conversion option. From the date of issuance, the liability component accretes up to its principal value using the effective interest method, with the charge recorded in finance (income) expenses in the consolidated statements of loss.

The following table reconciles the principal amount, liability and equity components of the convertible debentures:

USD 000s	Liability Component	Equity Component	Total
At December 31, 2018	1,198	76	1,274
Accretion (note 14)	17	-	17
Converted debentures (note 8)	-	-	-
Impact of foreign exchange	25	-	25
<b>At March 31, 2019</b>	<b>1,240</b>	<b>76</b>	<b>1,316</b>

## 9. Decommissioning Obligations

The total undiscounted amount of cash flows required to settle Madalena's decommissioning obligations in Argentina only at March 31, 2019 is approximately \$13 million (December 31, 2018 – \$13 million) with the majority of the costs to be incurred between 2026 and 2027. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability.

At March 31, 2019 an inflation rate of 1.9% was used (December 31, 2018 – 1.9%). The risk free rate used to discount the liability at March 31, 2019 was 2.63% (December 31, 2018 – 2.87%). The majority of the Argentine decommissioning obligations are expected to be invoiced in USD and settled through payments in ARS.

## 10. Lease finance liability - debt

USD 000s	Three months ended March 31	
	2019	2018
Balance, beginning of year	-	-
IFRS 16 first recognition	92	-
Accretion expense (note 14)	2	-
Obligations settled	(15)	-
<b>Balance at March 31, 2019</b>	<b>79</b>	<b>-</b>
Current	20	-
Long-term	59	-
<b>Total</b>	<b>79</b>	<b>-</b>



Notes to the Condensed Interim Consolidated Financial Statements  
 As of and for the Three Months Ended March 31, 2019 and 2018 (Unaudited)  
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The total undiscounted amount of finance liabilities debt at March 31, 2018 is \$76 thousand (December 31, 2018 – nil). The finance liabilities debt have been discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability.

The incremental borrowing rate used to discount the liability at March 31, 2019 was 10.5% (December 31, 2018 – nil).

## 11. Share Capital

The Company is authorized to issue an unlimited number of common shares and preferred shares. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share. No preferred shares were outstanding at March 31, 2019 or December 31, 2018. No dividends have been declared by the Company at March 31, 2019 or December 31, 2018.

	Number of Shares 000s	Share Capital 000s
Balance at December 31, 2017	543,860	238,989
Common shares issued	200	40
Balance at December 31, 2018	544,060	239,029
<b>Balance at March 31, 2019</b>	<b>544,060</b>	<b>239,029</b>

On January 17, 2018, 200,000 common shares were issued at a price of CAD \$0.25 pursuant to the exercise of convertible debenture option of \$40 thousand.

### Net Income (Loss) Per Share

As at March 31, 2019, there is no resulting dilutive impact of the convertible debentures or share options. The following table provides the weighted average number of common shares used in the per share calculations:

	Three months ended March 31	
	2019	2018
Weighted average number of common shares - basic – 000s	544,060	544,024
Net Income (Loss) from continuing operations - USD 000s	(626)	(622)
Per share – basic & diluted - continuing operations (\$/share)	(0.00)	(0.00)
Per share – basic & diluted - total (\$/share)	(0.00)	(0.00)

## 12. Share-based Compensation

There were no share-based options exercised during the three months ended March 31, 2019 or 2018.

The share-based compensation expense recorded in the consolidated statements of loss for the three months ended March 31, 2018 was \$110 thousand (2018 - \$27 thousand).



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### 13. Long-term Incentive Plan

The LTIP recovery recorded as part of share-based and long-term incentive compensation expense in the consolidated statements of loss for the three months ended March 31, 2019 was \$13 thousand (2018 – expense of \$47 thousand) and is revalued at the end of each reporting period.

At March 31, 2019 the LTIP liability was \$54 thousand (December 31, 2018 - \$68 thousand).

### 14. Finance (Income) Expenses

Finance (Income) and Expenses are made up of the following:

USD 000s	Three months ended March 31	
	2019	2018
Bank charges	99	173
Foreign exchange loss	(681)	103
Decommissioning obligations accretion (note 9)	112	19
Accretion of debt portion of convertible debenture issued (note 8)	17	17
Accretion of finance liabilities debt (note 10)	2	-
Interest (income) and other expenses	(448)	(7)
	<b>(889)</b>	<b>305</b>

USD 000s	Three months ended March 31	
	2019	2018
Realized foreign exchange gains		-
Unrealized foreign exchange losses	(681)	103
Total	<b>(681)</b>	<b>103</b>
Currency exchange rate at period end:		
\$1 USD = CAD	1.34	1.29
\$1 USD = ARS	43.35	20.15



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**15. Supplemental Cash Flow Information**

*Changes in non-cash working capital*

USD 000s	Three months ended March 31	
	2019	2018
Trade and other receivables	(688)	(1,871)
Other current assets, including inventory	(1,392)	174
Lease liabilities	20	-
Trade, tax and other payables	3,532	837
Change in non-cash working capital <sup>(1)</sup>	1,472	(860)
Attributable to:		
Operating activities	775	(845)
Investing activities	697	(15)
	1,472	(860)

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

*Other cash flow information*

USD 000s	Three months ended March 31	
	2019	2018
Interest paid	27	32
Taxes paid	-	-

**16. Commitments and Other Long-term Liabilities**

USD 000s	Under negotiations	2019	2020	2021	2022	2023	Thereafter	Total
Development and Exploration Commitments	4,037	31,803	33,585	10,238	10,238	-	1,470	91,370
<b>Total</b>	<b>4,037</b>	<b>31,803</b>	<b>33,585</b>	<b>10,238</b>	<b>10,238</b>	<b>-</b>	<b>1,470</b>	<b>91,370</b>

*Coirón Amargo North ("CA-North")*

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.





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The amounts due to Madalena from GyP are recorded on Madalena’s books as a receivable. Currently, exploitation and development phases are contained in CA-Norte, the northern part of CA, for which there are no current ongoing 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 \$0.6 million and a repayment of \$0.2 million as of March 31 2019 (2018 - there was a loan draw down of \$2.5 million fully repaid as of December 31, 2018).

On September 18, 2018 CASE block was converted in an unconventional exploitation concession with a 35-year term. The concession was awarded after the CASE block successfully completed the evaluation phase.

As part of the terms and conditions for the award of an Unconventional Exploitation Concession, Madalena work commitments at CASE were amended as follows:

USD 000s	2019 <sup>(2)</sup>	2020 <sup>(2)</sup>	Beyond <sup>(3)</sup>
Concession commitments at CASE <sup>(1)</sup>	21,778	5,445	19,445

(1) Committed values are reflected at Madalena’s 35% WI at December 31, 2018 plus Madalena’s proportionate share of GyP’s carry.

(2) Phase I includes the drilling of five horizontal multistage wells targeting the Vaca Muerta, the construction of early production facilities, investment for infrastructure improvement and social responsibility commitments.

(3) Subject to the results on Phase I in 2019, three additional wells will be drilled over the following two-year period (Phase II).

Curamhuele Block (90% WI-operated)

The Company received approval for a 2 year extension on the Curamhuele concession based on its proposal to drill one vertical well in a new location to vertically test Vaca Muerta and Lower Agrío formations. The extension was initially applied for in December, 2018.

On May 13, 2019 the extension was approved by the Minister of Energy and Natural Resources for the province of Neuquen which granted an additional twenty four months expiring March 9th, 2021 for the exploratory period of the concession.

The Company continues to pursue a potential farm out of Curamhuele. In the event that acceptable terms are not achievable the Company plans to move forward to fulfill the commitment to drill the vertical well to test Vaca Muerta and Lower Agrío formations.

Pursuant to the Company’s exploration permit in Curamhuele, the Company is responsible for paying 100% of the costs during the exploration phase to maintain its 90% WI.

Puesto Morales Block (100% WI-operated)

USD 000s	2019	2020	Beyond
Concession commitments	1,800	28,140	2,500

On January 4, 2019 the Company received the approval from the provincial authority for a re-schedule and conversion of the last commitments in a new exploration plan.



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### Santa Victoria Block (100% WI - operated)

The contract can contain up to three exploration and evaluation phases, of which the second expired in April 2015. The second phase required additional work commitments of \$4.037 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 was submitted and as at March 31, 2019 negotiations were continuing 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 last quarter of 2016, 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 has since been in discussions with the province of Formosa with respect to negotiating an extension.

### El Vinalar Block (100% WI – operated)

On September 18, 2018 the Company signed an agreement assigning Madalena's entire interest in the non-core and non-producing El Vinalar concession to a private Argentine oil and gas company. The assignment was approved by Salta province.

### Other long term liabilities

Other long term liabilities includes a provision of office space in Calgary, Alberta which is under contract negotiations since October, 2017.

## 17. Financial Instruments and Risk Management

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, policies and procedures. The following outlines the update to risk exposures and explains how they are managed.

### Liquidity risk

The Company's liquidity risk is highlighted in note 6, which also outlines in May 2017, the Company entered into a series of agreements that are expected to substantially alleviate this risk.

At March 31, 2019, cash and cash equivalents of \$0.4 million was deposited with banks in Argentina (December 31, 2018 - \$0.6 million), and is held in ARS. Cash and cash equivalents of \$61 thousand was deposited with banks in Canada and Barbados, and \$43 thousand is held in USD and \$18 thousand is held in CAD.

### Market risk

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net earnings and in the fair value of its financial assets and liabilities.

### Commodity price risk

The Government of Argentina sets the benchmark (Medanito) price for oil. Although the Argentine refiners used by the Company have paid an average unofficial crude oil price of \$48.35 per barrel for the three months ended March 31, 2018 (2018 - \$59.88). 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



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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. Since August 2018, due to the Argentinean peso devaluation, domestic price is agreed upon between refiners and producers. Such a price considers the impact of the export withholding imposed by the government during this quarter and the possibility to increase the fuel to the final consumers.

Gas prices in Argentina are subject to seasonal demand and are negotiated between the producer and the buyer. Summer pricing for the period from October 2018 to April 2019 was set at \$4.10/mmbtu. (October 2017 - April 2018 - \$4.30/mmbtu). For the winter season from May to September 2019, the price has been set at \$5.30/mmbtu (May to September 2018 - \$5.40/mmbtu).

**18. Supplemental disclosure**

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

USD 000s	Three months ended March 31	
	2019	2018
<b>Operating expenses</b>		
Compensation costs	977	856
Transportation and processing	1,533	1,708
Maintenance, workovers and other	3,055	2,907
	<b>5,565</b>	<b>5,471</b>
<b>General &amp; administrative expenses</b>		
Compensation costs	604	469
Other	1,281	1,052
	<b>1,885</b>	<b>1,521</b>

**19. Revenue**

Madalena generally recognizes oil and natural gas revenue when title passes from Madalena to the purchaser or, in the case of services, as contracted services are performed. Production revenues are pursuant to the terms outlined in contractual agreements and are based on fixed or variable price components. The transaction price for crude oil and natural gas is based on the commodity price in the month of production, adjusted for various factors including product quality and location. Commodity prices are based on monthly or daily market indices.

All of the Company’s significant revenue streams are located in Argentina and include the following:



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USD 000s	Three months ended March 31	
	2019	2018
Crude Oil	6,898	8,873
Natural gas	600	739
Oil and natural gas sales	7,498	9,612

USD 000s	Three months ended March 31	
	2019	2018
Oil storage services in CA-Norte	100	89
Water treatment service to UTE El Surubí	99	-
Other income	199	89

**20. Subsequent event**

On April 7, 2019 the Company entered into the Amended and Restated Convertible Loan Agreement with KD Energy and Hispania, and extended the term of the working capital loan agreement. Key amendments include an extension of the expiry date from May 8, 2020 to May 8, 2023, a change in the conversion price to CAD 0.225 (subject to adjustment), the right of KD Energy to designate Jose David Penafiel and one additional representative to the board of directors during the term of the Amended and Restated Loan Agreement and an expansion to the purposes for which the Company can draw on the loan to include acquisitions of oil and gas assets, subject to consent of KD Energy. The expiry date of the Working Capital Loan Agreement which is in the aggregate amount of \$6.5 million and carries an interest rate of 7% per annum has also been extended to May 8, 2023.