MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

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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 23, 2016 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, 2016 and the accompanying notes as well as the audited consolidated financial statements for the year ended December 31, 2015 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 ("IASB") applying IAS 34. Unless otherwise indicated, all dollar amounts are in 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 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 Operating Activities and Funds Flow from Continuing Operations sections of this MD&A.

Funds flow from 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 headquartered, Argentina focused upstream oil and gas company with operations in four provinces of Argentina where it is focused on the 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 resource plays.

Madalena trades on the TSX Venture Exchange under the symbol MVN and on the OTCQX under the symbol MDLNF.

Review of Strategic Alternatives

Madalena has initiated a review of its strategic alternatives. Evercore Group LLC ("Evercore"), which had been retained to assist in securing a joint venture partner for the Curamhuele block in Argentina, has had its mandate broadened to encompass this review of strategic alternatives. In part, the review was prompted by a number of unsolicited expressions of interest received by the Company after the May 16, 2016 news release announcing the initial engagement of Evercore. These strategic alternatives may include, among other things, asset sales, a merger, sale or recapitalization transaction, joint ventures or other opportunities.

The Company does not intend to provide updates on this process until such time as the Board of Directors deem it appropriate. There can be no guarantee that this review will result in a transaction(s), or if a transaction(s) is undertaken, as to its terms or timing.

Second Quarter Activity and Third Quarter Update

The Company continues to face short term liquidity challenges and has included a note on going concern uncertainty in the consolidated financial statements since December 31, 2015. At June 30, 2016, Madalena had a working capital deficit of $5.3 million and no long-term debt. Over the past 18 months, the Company has been engaged in discussions with over 30 different counterparties in conjunction with obtaining a credit facility.

During the second quarter, the Company continued to pursue alternative sources of capital in the form of debt financings, asset sales or swaps of both core and non-core assets and joint ventures or other transactions with industry partners. In particular, the Madalena had numerous meetings and discussions with potential lenders, many of whom were introduced by the Company's largest shareholder. We continue to work with a number of interested parties and remain focused and determined to find a solution to the ongoing liquidity challenges.

The following has been accomplished to date:

- On June 28, 2016 Madalena and Point Loma Energy Ltd. ("Point Loma") completed a transaction pursuant to which, Point Loma acquired Madalena's non-core Canadian petroleum and natural gas assets in exchange for common shares in Point Loma valued at $1.9 million and a senior subordinate convertible debenture of Point Loma in the amount of $2.4 million with a five-year term accruing interest at 3% per annum. Future cost savings are estimated at $1.2 million per year;
- On July 11, 2016, Madalena closed a transaction at Coirón Amargo resulting in positive ownership changes to the block, enabling the Company to control future operations on a significant portion of the concession. This also reduced near-term work commitments and provides more flexibility in managing future commitments; and
- On July 13, 2016, the Company completed the first tranche of a private placement of CAD $1.8 million 12% secured convertible debentures, primarily to insiders, with a June 30, 2019 maturity date. The Company has been authorized by the Board of Directors to issue up to CAD $10 million of convertible debentures and accordingly, additional closings may occur.

Sale of Non-Core Canadian Assets

On June 28, 2016 Madalena and Point Loma completed a transaction pursuant to which, Point Loma acquired Madalena's non-core Canadian petroleum and natural gas assets focused in the Paddle River area of Alberta in exchange for common shares in the capital of Point Loma with a deemed value of $1.9 million and a senior subordinate convertible debenture of Point Loma in the amount of $2.4 with a five-year term accruing interest at 3% per annum.

The financial and operating results of the discontinued Canadian operations for the period ended May 1, 2016, the effective date of sale, and the comparative period to June 30, 2015, are discussed separately in the "Discontinued Canadian Operations" section of this MD&A.

Coirón Amargo Ownership Changes

On July 11, 2016, the Company entered into definitive agreements to effect positive ownership changes in the Coiron Amargo block, which resulted in Madalena achieving two of the Company's important goals in Argentina – securing increased ownership and operatorship over one of the Company's key assets and reducing near-term work commitments.

Prior to the above, Madalena held a 35% WI in the entire Coirón Amargo block. The block consists of an aggregate of approximately 100,000 gross acres (35,000 net) of Vaca Muerta and Sierras Blancas prospective acreage. The Coirón Amargo Norte ("CA-Norte") exploitation concession consists of 26,598 gross acres (9,309 net) and the Coirón Amargo Sur evaluation concession consists of 72,738 acres (25,458 net).

Pursuant to a series of agreements dated July 11, 2016 involving Madalena, a subsidiary of Royal Dutch Shell plc, O&G Developments Ltd S.A., ROCH S.A., Apco Oil & Gas International Inc. (Sucursal Argentina) ("Apco"), which is a subsidiary of Pluspetrol Resources Corp. and Gas y Petróleo del Neuquén S.A. ("G&P"), the parties have agreed, subject to government approvals and an Executive Decree, to divide Coirón Amargo Sur into two evaluation lots – *Coirón Amargo Sur Este* ("CA-Sur Este") and *Coirón Amargo Sur Oeste.* Madalena will assign its interest in Coirón Amargo Sur Oeste (5,754 net acres) to its counterparties. In return, Madalena will increase its WI to 90% at CA-Sur Este, increasing its net acreage by 30,964 to 50,668 acres and become operator on this parcel. G&P will retain its original 10% WI.

At CA-Norte, Madalena will retain its 35% WI (9,309 net acres) and Apco will become the operator.

Convertible Debenture Issuance

On July 13, 2016, the Company completed the first tranche of a private placement of CAD $1.8 million 12% secured convertible debentures, primarily to insiders, with a June 30, 2019 maturity date. The Board of Directors has authorized the issuance of up to CAD $10 million of convertible debentures, and as such, additional closings may occur. The debentures are convertible into common shares of the Company at a conversion price of CAD $0.25 per common share. Interest on the debentures is payable semi-annually, in arrears, on December 31 and June 30. Under certain conditions, the Company may repay the outstanding indebtedness. Such repayments involve call premiums that reduce as the date to maturity approaches. Although insiders participated in the first tranche, the terms and conditions were the same as those available to third parties.

During June 2016, the Company received cash amounting to $1.1 million associated with the anticipated convertible debenture private placement financing described above. This $1.1 million is disclosed as restricted cash on the condensed interim consolidated statement of financial position at June 30, 2016, with a corresponding amount in deferred debenture financing.

Continuing Operations

Madalena's Argentina upstream oil and gas operations as well as the corporate segment are discussed in the "Continuing Argentina 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 our continuing Argentina operations and corporate segments.

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, 2016 compared to the three and six months ended June 30, 2015. Foreign exchange changes in ARS impact the unrealized foreign exchange gains and losses recorded in the condensed interim consolidated statements of loss and comprehensive loss. Foreign exchange changes in CAD are reflected through the foreign currency translation adjustment in accumulated other comprehensive loss, as shown in shareholders’ equity and on the condensed interim consolidated statements of comprehensive loss.

USD	Three months ended June 30 2016	2015	% Change(1)	Six months ended June 30 2016	2015	% Change(1)
Average CAD to USD	**0.78**	0.81	(4.6%)	**0.75**	0.81	(7. 1%)
Average ARS to USD	**0.07**	0.11	(37.0 %)	**0.07**	0.11	(38.3%)
Period end CAD to USD				**0.77**	0.80	(2.8%)
Period end ARS to USD				**0.07**	0.11	(39.2%)

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

Continuing Argentina Operations and Corporate Segments

Sales Volumes

	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
Crude oil and NGLs (bbls/d)	**2,084**	3,092	**2,246**	2,873
Natural gas (mcf/d)	**2,636**	4,455	**2,806**	4,176
Total daily sales (boe/d)	**2,523**	3,834	**2,714**	3,569
% oil	**83%**	81%	**83%**	81%

Madalena’s primary producing concessions are at Surubi, Rinconada-Puesto Morales and CA-Norte. Other producing concessions include El Chivil, El Vinalar and Palmar Largo. All concessions produce oil and Rinconada-Puesto Morales and CA-Norte also produce natural gas. Approximately 83% of Madalena’s current production comes from Surubi, Rinconada-Puesto Morales, and CA-Norte.

Crude oil and NGL sales volumes for the three months ended June 30, 2016 (“the Quarter” or “Q2-2016”) decreased to 2,084 boe/d from 3,092 boe/d for the three months ended June 30, 2015 (“Q2-2015”). The change compared to Q2-2015, can be attributed to production declines at both Rinconada-Puesto Morales as well as Surubi. Natural gas sales volumes for the Quarter of 2,636 mcf/d, decreased compared to 4,455 mcf/d for Q2-2015 due mainly to lower production at Rinconada - Puesto Morales.

For the six months ended June 30, 2016 (“YTD”), crude oil and NGL sales volumes decreased to 2,246 boe/d from 2,873 boe/d for the six months ended June 30, 2015 (“YTD-2015”), primarily due to production declines in Surubi. Natural gas sales volumes YTD decreased to 2,806 mcf/d from 4,176 mcf/d due to production declines in Rinconada-Puesto Morales.

While the decrease at Rinconada - Puesto Morales was from natural declines, the Surubi decline was a function of the delay in remedial work. The Company believes that the installation of jet pumps at two of the existing wells at

Surubi (85% WI) will aid in lifting crude oil production in conjunction with the conversion of a third well to allow for on-site water disposal. This project is expected to be completed upon resolving the liquidity issues.

Madalena expects Q3-2016 sales volumes to average approximately 2,200 boe/d, 85% of which is oil and NGLs.

Average Realized Prices

	Three months ended June 30		Six months ended June 30	
USD	**2016**	**2015**	**2016**	**2015**
Crude oil and NGLs - $/bbl	**62.41**	78.36	**62.29**	75.83
Natural gas - $/mcf	**5.15**	5.11	**4.73**	4.72
Total - $/boe	**56.93**	69.11	**56.45**	66.57

The Government of Argentina sets the benchmark (Medanito) price for oil. The Medanito crude quality oil posting averaged $67.50/bbl for the Quarter (Q2-2015 - $75.00). The Company's average discount to this posting is approximately $4.00 - $5.00/bbl for quality and transportation differentials. The Medanito crude quality oil posting for July 2016 remained at $67.50/bbl.

The average price the Company received for oil for the Quarter was $62.41/bbl, lower than the $78.36/bbl realized in Q2-2015 mainly as a result of the lower Medanito pricing, together with the fact that the $3/bbl oil incentive program in place in 2015, ended on January 1, 2016.

The average price received for oil YTD was $62.29/bbl, lower than the $75.83 realized YTD-2015 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 2016, which is the Argentine winter, the price has been set at $5.35/mbtu. Winter prices in 2015 were $5.30/mbtu. Summer pricing for October 2016 – April 2017 has been set at $4.30/mbtu.

The average total price received for the Quarter was $56.93/boe, lower than the $69.11/boe realized in Q2-2015 mainly as a result of 10% Medanito oil price reduction in December 2015, and the removal of the $3/bbl oil incentive program.

The Company anticipates Argentina prices to average $55.00 per boe during Q3 – 2016.

Oil and Natural Gas Revenue

	Three months ended June 30		Six months ended June 30	
USD 000s, except boe	**2016**	**2015**	**2016**	**2015**
Crude oil	**11,834**	22,046	**25,467**	39,440
Natural gas	**1,236**	2,069	**2,414**	3,568
	13,070	24,115	**27,881**	43,008
$/boe	**56.93**	69.11	**56.45**	66.57

Oil and gas revenue was $13.1 million for the Quarter compared to $24.1 million for Q2-2015 due to lower sales volumes of 34% compounded with an approximate 18% decrease in prices per boe. The 34% decrease in sales volumes is primarily a result of production declines at Surubi and Rinconada - Puesto Morales.

YTD oil and gas revenues decreased to $27.9 million compared to $43.0 million YTD-2015, due to the same reasons as described for the Quarter.

Royalties

	Three months ended June 30		Six months ended June 30	
USD 000s, except boe	**2016**	**2015**	**2016**	**2015**
Royalties	**1,993**	4,800	**4,317**	7,417
As % of revenue	**15%**	20%	**15%**	17%
$/boe	**8.68**	13.76	**8.74**	11.48

Royalty expenses were $2 million for the Quarter compared to $4.8 million in Q2-2015 due to lower production volumes. In addition, during Q2-2015, the Company incurred a one-time settlement of $1.9 million related to a royalty dispute on certain Gran Tierra assets for the years 2007-2011. Royalty expenses YTD of $4.3 million decreased compared to $7.4 million YTD-2015 for the same reasons as outlined for the Quarter.

The Company expects royalty rates for the remainder of 2016 to be consistent with this quarter.

Operating Costs

	Three months ended June 30		Six months ended June 30	
USD 000s, except boe	**2016**	**2015**	**2016**	**2015**
Compensation costs	**807**	1,391	**1,884**	2,458
Transportation and processing	**1,775**	3,258	**3,356**	5,323
Maintenance, workovers and other	**2,473**	4,056	**5,741**	8,303
	5,055	8,705	**10,981**	16,084
$/boe	**22.02**	24.95	**22.23**	24.89

Operating costs during the Quarter decreased to $5.1 million from $8.7 million in Q2–2015 mainly as a result of lower sales volumes, the impact of the ARS devaluation, and reduced maintenance programs completed. On a per boe basis, operating costs for the Quarter decreased 12% to $22.02 per boe from $24.95 per boe in Q2-2015.

Operating costs YTD were $11 million compared to $16.1 million YTD-2015. The decrease was mainly due to lower sales volumes and the impact of the ARS devaluation. On a per boe basis, YTD costs were $22.23 per boe, reduced from $24.89 per boe YTD-2015.

Management expects operating costs to average approximately $25.00 - $27.00 per boe in Q3-2016 as inflation creates upward pressure on costs.

Netbacks [1]

USD/boe	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
Oil and gas revenue	**56.93**	69.11	**56.45**	66.57
Royalties	**(8.68)**	(13.76)	**(8.74)**	(11.48)
Operating expenses	**(22.02)**	(24.95)	**(22.23)**	(24.89)
Netbacks	**26.23**	30.40	**25.48**	30.20

(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 2016	2015	Six months ended June 30 2016	2015
Argentina				
Gross G&A				
Compensation costs	**803**	1,271	**1,640**	2,340
Other	**669**	927	**1,212**	1,402
	1,472	2,198	**2,852**	3,742
Capitalized	**(232)**	(336)	**(442)**	(592)
	1,240	1,862	**2,410**	3,150
Corporate				
Gross G&A				
Compensation costs	**377**	570	**1,422**	1,008
Other	**621**	798	**1,351**	1,549
	998	1,368	**2,773**	2,557
Capitalized	**(115)**	(172)	**(299)**	(373)
	883	1,196	**2,474**	2,184
Consolidated				
Net G&A total	**2,123**	3,058	**4,884**	5,334

Argentina

Gross G&A expenses for the Quarter decreased by $0.7 million to $1.5 million due primarily to lower salaries as a result of the ARS devaluation, staff reductions and ongoing cost management efforts. The Company currently employs 36 office employees in Argentina, a reduction of 6 since Q2-2015. The Company continues to optimize in areas where efficiencies can be realized.

During the Quarter, $0.2 million (Q2-2015 - $0.3 million) of directly attributable G&A costs in Argentina were capitalized to property, plant and equipment.

YTD, gross G&A costs decreased by $0.9 million to $2.9 million due primarily to lower salaries as a result of the ARS devaluation, staff reductions and ongoing cost management efforts. YTD, amounts capitalized were $0.4 million compared to $0.6 million YTD-2015.

G&A expenses for Q3-2016 for Argentina, net of amounts capitalized, are estimated at approximately $1.2 million.

Corporate
Gross G&A expenses for the Quarter were $1.0 million compared to $1.4 million in Q2-2015. The decrease was due primarily to lower salaries and office expenses. Gross G&A costs were $2.8 million YTD, compared to $2.6 million YTD-2015. The increase is due to severance and retracted financing related costs of $1.0 million, offset by a reduction in Canadian employees and the Company's optimization in areas where efficiencies have been realized.

During the Quarter, $0.1 million (Q2-2015 - $0.2 million) of directly attributable G&A costs in Canada were capitalized to property, plant and equipment in Argentina. YTD, $0.3 million was capitalized compared to $0.4 million YTD-2015.

G&A expenses for Q3-2016 for Canada, net of amounts capitalized, are estimated at approximately $1.0 million.

Finance Income and Expenses

	Three months ended June 30		**Six months ended June 30**	
USD 000s	**2016**	**2015**	**2016**	**2015**
Argentina				
Bank charges and fees	**405**	624	**676**	1,043
Foreign exchange loss (gain) - unrealized	**(750)**	(32)	**(693)**	103
Accretion	**54**	57	**121**	123
Interest and other expenses	**885**	225	**904**	298
	594	874	**1,008**	1,567
Corporate				
Foreign exchange (gain) loss - unrealized	**77**	347	**1,257**	(1,773)
Interest and other expenses	**-**	18	**-**	27
	77	365	**1,257**	(1,746)
Consolidated	**671**	1,239	**2,265**	(179)

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 were $0.4 million and decreased from $0.6 million in Q2-2015 as a result of lower transaction activity compared to Q2-2015.

YTD, bank charges and fees were $0.7 million compared to $1.0 million YTD-2015. The decrease was also due to reduced transaction activity.

Bank charges for Q3-2016 are estimated at approximately $0.5 million.

Foreign exchange (gain) loss – unrealized
During the Quarter the Company recorded an unrealized foreign exchange gain of $0.8 million compared to an unrealized gain of $32 thousand in Q2-2015. YTD, the Company recorded a $0.7 million gain compared to a $0.1 million loss YTD-2015. Quarterly fluctuations in unrealized gains and losses are a result of changing foreign exchange rates and underlying movements in working capital.

Accretion
Accretion expense was $54 thousand for the Quarter (Q2-2015– $57 thousand), and $121 thousand YTD compared to $123 thousand YTD-2015.

Interest and other expenses
Interest and other expenses relate primarily to interest on the Argentine ICBC loan (see heading "Credit Facilities") offset by a net gain of $0.1 million on the sale of Petroleo Plus bonds during the Quarter ($0.4 million YTD).

Had the Buenos Aires Deposits of Large Amount Rate ("BADLAR") interest rate associated with the Argentine ICBC loan changed by 5%, associated interest expense would have changed by $0.1 million YTD.

Corporate
Foreign exchange loss (gain)
During the Quarter and YTD, the Company recorded an unrealized foreign exchange loss of $77 thousand and $1.3 million (Q2-2015 and YTD - 2015 - loss of $0.3 million and gain of $1.8 million, respectively). The YTD loss of $1.3 million and the YTD – 2015 gain of $1.8 million relate to foreign exchange movements between the USD and CAD associated with to the intercompany loans due from the Argentine subsidiaries and held in Canada that are booked through the income statement and are not adjusted against other comprehensive loss. The USD:CAD foreign exchange rate depreciated by 6.7% from December 31, 2015 to June 30, 2016 and appreciated by 7.7% from December 31, 2014 to June 30, 2015.

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, no (2015 - nil) options were granted to directors, officers or employees and YTD, 8.7 million options were granted (YTD 2015 – nil). Share based compensation was $0.5 million in the Quarter compared to $0.3 million for Q2-2015, of which $0.1 million was capitalized (2015 – $62 thousand).

On a YTD basis, share based compensation was $1.1 million (YTD-2015 - $0.4 million), of which $0.2 million (YTD-2015 - $62 thousand) was capitalized.

Depletion and Depreciation ("D&D")

	Three months ended June 30		Six months ended June 30	
USD 000s	**2016**	**2015**	**2016**	**2015**
Argentina	**5,293**	6,852	**11,163**	12,831
$/boe	**23.05**	19.64	**22.60**	19.86
Corporate	**59**	52	**113**	103
Consolidated	**5,352**	6,904	**11,276**	12,934

Argentina
D&D decreased to $5.3 million in the Quarter compared to $6.9 million in Q2-2015 due to lower production. On a per boe basis, D&D for the Quarter increased to $23.05 per boe from $19.64 per boe in Q2-2015 primarily due to increased future development costs.

YTD, D&D decreased to $11.2 million from $12.8 million due to lower production and per boe costs went from $19.86/boe to $22.60/boe due to an increase in future development costs.

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

Impairment
At June 30, 2016, and 2015, Madalena determined that there were no indicators of impairment for its Cash Generating Units.

Income Tax Expense (Recovery)

	Three months ended June 30		Six months ended June 30	
USD 000s	**2016**	**2015**	**2016**	**2015**
Current	**787**	1,346	**1,140**	2,485
Deferred	**180**	1,067	**2,141**	647
Total	**967**	2,413	**3,281**	3,132

Madalena has four legal entities in Argentina, two of which had taxable income in the Quarter. The income tax rate in Argentina is 35%. The two entities that are not taxable are subject to minimum taxes, which are generally taxed at 1% of net assets. Current income tax expense (including minimum tax) for the Quarter was $0.8 million compared to $1.3 million for Q2-2015.

On a YTD basis, current income tax expense was $1.1 million (YTD-2015 – $2.5 million).

The Company booked a deferred income tax expense of $0.2 million during the Quarter (Q2-2015 –$1.1 million). YTD, the Company booked a deferred income tax expense of $2.1 million (YTD-2015 –$0.6 million).

Current income taxes for Q3-2016 are estimated at approximately $0.5 million.

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

	Three months ended June 30		Six months ended June 30	
USD 000s	**2016**	**2015**	**2016**	**2015**
Cash flow from (used in) operating activities	**2,966**	(4,155)	**9,427**	2,912
Cash flow (from) used in operating activities – discontinued operations	**22**	1,234	**41**	562
Change in non-cash working capital	**(4,130)**	7,889	**(8,078)**	4,814
Change in non-cash working capital – discontinued operations	**(118)**	(667)	**59**	418
Change in other long-term assets	**3,081**	(23)	**3,531**	706
Funds flow from continuing operations	**1,821**	4,278	**4,980**	9,412

Funds flow from Continuing Operations, Net Loss and Comprehensive Loss from Continuing Operations

	Three months ended June 30		Six months ended June 30	
USD 000s	**2016**	**2015**	**2016**	**2015**
Funds flow from continuing operations	**1,821**	4,278	**4,980**	9,412
Per share – basic & diluted	**0.00**	0.01	**0.01**	0.02
Net loss - continuing operations	**(3,491)**	(3,209)	**(9,983)**	(2,143)
Per share – basic & diluted	**(0.00)**	(0.01)	**(0.02)**	(0.00)
Comprehensive loss – continuing operations	**(3,407)**	(2,725)	**(8,538)**	(4,442)

Madalena's funds flow from continuing operations for the Quarter decreased to $1.8 million from $4.3 million in Q2-2015. The decrease in funds flow from operations was principally due to lower sales volumes and realized commodity prices.

On a YTD basis, funds flow from continuing operations decreased to $5.0 million from $9.4 million YTD-2015 due to the same reasons noted above.

The net loss from continuing operations for the Quarter was $3.5 million (Q2-2015 –$3.2 million), predominately due to lower oil and natural gas revenues as a result of lower production and lower realized commodity prices together with higher finance expenses and increased taxes in the current Quarter.

The net loss from continuing operations YTD was $10 million (YTD-2015 - $2.1 million), with the increase due primarily to lower production and lower realized commodity prices.

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	**2016**	**2015**	**2016**	**2015**
Foreign currency translation gain (loss)	**96**	484	**1,513**	(2,299)

During the Quarter, the USD increased by 3.7% against the CAD, which resulted in $0.2 million gain on the translation of the Canadian parent into USD from continuing operations, net of the impact of the translation of the Canadian intercompany loans to Argentina that are not considered part of the net investment in the subsidiaries, which amounts to a $0.1 million loss for the Quarter. On a YTD basis, the Company recorded a foreign currency translation gain of $1.5 million (YTD-2015 – loss of $2.3 million). This is the net result of the impact of the USD YTD foreign exchange decrease against the CAD by 6.7% (YTD-2015 – 7.7% increase) which created a gain of $2.8 million (YTD-2015 - $2.3 million loss) on the translation of the Canadian parent into USD, offset by a $1.3 million loss (YTD-2015 – nil) on the intercompany loans from Canada to Argentina, not considered part of the net investment in subsidiaries.

Capital Expenditures

USD 000s	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
Argentina				
Land and associated renewal fees	**-**	-	**20**	-
Geological and geophysical	**70**	413	**58**	517
Drilling and completions	**181**	858	**4,057**	10,812
Well equipment and facilities	**157**	406	**857**	1,302
Other	**116**	741	**394**	1,146
Argentina total	**525**	2,418	**5,386**	13,777
Corporate				
Other	**-**	-	**-**	27
Corporate total	**-**	-	**-**	27
Consolidated	**525**	2,418	**5,386**	13,804

Argentina

Minimal capital spending occurred during the Quarter, however YTD, the Company completed both the vertical exploration well at Curamhuele (Yapai 1001) and completed and placed on-stream the horizontal well at Coiron Amargo (CAN-6).

YTD-2015 the multi-frac well at Puesto Morales (100% WI) was drilled and completed and a horizontal well was drilled and completed at CA- Norte (35% WI).

Discontinued Canadian Operations

The operating results for the discontinued Canadian operations are shown in the following table for the noted periods:

Discontinued Operations

	Three months ended June 30		Six months ended June 30	
USD 000s	2016[(1)]	2015	2016[(1)]	2015
Oil and natural gas revenue	**137**	584	**430**	1,136
Royalty (expense)/recovery	**20**	(189)	**(7)**	(251)
Operating costs (recovery)	**12**	(894)	**(395)**	(1,654)
General and administrative	**(74)**	(67)	**(127)**	(211)
Share-based payments	**(11)**	(4)	**(21)**	26
Depletion and depreciation	**(43)**	(126)	**(163)**	(332)
Accretion	**(5)**	(20)	**(23)**	(42)
Impairment	**-**	(1,952)	**-**	(1,952)
Loss from discontinued operations	**36**	(2,668)	**(306)**	(3,280)
Loss on sale of discontinued operation	**(18)**	-	**(18)**	-
Income tax on gain/loss of discontinued operation	**-**	-	**-**	-
Realized accumulated other comprehensive loss on disposition of Canadian operations	**(4,153)**	-	**(4,153)**	-
Net loss from discontinued operation	**(4,135)**	(2,668)	**(4,477)**	(3,280)

(1) The Canadian operations were sold with an effective date of May 1, 2016. Results are included up to this date.

During the Quarter, oil and natural gas revenues declined to $137 thousand from $584 thousand in Q2-2015 due to the continued shut-in of the Keyera processing plant. Royalties and operating costs decreased due to the reduced activity and the variable nature of these costs as they relate to revenue. As depletion is calculated on a unit of production basis, the reduction in sales volumes directly impacted the reduction in depletion expense.

There were no indicators of impairment on exploration and evaluation assets (“E&E”) or property, plant and equipment (“PPE”) assets for the Canadian operations from January 1, 2016 – April 30, 2016. During 2015, indicators of impairment existed and an impairment test resulted in a write off of $2 million for both Q2-2015 and on a YTD-2015 basis. The loss on sale of the discontinued operations amounted to $18 thousand, and was the result of total proceeds of $4.3 million, less net assets disposed of amounting to $4.3 million.

The realized accumulated other comprehensive loss (“OCI”) on disposal of the Canadian operations in the amount of $4.1 million for both the Quarter and YTD relates to the requirement to recycle OCI to profit and loss associated with the historical foreign exchange gains and losses on the disposed Canadian operating segment.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk and going concern

USD 000s	June 30 2016	December 31 2015
Working capital deficit		
Argentina	**(2,953)**	(415)
Canada	**(2,379)**	877
	(5,332)	462
Long-term debt	**-**	1,972
Shareholders' equity	**92,341**	100,093

Liquidity risk is the risk that Madalena will not be able to meet its financial obligations as they become due. Although the Company continues to have a relatively unleveraged balance sheet at June 30, 2016, it does have a working capital deficit of $5.3 million, and continues to face liquidity challenges.

The Company's business is capital intensive and additional capital is required on a periodic basis. This is due to the declining reserve base inherent in oil and gas producing companies, in general. As a result, the Company relies on external sources of capital to support ongoing development and acquisitions to replace production and to add additional reserves.

During the second quarter, the Company continued to pursue alternative sources of capital in the form of debt financings, asset sales or swaps of both core and non-core assets and joint ventures or other transactions with industry partners. In particular, the Company had numerous meetings and discussions with potential lenders, many of who were introduced to the Company by its largest shareholder. We continue to work with a number of interested parties and remain focused and determined to find a solution to the ongoing liquidity challenges.

Projects that could provide additional production include the installation of jet pumps at two of the existing wells at Surubi (85% WI) to aid in lifting crude oil in conjunction with the conversion of a third well to allow for on-site water disposal, low-risk conventional development opportunities in the Sierras Blancas at CA-Norte (35% WI), and the Loma Montosa tight oil play at Puesto Morales (100% WI). Estimated costs for the remediation work at Surubi are $3.5 million. Estimated costs for the Company's proportionate share to drill and complete one well at CA-Norte and Puesto Morales are $2 million and $5.5 million, respectively.

The Company's unconventional properties are located at CA-Sur Este, Curamhuele and Cortadera. The Coirón Amargo block is in the heart of the Vaca Muerta shale oil play while the Curamhuele block is on trend with numerous Vaca Muerta and Lower Agrio shale oil tests and pilot projects, suggesting the potential of both horizons on the block. The Cortadera block allows for the ability to explore multiple unconventional opportunities known to be productive in the area. The cost to drill and complete one well on any of these prospects would be in excess of $8 million.

The current working capital deficiency and capital commitments in 2016 and 2017 are expected to exceed anticipated future funds from operations and, accordingly, the Company has included a note of going concern uncertainty in the condensed interim consolidated financial statements. In the event the Company cannot access the required funding and certain work commitments are not fulfilled prior to the commitment deadlines, the Company will attempt to extend its commitments with the regulators. There is no certainty that any extensions will occur in the future and failure to obtain such extensions may result in the loss of concessions and the rights attached to them.

Credit Facilities

Argentina

In May 2015, one of the Company's Argentine subsidiaries, Madalena Energy Argentina S.R.L (Argentina) ("MEA"), obtained an ARS 90 million credit facility with Industrial and Commercial Bank of China (Argentina) S.A. ("ICBC"), the details of which are described in note 8 of the Company's consolidated financial statements for the year ended December 31, 2015 and in note 7 of the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2016. The amount outstanding at June 30, 2016 was $3.4 million and is repayable in four equal quarterly instalments of ARS 12.9 million ($0.9 million using the June 30, 2016 exchange rate) with the next payment due on August 31, 2016. The current portion of $3.4 million is included in the working capital balance noted above and there is no remaining balance included in long-term debt.

The loan bears interest at the variable rate of BADLAR plus 8%, resulting in a current borrowing rate of approximately 45%.

Security for this loan is provided by the assignment of MEA's receivables that arise from the sale of crude oil. The facility includes a quarterly financial covenant, whereby MEA's ratio of debt to earnings before income taxes, depletion, interest and other non-cash items must be equal to or less than 1:1. The earnings before income taxes, depletion, interest and other non-cash items are calculated on a four quarter rolling basis. At June 30, 2016, MEA was in compliance with this covenant at 0.24, and is expected to be for the remainder of the year.

Canada

The Company has no bank debt in Canada at June 30, 2016.

Repatriation of Funds to Canada

Madalena's corporate office is in Canada. Funds are required to enable the Company to maintain its Canadian corporate office and manage the regulatory, reporting, audit, legal and tax requirements of a TSX-V listed company. Prior to the decline in commodity prices, Canadian oil and gas revenues were sufficient to fund the corporate costs incurred. In 2015, with the majority of the Canadian production shut in, it was necessary for the Company to repatriate funds from Argentina. Effective May 1, 2016, the Canadian operations have been disposed.

During 2015, the Company repatriated $7.8 million to Canada, of which $2.7 million was repatriated during the six months ended June 30, 2015. Repatriated funds were also used to repay the Canadian bank loan in 2015.

Until December 16, 2015, there were a number of monetary and currency exchange control measures in Argentina that included restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad, including the need to register intercompany debt to a foreign creditor. On December 16, 2015, these restrictions were lifted. While no funds were repatriated during the first half of 2016, the Company anticipates funds may be required from Argentina during the last six months of 2016.

Share Capital Issued and Options Granted

Outstanding Share Capital

During the Quarter and YTD, no common shares were issued pursuant to the exercise of options. During Q2-2015, 716,666 common shares were issued pursuant to the exercise of options for cash proceeds of $0.2 million.

YTD-2015, 1,250,000 common shares were issued pursuant to the exercise of options for cash proceeds of $0.3 million.

YTD, 8,650,000 options were granted to certain employees and directors of the Company, at an exercise price of CAD $0.27 per share. No options were granted in the Quarter, Q1-2015 or Q2-2015.

As at August 23, 2016, the Company had 543.8 million shares and 35.8 million options outstanding.

Fair value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, available for sale securities, trade and other receivables, investments, deferred debenture financing, current portion of long-term debt, trade and other payables, taxes payable and long-term debt, the carrying values of which approximate their fair values due to their short-term nature with the exception of: (i) investments, which are recorded at fair value through profit and loss as it relates to the convertible debenture and the common shares; and (ii) long-term debt, which approximates fair value as a result of its variable interest rate. Available for sale securities are recorded at fair value through the statement of other comprehensive loss.

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 regulatory requirements, discount rates, and effects of inflation.

At June 30, 2016, an inflation rate of 1.0% was used and is unchanged from December 31, 2015. The risk free rate used to discount the liability at June 30, 2016 was 1.9% (December 31, 2015 – 2.7%).

Commitments and Contingencies

Development and Exploration Commitments

Coiron Amargo Block (CA-Norte 35% working interest – non-operated and CA-Sur Este 90% working interest - operated)

USD 000s	**2016**	**2017**	**Beyond**
Concession commitments at CA-Sur Este	-	5,000	5,000

Pursuant to definitive agreements entered into on July 11, 2016 andsubject to government approvals and an Executive Decree, the previous work commitments at Coiron Amargo Sur of $17.5 million that were required to be incurred by November 8, 2017 have been superseded by the following work commitments at CA-Sur Este:

- $5 million before November 8, 2017 to evaluate either the Vaca Muerta or tight gas commerciality; and
- an additional $5 million, subject to the results in (1) above, before November 8, 2019.

There are no commitments at CA-Norte.

Curamhuele Block (90% working interest - operated)

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

At March 31, 2016, the remaining work commitment relating to the existing Curamhuele block concession agreement was fulfilled by completing the Yapai.x 1001 well in the Mulichinco and Lower Agrio shales.

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

Discussions have commenced with the Province of Neuquén and Madalena expects to enter into an evaluation period to further appraise the Curamhuele block.

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

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

Madalena and its partner have submitted an application to the province of Neuquén requesting that the block pass into the second exploration period with the relinquishment of approximately 50% of the block and a commitment to shoot 3D seismic on a portion of the remainder of the block. As of August 23, 2016, Madalena has not received confirmation of approval of this application.

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

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

Santa Victoria Block (100% working interest - operated)

The contract is currently in the second of three exploration phases, with the second exploration phase having expired in April 2015. An application has been submitted and negotiations continue and are currently ongoing with the province of Salta to reach a multi-year extension agreement.

As at March 31, 2016 the second exploration phase required additional work commitments of $3.75 million of which no qualifying expenditures had been made.

QUARTERLY FINANCIAL RESULTS

Continuing Operations

USD 000s, unless otherwise noted	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Oil and natural gas revenues	**13,070**	14,811	17,902	20,816
Other income	**-**	-	-	13,857
Net income (loss)	**(3,491)**	(6,492)	(11,961)	7,938
Shares outstanding – millions	**542.1**	542.1	542.1	542.1
Net income (loss) per share – basic and diluted	**(0.00)**	(0.01)	(0.02)	0.01

USD 000s, unless otherwise noted	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Oil and natural gas revenues	24,115	18,893	21,330	24,662
Net income (loss)	(3,209)	1,066	(1,963)	(330)
Shares outstanding – millions	541.0	540.3	539.8	539.8
Net income (loss) per share – basic and diluted	(0.01)	(0.00)	(0.00)	(0.00)

The Company's decrease in oil and gas revenues during the Quarter, Q1-2016, Q4-2015 and Q3-2015 can be primarily attributed to lower sales volumes due to natural declines. Q2-2015 increases were favourably impacted by successful horizontal drilling in Argentina, the $3.00 per barrel oil incentive and increased production in Argentina resulting from the Acquisition.

The Company recorded $13.9 million of other income as settlement of past Petroleo Plus incentive credits in Q3-2015.

The Company recorded pre-tax impairment charges of $8.4 million in Argentina in Q4-2015. The Company incurred $1.6 million and $0.1 million in Q2-2014 and Q3-2014, respectively for business combination costs relating to the acquisition of the outstanding shares of the Argentine business unit of Gran Tierra Energy Inc. on June 25, 2014 (the "Acquisition"), as disclosed in the December 31, 2015 consolidated financial statements.

The Company issued 14.7 million shares for gross proceeds of $7.0 million during Q3-2014, 98.1 million shares for gross proceeds of $46.7 million during Q2-2014, 29.8 million shares as partial consideration for the Acquisition totalling $14 million during Q2-2014.

CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES

For more details regarding the Company's critical accounting judgments, estimates and accounting policies the following should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015.

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, 2015.

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, 2015. 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, 2015.

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, 2015.

Accounting Changes

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

Future Accounting Pronouncements

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

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

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

In January 2016, IASB issued IFRS 16 "Leases". The goal of the standard is to bring leases on the balance sheet for lessees. There will be a single lease accounting model for all leases. As of January 1, 2019, Madalena will be required to adopt this standard.

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

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, 2015.

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, 2015. 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, 2015.

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, 2015.

ADVISORY

Forward Looking Statements

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

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

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

Reserves and Other Oil and Gas Disclosure

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

Analogous Information

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

Numerical Amounts

The reporting and the measurement currency is the 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		**Natural Gas**	
bbl	barrel	Mcf	thousand cubic feet
bbls/d	barrels per day	WI	Working interest
NGLs	Natural gas liquids		
boe	barrel of oil equivalent		
boe/d	barrel of oil equivalent per day		