Madalena energy inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

(UNAUDITED)

Madalena energy inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

Canadian $000s	Note	As at June 30 2014	As at December 31 2013
Assets			
Current assets			
Cash and cash equivalents		16,854	14,835
Trade and other receivables		25,186	4,057
Other current assets		10,646	1,075
		52,686	19,967
Property, plant and equipment	5	140,457	39,062
Exploration and evaluation assets	6	34,290	35,745
Other non-current assets		4,384	1,512
		231,817	96,286
Liabilities			
Current liabilities			
Trade and other payables		41,452	11,951
Flow-through share liability		165	385
Deferred tax liability	4	6,265	-
Decommissioning obligations	7	33,340	4,947
		81,222	17,283
Shareholders' Equity			
Share capital	8	242,675	159,574
Contributed surplus		13,320	12,645
Accumulated other comprehensive loss		(26,065)	(17,094)
Deficit		(79,335)	(76,122)
		150,595	79,003
		231,817	96,286

Commitments (Note 12)

Subsequent Event (Note 16)

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

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

Canadian $000s	Note	Three months ended June 30 2014	2013	Six months ended June 30 2014	2013
Revenues					
Oil and natural gas revenues		9,144	3,877	15,450	7,487
Royalties		(1,199)	(462)	(1,963)	(987)
		7,945	3,415	13,487	6,500
Interest and other income (expense)		(33)	65	(3)	167
Unrealized gain (loss) on commodity contracts	14	4	90	(348)	25
Foreign exchange gain		438	1,211	2,031	1,163
		8,354	4,780	15,167	7,855
Expenses					
Operating		2,931	2,143	5,431	4,021
General and administrative		2,647	1,213	3,744	3,278
Business combination costs	4	1,724	-	1,724	-
Accretion	7	48	34	95	71
Share-based compensation	9	344	294	693	444
Depletion and depreciation	5	2,431	1,416	4,348	2,681
Impairment	6	1,907	-	2,565	
		12,032	5,100	18,600	10,495
Loss before income taxes		(3,678)	(320)	(3,433)	(2,640)
Deferred tax recovery		167	-	220	-
Net loss		(3,511)	(320)	(3,213)	(2,640)
Foreign currency translation adjustment		(2,391)	(630)	(8,971)	(1,398)
Comprehensive loss		(5,902)	(950)	(12,184)	(4,038)
Loss per share					
Basic and diluted	13	**(0.01)**	(0.00)	**(0.01)**	(0.01)

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

Condensed Interim Consolidated Statements of Equity
(Unaudited)

Canadian $000s	**Share Capital**	**Contributed Surplus**	**Accumulated Other Comprehensive Income**	**Deficit**	**Total Equity**
	(Note 8)				
Balance at December 31, 2013	159,574	12,645	(17,094)	(76,122)	79,003
Net loss	-	-	-	(3,213)	(3,213)
Other comprehensive loss	-	-	(8,971)	-	(8,971)
Gross proceeds from financings	73,031	-	-	-	73,031
Share issue costs	(5,196)	-	-	-	(5,196)
Issued on business combination	15,214	-			15,214
Stock options exercised	52	(24)	-	-	28
Share based payments	-	699	-	-	699
Balance at June 30, 2014	**242,675**	**13,320**	**(26,065)**	**(79,335)**	**150,595**

Balance at December 31, 2012	141,676	11,920	(8,373)	(52,837)	92,386
Net loss	-	-	-	(2,640)	(2,640)
Other comprehensive loss	-	-	(1,398)	-	(1,398)
Stock options exercised	914	(412)	-	-	502
Share based payments	-	437	-	-	437
Balance at June 30, 2013	142,590	11,945	(9,771)	(55,477)	89,287

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

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

Canadian $000s	Note	Six months ended June 30 2014	2013
Cash provided by (used in):			
Operating			
Net loss		**(3,213)**	(2,640)
Items not affecting cash:			
Depletion and depreciation	5	**4,348**	2,681
Impairment	6	**2,565**	-
Finance cost	7	**95**	71
Unrealized loss on commodity contracts	14	**348**	(25)
Share-based compensation	9	**693**	444
Decommissioning costs incurred	7	**(23)**	(59)
Deferred income tax recovery		**(220)**	-
Change in non-cash working capital	11	**(3,648)**	(514)
Net cash from (used in) operating activities		**945**	(42)
Investing			
Property, plant and equipment additions	5	**(5,857)**	(13,932)
Evaluation and exploration assets additions	6	**(8,855)**	(9,096)
Business combination	4	**(59,192)**	-
Cash acquired in business combination	4	**11,078**	-
Change in other non-current assets		**(612)**	(177)
Change in non-cash working capital	11	**(3,318)**	(4,391)
Net cash used in investing activities		**(66,756)**	(27,596)
Financing			
Shares issued, net of issue costs	8	**67,863**	502
Change in non-cash working capital	11	**306**	-
Net cash from financing activities		**68,169**	502
Change in cash and cash equivalents		**2,358**	(27,136)
Cash and cash equivalents, beginning of period		**14,835**	38,253
Impact of foreign exchange on cash balances		**(339)**	(62)
Cash and cash equivalents, end of period		**16,854**	11,055

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

Tabular amounts in thousands of Canadian dollars, except per share amounts

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 and in Alberta, Canada and its principal place of business is Suite 200, 707 – 7th Avenue S.W., Calgary, Alberta, T2P 3H6.

Prior to June 25, 2014, the condensed interim consolidated financial statements were comprised of the results of the Company and the following wholly-owned subsidiaries in the indicated legal jurisdictions:

- Madalena Austral S.A. (Argentina)
- Madalena Ventures International Holding Company Inc. (Barbados)
- Madalena Ventures International Inc. (Barbados)

On June 25, 2014, the Company acquired the Argentine business unit of Gran Tierra Energy Inc. and the condensed interim consolidated financial statements include the results from June 25, 2014 to June 30, 2014 of the following wholly-owned subsidiaries:

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

2. Basis of Preparation

Statement of Compliance

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*". 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, 2013, except as identified in Note 3. 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, 2013, which have been prepared in accordance with IFRS.

The Condensed Interim Consolidated Financial Statements were approved and authorized for issue by the Company's Board of Directors on August 26, 2014.

Joint Operations

Madalena has 14 concessions in Argentina. Operations for these concessions are conducted by way of an UTE, which is an agreement entered into between two or more parties with the purpose of gathering human, technological and economic resources temporarily, in order to develop or execute a project, render a service or provide a specific supply. The UTE is entered into between the contracting parties to develop or execute a specific project. The UTE parties maintain at all times their legal and economic independence. The UTE is not a separate legal entity and no separate legal entities are established by the parties of the UTE to conduct business on behalf of the UTE.

In Canada, Madalena's core area of operations is located in the Greater Paddle River area of west-central Alberta. There are no unusual terms or conditions attached to any of the joint operating agreements associated with these properties. Madalena contribute to exploration and development projects in accordance with its proportionate working interest in the wells and are allocated revenue and operating costs in accordance with its working interest.

Management has exercised judgment in concluding that joint arrangements are subject to joint control. Specifically, judgment has been used in determining that decisions concerning the relevant activities of each arrangement require the specified parties must act together. Madalena has classified and accounted for each of its interests in joint arrangements as joint operations.

3. Changes in Accounting Policies

New and Amended Standards and Interpretations Adopted.
The IASB issued International Financial Reporting Interpretations Committee Interpretation ("IFRIC") 21, "Levies" which was adopted by the Company on January 1, 2014. The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs. The adoption of this interpretation did not impact the Condensed Interim Consolidated Financial Statements.

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, "Financial Instruments: Presentation" ("IAS 32"). The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. IAS 32 did not impact the Condensed Interim Consolidated Financial Statements.

Future Accounting Pronouncements
A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2013. In May 2014, the International Accounting Standards Board issued IFRS 15 Revenues from Contracts with Customers ("IFRS 15"). IFRS 15 provides a single, principles based five-step model to be applied to revenue recognition from all contracts with customers and applies to an annual reporting period beginning on or after 1 January 2017. The impact of this standard on the Company has not been determined.

4. Business Combination

On June 25, 2014, the Company acquired all of the outstanding shares of the Argentine business unit of Gran Tierra Energy Inc. for cash consideration of $59.2 million (including working capital of $5.1 million) and 29,831,537 common shares at a fair value of $0.51 per common share (the "Acquisition"). The Acquisition, which provides the Company with a significant platform to grow its Argentina production, included Proved and Probable reserves of 6,513 Mboe at December 31, 2013, 11 exploration and production blocks comprising approximately 890,000 net acres and a fully functional independent business unit in Argentina, with an experienced technical and operational team. The operations from the Acquisition have been included in the results of Madalena commencing June 25, 2014. The business combination has been accounted for using the acquisition method and the purchase price allocation is as follows:

Canadian $000s	
Net assets acquired	
Property, Plant and equipment	98,628
Exploration and evaluation assets	2,037
Working capital	5,097
Other long-term assets	2,877
Deferred tax liability	(6,265)
Decommissioning liability	(27,968)
	74,406
Consideration	
Cash	59,192
Common shares	15,214
	74,406

The above amounts are estimates, which were made by management at the time of the preparation of these Condensed Interim Consolidated Financial Statements based on the information available. Amendments may be made to these amounts as values subject to estimation are finalized.

As part of the acquisition agreement, the Company was indemnified by Gran Tierra Energy Inc. for certain pre-existing liabilities. The Company believes that the $5.6 million value of the liabilities recognized at the acquisition date is fully indemnified under this agreement. The liability and offsetting indemnification asset are included in working capital above.

The Company incurred transaction costs of $1.7 million in conjunction with the Acquisition which have been recorded as business combination costs in profit and loss. Had the transaction closed on January 1, 2014, the estimated incremental revenue and net income that would have been reported by the Company was $38.7 million and $5.7 million, respectively. Revenues and net loss included in the Company's results for the period from the date of acquisition June 25, 2014 to June 30, 2014 was $0.8 million and $0.2 million, respectively.

The fair value of petroleum and natural gas properties recognized on an acquisition is based on market values. The market value of petroleum and natural gas properties is the estimated amount for which petroleum and natural gas properties could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports which apply forward looking price decks as at the date of acquisition.

The market value of exploration and evaluation assets is based on prices observed for similar items.

The fair value of receivables acquired was $23.4 million which approximates their gross contractual flows. All acquired receivables have been collected or are expected to be collected.

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

Canadian $000s	Oil and Natural Gas Assets	Corporate	Total
Cost			
At December 31, 2012	35,181	292	35,473
Additions	22,643	(15)	22,628
Effect of change in foreign exchange rates	(3,674)	(8)	(3,682)
At December 31, 2013	54,150	269	54,419
Additions	6,024	20	6,044
Transfer from E & E assets (Note 6)	4,215	-	4,215
Business combination (Note 4)	98,094	534	98,628
Effect of change in foreign exchange rates	(4,123)	(6)	(4,129)
At June 30, 2014	**158,360**	**817**	**159,177**

Canadian $000s	Oil and Natural Gas Assets	Corporate	Total
Accumulated depreciation and depletion			
At December 31, 2012	(4,598)	(161)	(4,579)
Depreciation and depletion	(6,647)	(25)	(6,672)
Impairment	(5,000)	-	(5,000)
Effect of change in foreign exchange rates	1,067	6	1,073
At December 31, 2013	(15,178)	(180)	(15,358)
Depreciation and depletion	(4,457)	(16)	(4,473)
Effect of change in foreign exchange rates	1,106	5	1,111
At June 30, 2014	**(18,529)**	**(191)**	**(18,720)**

Canadian $000s			
Net book value			
At December 31, 2013	38,972	90	39,062
At June 30, 2014	**139,831**	**626**	**140,457**

At June 30, 2014, the net book value of the Argentinean and Canadian PP&E assets were $109.8 million (December 31, 2013 - $12.2 million) and $30.7 million (December 31, 2013 - $27.2 million), respectively.

The depletion expense calculation for the six months ended June 30, 2014 included $66.2 million (December 31, 2013 – $30.6 million) for estimated future development costs associated with proved and probable reserves.

6. Exploration and Evaluation Assets ("E&E")

Canadian $000s	
Cost	
At December 31, 2012	35,760
Additions	20,491
Impairment	(14,719)
Effect of change in foreign exchange rates	(5,787)
At December 31, 2013	35,745
Additions	9,274
Business combination (Note 4)	2,037
Transfer to PP&E assets (Note 5)	(4,215)
Impairment	(2,565)
Effect of change in foreign exchange rates	(5,986)
At June 30, 2014	**34,290**

At June 30, 2014, the net book value of the Argentinean and Canadian E&E assets were $29.2 million (December 31, 2013 - $28.6 million) and $5.1 million (December 31, 2013 - $7.1 million), respectively.

The Company has recorded an impairment charge of $1.9 million and $2.6 million for the three and six months ended June 30, 2014, respectively, (2013 – nil and nil) on its Canadian exploration and evaluation assets.

7. Decommissioning Obligations

Canadian $000s	Six months ended June 30 2014	Year ended December 31 2013
Balance, beginning of period	**4,947**	5,191
Acquired in a business combination (Note 4)	**27,968**	-
Incurred from development activities (Note 5)	**107**	210
Incurred from exploration activities (Note 6)	**40**	50
Accretion expense	**95**	137
Revision of estimates	**441**	(448)
Obligations settled	**(23)**	(92)
Effect of change in foreign exchange rates	**(235)**	(101)
Balance, end of period	**33,340**	4,947

The total undiscounted amount of cash flows required to settle Madalena's decommissioning obligations is approximately $41.6 million (December 31, 2013 – $8.7 million) with the majority of the costs to be incurred between 2018 and 2030. 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.

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

At June 30, 2014, inflation rates of 2% were used in both Argentina and Canada (December 31, 2013 – 10.9% and 2% for Argentina and Canada, respectively). The risk free rate used to discount the liability was 2.5% (December 31, 2013 – 17.18%) in Argentina and up to 2.8% (December 31, 2013 – up to 3.0%) in Canada.

8. Share Capital

The Company is authorized to issue an unlimited number of common shares. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share.

Share Capital

	Number of Shares 000s	Share Capital $000s
Balance at December 31, 2012	314,307	141,676
Shares issued pursuant to financing	46,763	19,454
Share issue costs	-	(1,766)
Flow through share liability	-	(936)
Stock options exercised	2,959	1,146
Balance at December 31, 2013	364,029	159,574
Shares issued on financing	130,957	73,031
Share issue costs	-	(5,196)
Issued on business combination (Note 4)	29,832	15,214
Stock options exercised	225	52
Balance at June 30, 2014	**525,043**	**242,675**

On February 11, 2014, the Company closed a bought deal financing of 32,857,225 common shares at a price of $0.70 per common share, including 4,285,725 common shares issued pursuant to the exercise of the over-allotment option in full by the Underwriters, for aggregate gross proceeds of $23,000,058.

On June 24, 2014, the Company closed a bought deal financing of 98,100,000 common shares at a price of $0.51 per common share, for aggregate gross proceeds of $50,031,000.

On June 25, in connection with the Acquisition, the Company issued 29,831,537 common shares to Gran Tierra Energy Inc. at a price of $0.51 per common share for partial consideration in the Acquisition totaling $15,214,084.

9. Share Based Compensation

Under the Company's stock option plan, directors, officers, employees and certain consultants are eligible to receive options to acquire common stock of the Company. The exercise price of the granted options is no less than the closing trading price per share on the last day preceding the date of the grant. Total options granted cannot exceed 10% of the issued and outstanding common shares of the Company. Options granted to directors, officers, employees and consultants may vest immediately or over three years on each anniversary of the grant date. Options expire three to five years from the grant date. There are no cash settlement alternatives for employees under the Company's stock option plan.

The weighted average share price of the Company's common shares on the exercise date during the six months ended June 30, 2014 was $0.51.

During the period ended June 30, 2014, no options were granted to any officers, employees, consultants and directors of the Corporation and its subsidiaries. Movements in the number of stock options outstanding and their related weighted average exercise prices are summarized as follows:

	Number of options 000s	Weighted average exercise price CDN$
Outstanding at December 31, 2012	22,334	0.47
Granted	7,260	0.36
Exercised	(2,959)	0.21
Forfeited	(1,842)	0.42
Expired or cancelled	(5,263)	0.76
Outstanding at December 31, 2013	**19,530**	**0.40**
Exercised	**(225)**	**0.12**
Outstanding at June 30, 2014	**19,305**	**0.40**
Exercisable at June 30, 2014	**8,725**	**0.48**

On July 11, 2014, 5,350,000 options were granted to certain employees and consultants of the Corporation and its subsidiaries; 5,000,000 of which related to employees in Argentina as a result of the Acquisition. Each Option has an exercise price of $0.50 per share and is exercisable for a period of five years from the date of grant.

10. Related Parties

A director of the Company is a partner of a law firm that provides legal services to the Company. During the six months ended June 30, 2014, the Company incurred fees of $0.6 million (June 30 2013 - $0.3 million) from this firm for legal fees related to legal matters of which $0.4 million is included in accounts payable and accrued liabilities at June 30, 2014.

11. Supplemental Cash Flow Information

Changes in non-cash working capital

Canadian $000s	Six months ended June 30 2014	2013
Trade and other receivables	**1,304**	(1,612)
Other current assets	**(860)**	(205)
Trade and other payable	**(7,104)**	(3,088)
Change in non-cash working capital	**(6,660)**	(4,905)
Attributable to:		
Operating activities	**(3,648)**	(515)
Financing activities	**306**	-
Investing activities	**(3,318)**	(4,390)
	(6,660)	(4,905)

12. Commitments

Development & Exploration Commitments

Coiron Amargo Block (35% working interest)
The Coiron Amargo block is divided into two regions called Coiron Amargo Norte (northern portion of the block) and Coiron Amargo Sur (southern portion of the block). Coiron Amargo Norte is currently under a 25 year exploitation (development) concession which was approved by the Province of Neuquén in 2012.

In October 2013, following an application and approval process by Madalena and its partners, the exploration period for Coiron Amargo Sur was extended until November 8, 2014 by way of an official decree signed by the Province of Neuquén in Argentina. The remaining work commitments in Coiron Amargo Sur (to be fulfilled by an upcoming Vaca Muerta shale well scheduled to be drilled in the second half of 2014) are estimated at approximately USD$1.94 million plus VAT (net to Madalena) as of June 30, 2014. After satisfying these remaining work commitments, Madalena has the ability to extend Coiron Amargo Sur through further exploration, evaluation and/or exploitation (development) phases. Madalena and its partners at Coiron Amargo have already initiated discussions with the regulators related to a multi-year block contract for Coiron Amargo Sur.

Curamhuele Block (90% working interest)
In June 2013 the exploration period was extended until November 8, 2014 by way of an official decree signed by the Province of Neuquén. As part of the block commitments to date, Madalena has executed a 3D seismic program in the first half of 2014 which is currently in the geotechnical processing stage to identify additional exploration and appraisal leads across the block. To satisfy the remaining work commitments on the block, Madalena is actively working to source the appropriate drilling rig suitable to conduct a re-entry program as planned. Madalena has been in communication with the Province of Neuquén and its partner (Gas y Petroleo) related to execution timelines for the re-entry program. At this time, based on rig availability and lead times for equipment, Madalena expects to execute the remaining commitments on the block starting in late 2014 or Q1 2015.

Madalena's remaining share of future work commitments associated with the Curamhuele block as of June 30, 2014 is approximately US$12.3 million plus VAT. After satisfying these remaining work commitments, Madalena expects to either convert certain area(s) of the acreage into an exploitation (development) concession and/or enter into a new exploration period(s) or unconventional evaluation phase, to further explore and appraise the Curamhuele block.

Cortadera Block (37.8% working interest)

On January 15, 2014, the joint venture partnership on the Cortadera Block, in which Madalena is a partner, signed an amended contract agreement to formalize a multi-year agreement for the extension of the initial exploration period and inclusion of subsequent exploration periods. Subsequent to that agreement and following an application and approval process, the first exploration period for Cortadera was extended by way of an official decree which was signed by the Province of Neuquén in Argentina. This extension provides the partnership until October 26, 2014 to satisfy the remaining work commitments on the block, which involves the upcoming re-entry work. Madalena believes that its share of any work performed is not expected to be significant.

Under the amended agreement, and subsequent to conducting the upcoming re-entry work, the partnership at Cortadera has the option to enter into subsequent exploration periods involving a second exploration period extending to October 25, 2018 and a third exploration period upon which the partnership has the option to enter into subsequent exploration periods extending to October 25, 2021, or extend the Cortadera Block through potential further evaluation and/or exploitation phases.

Santa Victoria Block (100% working interest)

This block was part of the recent Acquisition. It is a 100% working interest operated property covering 516,846 gross acres in the Noroeste Basin. The contract is currently in the second of three exploration phases. This phase requires a minimum of work commitments of US$3.75 million plus VAT by April 2015.

Flow-through Shares Commitments

During 2013, the Company completed a CEE flow through share financing in the amount of $5.7 million. As at June 30, 2014, $3.8 million of the CEE flow-through funds had been expended. The Company has until December 31, 2014 to expend the remaining CEE flow through funds in the amount of $1.9 million on qualified expenditures.

13. Net Income (Loss) Per Share

The following table reconciles the weighted average number of common shares used in the basic and diluted net loss per share calculations:

Basic and diluted loss per share

	Three months ended June 30		Six months ended June 30	
$CDN	**2014**	**2013**	**2014**	**2013**
Net loss - $000s	(3,511)	(320)	(3,213)	(2,640)
Weighted average number of common shares:				
Basic and diluted - 000s	406,401	316,412	394,227	315,706

All share options were excluded from the preceding calculation from the preceding calculation as their effect is anti-dilutive.

14. Financial Instruments and Risk Management

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

Argentine Foreign Currency Restrictions

Historically, Madalena has not repatriated funds from Argentina. As a result of expanding our operations in Argentina through the Acquisition, there may be reason to repatriate funds in future periods. While the Company does not believe there are prohibitive restrictions to repatriate after-tax funds to Canada, the Argentina government has a number of monetary and currency exchange control measures, including authorizations by the Argentine Central Bank being required to transfer funds abroad. If the Central Bank does not grant such authorization for our Argentina subsidiaries to make these payments, our ability to use funds from our Argentine operations for other purposes will be impacted.

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

Price fluctuations for both crude oil and natural gas are determined by world supply and demand factors. Additionally, a significant part of the Company's oil and gas revenue is from oil and gas properties in Argentina. Oil prices in Argentina are subject to domestic market discounts which result in prices significantly below benchmark prices. The Company has the following physical natural gas and oil contracts.

Type	Period	Volume	Price Floor	Price Ceiling	Index
Natural gas fixed	April 1, 2014 to Oct. 31, 2014	500 GJ/d	$3.45CDN	$3.45 CDN	AECO
Natural gas fixed	April 1, 2014 to Oct. 31, 2014	300 GJ/d	$3.55CDN	$3.55 CDN	AECO
Natural gas fixed	April 1, 2014 to Oct. 31, 2014	300 GJ/d	$4.43CDN	$4.43 CDN	AECO
Natural gas fixed	April 1, 2014 to Oct. 31, 2014	300 GJ/d	$4.52CDN	$4.52 CDN	AECO
Crude oil call options	Jan. 1, 2014 to Dec. 31, 2014	50 bbl/d	-	$100 US	WTI
Crude oil call options	Jan. 1, 2014 to Dec. 31, 2014	50 bbl/d	-	$100 US	WTI
Crude oil call options	Jan. 1, 2015 to Dec. 31, 2015	50 bbl/d	-	$95 US	WTI
Crude oil swap	Feb 1, 2014 to Dec 31, 2014	50 bbl/d	-	$100 CDN	WTI

The fair value of commodity contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. The fair value of commodity contracts as at June 30, 2014 was a net liability and an unrealized loss of $348,188 (June 30, 2013 - $24,800 unrealized gain). Realized losses as at June 30, 2014 were $129,703 (June 30 2013 - $5,872 realized gain) and are included in interest and other income on the statement of loss and comprehensive loss. The commodity contracts currently on the Condensed Interim Consolidated Financial Statements are classified as level 2 within the fair value hierarchy.

15. Segmented information

The Company is engaged primarily in the exploration and development of oil and gas. The Company's reportable segments are based on geographic area and comprise Canada and Argentina. The Company's operations in Barbados are not a reportable segment and are included in the Argentina segment because the level of activity in Barbados was not significant at June 30, 2014 and June 30, 2013.

	As at and for six months ended June 30, 2014		
Canadian $000s	**Canada**	**Argentina**	**Total**
Total assets	48,433	183,385	231,818
Total liabilities	(14,755)	(66,465)	(79,740)
Revenues	9,078	6,372	15,450
Net Loss	(3,434)	221	(3,213)
Capital expenditures	6,282	8,430	14,712

	As at and for six months ended June 30, 2013		
Canadian $000s	**Canada**	**Argentina**	**Total**
Total assets	57,259	44,236	101,495
Total liabilities	(7,740)	(4,468)	(12,208)
Revenues	4,855	2,632	7,487
Loss	(1,384)	(1,256)	(2,640)
Capital expenditures	17,192	5,836	23,028

16. Subsequent event

On July 7, 2014, the Company closed the over-allotment option in full for its previously announced bought deal, short form prospectus offering, issuing 14,715,000 common shares of the Company at a price of $0.51 per Common Share for gross proceeds of $7,504,650.