A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the 1933 Act (as defined herein) or any state securities laws. Accordingly, these securities may not be offered or sold within the United States (as such term is defined in Regulation S under the 1933 Act)) except in accordance with the Underwriting Agreement (as defined herein) and pursuant to exemptions from the registration requirements of the 1933 Act and applicable state securities laws. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

This short form prospectus does not contain an offer or constitute any part of an offer to the public in the United Kingdom within the meaning of sections 85 and 102B of the United Kingdom Financial Services and Markets Act 2000 ("FSMA"), or otherwise, is not an approved prospectus for the purposes of section 85 of FSMA, and has not been (nor will be) delivered to the Financial Conduct Authority or delivered to or approved by any other authority which could be a competent authority for the purposes of Directive 2003/71/EC (as amended). This short form prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of section 86(7) of FSMA acting as principal or in circumstances to which section 86(2) of FSMA applies and that are also (a) investment professionals falling within Article 19 of the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") or (b) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49 of the Order (each such person being referred to as a "relevant person"). This short form prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this short form prospectus or any of its contents.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Madalena Energy Inc. at Suite 200, 707 – 7 Avenue SW, Calgary, Alberta T2P 3H6, telephone (403) 262-1901, and are also available electronically at www.sedar.com. See "Documents Incorporated by Reference".*

New Issue **June 4, 2014**

PRELIMINARY SHORT FORM PROSPECTUS



$50,031,000
98,100,000 Subscription Receipts
each representing the right to receive one Common Share

$0.51 per Subscription Receipt

Madalena Energy Inc. ("**Madalena**" or the "**Corporation**") is hereby qualifying the distribution (the "**Offering**") of 98,100,000 subscription receipts (generally, the "**Subscription Receipts**" with such specific Subscription Receipts being the "**Firm Receipts**") at an issue price of $0.51 per Firm Receipt (the "**Offering Price**"). Each Firm Receipt will entitle the holder thereof to receive, without payment of additional consideration or further action and subject to the terms and conditions of the Subscription Receipt Agreement (as defined herein), one common share ("**Common Share**") of the Corporation, upon delivery of the Release Notice (as defined herein) executed by the Corporation and Dundee Securities Ltd. (the "**Lead Underwriter**"), on behalf of the Underwriters (as defined herein), to the Escrow Agent (as defined herein), on or before 5:00 p.m. (Calgary time) on July 31, 2014, confirming that all conditions under the Share Purchase Agreements (as defined herein) for the closing of the acquisition (as more specifically defined herein, the "**Acquisition**") by the Corporation of the Argentina Business Unit of Gran Tierra Energy Inc. (the "**Vendor**"), which consists of certain indirect subsidiaries and Argentine branches of the Vendor that hold petroleum and natural gas interests located in Argentina (described in more detail under "*Recent Developments – Acquisition*") have been satisfied or waived (any such

waiver being consented to by the Lead Underwriter in writing, acting reasonably), other than the payment of the Purchase Price (as defined herein) (as more specifically defined herein, the "**Release Condition**"). The gross proceeds from the sale of the Subscription Receipts (the "**Escrowed Funds**") will be held by Alliance Trust Company, as escrow agent (the "**Escrow Agent**"), and invested in short term obligations of, or guaranteed by, the Government of Canada (or other approved investments) pending the satisfaction of the Release Condition. If, on or before the Termination Time (as defined herein), the Release Condition has been satisfied, the Escrowed Funds and the interest earned thereon will be released to the Corporation and each holder of Subscription Receipts will receive one Common Share for each Subscription Receipt held, without payment of additional consideration or further action. The Corporation will utilize the net proceeds of the Offering to partially pay the cash portion of the Purchase Price under the Acquisition, which is described in more detail in "*Use of Proceeds*".

If: (i) the Release Notice is not delivered on or before the Termination Time; (ii) the Acquisition is terminated in accordance with the terms of the Share Purchase Agreements at any earlier time; or (iii) the Corporation has advised the Underwriters or disclosed to the public that it does not intend to proceed with the Acquisition, then holders of Subscription Receipts shall be entitled to receive an amount per Subscription Receipt equal to the Offering Price and a pro rata share of interest earned thereon. The Escrowed Funds will be applied towards payment of such amount.

Completion of the Offering is subject to a number of conditions, including the approval of the TSX Venture Exchange ("**TSXV**").

The issued and outstanding Common Shares of the Corporation are listed on the TSXV under the symbol "MVN". The Corporation has made an application to the TSXV with respect to the listing of the Subscription Receipts distributed under this short form prospectus and the Underlying Shares. Listing of such securities will be subject to the Corporation fulfilling all of the requirements of the TSXV. On May 28, 2014, which was the last completed trading day that Common Shares traded on the TSXV prior to the public announcement of this Offering and also the last trading day prior to the date of this short form prospectus, the closing price of the Common Shares on the TSXV was $0.63.

The Offering Price was determined by negotiation between the Corporation and the Lead Underwriter, on its own behalf and on behalf of RBC Dominion Securities Inc., Haywood Securities Inc., Beacon Securities Limited, National Bank Financial Inc., FirstEnergy Capital Corp., Mackie Research Capital Corporation, TD Securities Inc., Canaccord Genuity Corp., Jennings Capital Inc. and Raymond James Ltd. (collectively, with the Lead Underwriter, the "**Underwriters**"). See "*Plan of Distribution*".

	Price to the Public	**Underwriters' Fee** [(1)]	**Net Proceeds to the Corporation** [(2)]
Per Firm Receipt	$0.51	$0.0306	$0.4794
Total	$50,031,000	$3,001,860	$47,029,140

Notes:

(1) The fee payable to the Underwriters (the "**Underwriters' Fee**") with respect to the Subscription Receipts is payable as to 50% upon the closing of the Offering and 50% on the release of the Escrowed Funds to the Corporation. If the Acquisition is not completed, the Underwriters' Fee with respect to the Subscription Receipts will be reduced to the amount payable upon closing of the Offering.

(2) Excluding interest accrued on the Escrowed Funds accruing to the Corporation, if any, and before deducting expenses of the Offering estimated at $500,000, which, will be paid from the general funds of the Corporation. See "*Plan of Distribution*".

(3) The Corporation has also granted to the Underwriters an option (the "**Over-allotment Option**") to purchase up to an additional 14,715,000 Subscription Receipts (the "**Option Receipts**", together with the Firm Receipts, the "**Offered Receipts**") at the Offering Price and on the same terms and conditions as the Offering, exercisable from time to time and in whole or in part, at the sole discretion of the Underwriters, not later than 30 days after the closing of the Offering to cover over-allotments, if any, and for market stabilization purposes. If the Over-allotment Option is exercised in full, the total price to the public, Underwriters' Fee and net proceeds to the Corporation (before deducting expenses of the Offering) will be $57,535,650, $3,452,139 and $54,083,511, respectively. This short form prospectus also qualifies for distribution the grant of the Over-allotment Option and the issuance of the Option Receipts pursuant to the exercise of the Over-allotment Option. See "*Plan of Distribution*". A purchaser who acquires Offered Receipts forming part of the Underwriters' over-allocation position acquires such Offered Receipts pursuant to this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-allotment Option or secondary market purchases. Unless otherwise specified, all references herein to "Offered Receipts" shall be read, as the context requires, to include the Option Receipts.

Underwriters' Position	Maximum size or number of securities held	Exercise period	Exercise price
Over-allotment Option	14,715,000 Option Receipts	Exercisable not later than 30 days after closing of the Offering	$0.51 per Option Receipt

The Underwriters, as principals, conditionally offer the Offered Receipts, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "*Plan of Distribution*" and subject to approval of certain legal matters relating to the Offering on behalf of the Corporation by Burnet, Duckworth & Palmer LLP, and on behalf of the Underwriters by McCarthy Tétrault LLP.

The Lead Underwriter has also been engaged to act as a financial advisor to the Corporation with respect to the Acquisition. National Bank Financial Inc., one of the Underwriters, is a direct or indirect subsidiary of a Canadian chartered bank which is a lender to the Corporation, and with which the Corporation has a credit facility. In addition, RBC Dominion Securities Inc., one of the Underwriters, has been engaged to act as Madalena's exclusive advisor to solicit interest in a joint venture or other transaction related to Madalena's Neuquén basin assets and has also been engaged to act as a strategic advisor to the Corporation with respect to the Acquisition. Consequently, the Corporation may be considered to be a connected issuer of each of such Underwriters for the purposes of Canadian securities laws. See "*Relationship Between the Corporation and Certain Underwriters*".

Although an application has been made to list the Subscription Receipts on the TSXV, there is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell Subscription Receipts purchased under this short form prospectus. This may affect the pricing of the Subscription Receipts in the secondary market, the transparency and availability of trading prices and the liquidity of the Subscription Receipts, and the extent of issuer regulation. See "*Risk Factors*".

Subscriptions for Offered Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing of the Offering will occur on or about June 24, 2014 or such other date as the Corporation and the Underwriters may agree, but in any event not later than the date that is 42 days after the date of the receipt for the final short form prospectus. Except in certain limited circumstances, including with respect to Offered Receipts sold pursuant to Regulation D under the United States Securities Act of 1933, as amended (the "**1933 Act**"), which will be represented by individual, definitive certificates, the Offered Receipts will be represented by a global certificate issued in registered form to the Canadian Depository for Securities Limited ("**CDS**") or its nominee, or will be directly deposited with CDS. Except as described above, a purchaser of Offered Receipts will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Offered Receipt is purchased.

Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those that might otherwise prevail on the open market in accordance with applicable stabilization rules. Such transactions, if commenced, may be discontinued at any time. See "*Plan of Distribution*".

The Underwriters propose to offer the Offered Receipts initially at the Offering Price specified above. After a reasonable effort has been made to sell all of the Offered Receipts at the price specified, the Underwriters may subsequently reduce the Offering Price to investors from time to time in order to sell any Offered Receipts remaining unsold. Any such reduction shall not affect the proceeds received by the Corporation. See "*Plan of Distribution*".

Ryder Scott Company, L.P., one of the Corporation's independent reserves evaluators, is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction. Ryder Scott Company, L.P. has appointed the following agent for service of process.

Name of Person or Company	Name and Address of Agent
Ryder Scott Company, L.P.	Ryder Scott Canada Suite 600, 1015 – 4th St. S.W. Calgary, Alberta, Canada T2R 1J4

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

An investment in the Offered Receipts is speculative and involves a high degree of risk. The risk factors identified under the headings "*Risk Factors*" and "*Special Note Regarding Forward-Looking Statements*" in this short form prospectus as well as the other factors considered under "*Risk Factors*" in the AIF (as defined herein), which is incorporated by reference herein, and other filings by Madalena with Canadian securities authorities should be carefully reviewed and evaluated by prospective subscribers before purchasing any Offered Receipts. An investment in the Offered Receipts is suitable for only those investors who are willing to risk a loss of their entire investment.

The Offered Receipts may be sold only in those jurisdictions where offers and sales are permitted. This short form prospectus is not an offer to sell or a solicitation of an offer to buy the Offered Receipts in any jurisdiction where it is unlawful.

Unless otherwise indicated, all information in this short form prospectus assumes that none of the outstanding employee stock options of the Corporation or other securities convertible into or exchangeable for Common Shares are exercised.

All dollar amounts set forth in this short form prospectus are in Canadian dollars, except where otherwise indicated.

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GLOSSARY OF TERMS

In this short form prospectus, the following terms shall have the meanings set forth below, unless otherwise indicated:

"**ABCA**" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**Acquisition**" means the acquisition by the Corporation of the Argentina Business Unit pursuant to the Share Purchase Agreements, which shall be deemed to exclude any ROFR Properties for which rights of first refusal are exercised;

"**Acquisition Proposal**" has the meaning ascribed thereto in the Share Purchase Agreements;

"**Acquired Assets**" means the Argentina Business Unit's participating interests in certain oil, petroleum and natural gas properties and related assets located in Argentina held under certain joint venture agreements, UTE agreements (*Acuerdosde Uniones Transitorias de Empresas*), exploration permits and exploitation concessions that the Corporation will indirectly acquire upon completion of the Acquisition pursuant to the Share Purchase Agreements, as more particularly described under "*Recent Developments – Acquisition*" and "*Information Concerning the Argentina Business Unit*";

"**AIF**" means the annual information form of the Corporation for the year ended December 31, 2013 dated April 28, 2014;

"**Argentina Business Unit**" means the Argentina Business Unit of the Vendor, which is comprised of five (5) indirect subsidiaries of the Vendor and two (2) Argentina branches of two (2) of those subsidiaries, which collectively hold the Acquired Assets;

"**Board**" or "**Board of Directors**" means the board of directors of the Corporation as it may be comprised from time to time;

"**Business Day**" means a day, other than a Saturday or Sunday, or a statutory holiday, on which major Canadian chartered banks are open for business in Calgary, Alberta;

"**Closing Date**" means the date of closing of the Offering which is expected to be June 24, 2014, or such other date not later than June 30, 2014 as the Corporation and the Underwriters may agree;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook;

"**Counsel**" has the meaning ascribed thereto under "*Certain Canadian Federal Income Tax Considerations*";

"**Credit Facility**" has the meaning ascribed thereto in note (3) to the table under "*Consolidated Capitalization of the Corporation*";

"**CSA 51-324**" means the Staff Notice 51-324 - *Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators;

"**Deadline**" has the meaning ascribed thereto under "*Details of the Offering*";

"**Deposit**" means the US$12.6 million deposit paid by the Corporation to the Vendor's counsel, which is being held pursuant to the Escrow Agreement in connection with the Acquisition;

"**Escrow Agreement**" means the escrow agreement among the Vendor, the Corporation and the Vendor's counsel pursuant to which the Deposit and any interest that accrues thereon is held;

"**GLJ**" means GLJ Petroleum Consultants Ltd., the independent reserves evaluators of the Vendor;

"**gross**" means: (i) in relation to the Corporation's or the Vendor's, as applicable, interest in production or reserves, its "company gross reserves", which are its working interest (operating or non-operating) share before deduction of royalties and without including any of its royalty interests; (ii) in relation to wells, the total number of wells in which the Corporation or the Vendor has an interest; and (iii) in relation to properties, the total area of properties in which the Corporation or the Vendor has an interest;

"**IFRS**" means International Financial Reporting Standards;

"**net**" means: (i) in relation to the Corporation's or the Vendor's interest in production or reserves, the Corporation's or the Vendor's working interest (operating or non-operating) share after deduction of royalty obligations, plus the Corporation's or the Vendor's royalty interests in production or reserves; (ii) in relation to the Corporation's or the Vendor's interest in wells, the number of wells obtained by aggregating the Corporation's or the Vendor's, as applicable, working interest in each of its gross wells; and (iii) in relation to the Corporation's or the Vendor's interest in a property, the total area in which the Corporation or the Vendor has an interest multiplied by the working interest owned by the Corporation or the Vendor, as applicable;

"**NI 41-101**" means National Instrument 41-101 – *General Prospectus Requirements*;

"**NI 44-101**" means National Instrument 44-101 – *Short Form Prospectus Distributions*;

"**NI 51-101**" means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*;

"**NI 51-102**" means National Instrument 51-102 – *Continuous Disclosure Obligations*;

"**Non-Resident Holder**" has the meaning ascribed thereto under "*Certain Canadian Federal Income Tax Considerations*";

"**Parent Guarantee**" means the guarantee provided by the Vendor for the obligations of the Vendor Signatories under the Share Purchase Agreements, which was executed and delivered concurrently with the Share Purchase Agreements;

"**Participant**" means a participant in the depository service of CDS;

"**Purchase Price**" means the purchase price of the Argentina Business Unit of approximately US$63 million plus US$6.18 million in working capital adjustments, comprised of US$49 million of cash plus the working capital amount of US$6.18 million and 29,831,537 Common Shares at a deemed issue price of $0.51 per Common Share;

"**Purchasers Termination Fee**" means an amount equal to five percent (5%) of the Purchase Price payable by the Vendor in immediately available funds to an account designated by the Corporation within three (3) Business Days after such termination, as liquidated damages and not as a penalty;

"**Release Condition**" has the meaning ascribed thereto under "*Details of the Offering*";

"**Release Notice**" has the meaning ascribed thereto under "*Details of the Offering*";

"**Resident Holder**" has the meaning ascribed thereto under "*Certain Canadian Federal Income Tax Considerations*";

"**ROFR**" means those rights of first refusal and/or consent requirements that are triggered by the Acquisition, which are described in more detail under "*Recent Developments - Acquisition*";

"**ROFR Properties**" means those oil and natural gas properties and related assets held by the Argentina Business Unit that are subject to ROFRs, which are described in more detail under "*Recent Developments - Acquisition*";

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval;

"**Share Purchase Agreements**" means, together, the two (2) purchase and sale offers, made and accepted on May 29, 2014 among the Vendor Signatories and the Corporation, providing for, among other things, the Acquisition;

"**Shareholders**" means the holders, from time to time, of Common Shares;

"**Subscription Receipt Agreement**" means the agreement to be dated the date of closing of the Offering between the Corporation, the Lead Underwriter and the Escrow Agent governing the terms of the Subscription Receipts;

"**Subscription Receipt Beneficial Owner**" means a purchaser acquiring a beneficial interest in the Subscription Receipts;

"**Subscription Receipt Certificates**" means certificates representing Subscription Receipts;

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1 (5th Supp.), as amended, including the regulations promulgated thereunder, as amended from time to time;

"**Termination Time**" has the meaning ascribed thereto under "*Details of the Offering*";

"**Underlying Shares**" means the Common Shares issuable pursuant to the Subscription Receipts;

"**Underwriting Agreement**" means the agreement dated effective May 29, 2014 among the Corporation and the Underwriters in respect of the Offering;

"**United States**" or "**U.S.**" means the United States of America, its territories and possessions, any State of the United States and the District of Columbia;

"**Vendor**" means Gran Tierra Energy Inc., being the direct or indirect holder of 100% of the issued and outstanding shares of the entities comprising the Argentina Business Unit and, where the context requires, includes the Vendor Signatories;

"**Vendor Report**" means the report prepared by GLJ for the Vendor evaluating the crude oil, natural gas and NGL reserves attributable to the Vendor's consolidated assets, including the Acquired Assets, as of December 31, 2013 and dated February 20, 2014; and

"**Vendor Signatories**" means the Vendor and the direct and indirect wholly-owned subsidiaries of the Vendor that are party to the Share Purchase Agreements.

Certain other terms used herein but not defined herein are defined in CSA 51-324 and, unless the context otherwise requires, shall have the same meanings herein as in CSA 51-324.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

All dollar amounts set forth in this short form prospectus are in Canadian dollars, except where otherwise indicated.

ABBREVIATIONS

Oil and Natural Gas Liquids

Bbl	Barrel
Bbls	Barrels
Bbls/d	barrels per day
Mbbls	thousand barrels
NGLs	natural gas liquids

Natural Gas

Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MMbtu	million British Thermal Units

Other

AECO	the natural gas storage facility located at Suffield, Alberta, connected to TransCanada's Alberta System
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale
BOE or Boe	barrel or barrels of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one barrel of oil
Boe/d	barrels of oil equivalent per day
m^3	cubic metres
McfGE	thousand cubic feet of gas equivalent, using the conversion factor of one barrel of oil being equivalent to six thousand cubic feet of natural gas
MBoe	thousand barrels of oil equivalent
MMBoe	million barrels of oil equivalent
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for the crude oil standard grade
$000s	thousands of dollars
$MM	millions of dollars
km	kilometres
km^2	square kilometres

CONVERSIONS

General

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
Bbls	cubic metres	0.159
cubic metres	Bbls	6.289
Feet	Metres	0.305
Metres	Feet	3.281
Miles	kilometres	1.609
Kilometres	Miles	0.621
Acres	hectares	0.405
Hectares	Acres	2.471
Gigajoules	MMbtu	0.950
MMbtu	gigajoules	1.0551

Barrel of Oil Equivalency

The Corporation has adopted the standard of 6 Mcf:1 Bbl when converting natural gas to barrels of oil equivalent. Boes may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 Mcf: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. Given that the value ratio based on the current price of crude oil as compared to natural

gas is significantly different from the energy equivalency of 6 Mcf:1 Bbl, utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this short form prospectus constitute forward-looking statements. All statements contained herein that are not clearly historical in nature are forward-looking, and the words "anticipate", "attempt", "believe", "expect", "estimate", "ensure", "plans", "focus", "strategy", "strive" and similar expressions are generally intended to identify forward-looking statements. Such statements represent the Corporation's internal projections, estimates, expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Although the Corporation believes that the expectations reflected in the forward-looking statements are reasonable, no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Many factors could cause the Corporation's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Corporation. Prospective investors should carefully consider the information contained under the heading "*Risk Factors*" in this short form prospectus and all other information included in or incorporated by reference in this short form prospectus before making investment decisions with regard to the Offered Receipts and Underlying Shares.

Forward-looking statements included or incorporated by reference in this short form prospectus include, but are not limited to, statements with respect to:

- the use of proceeds from the Offering;
- the estimated Purchase Price;
- completion of the Offering and the Acquisition;
- the impact of the Acquisition on the Corporation's operations, infrastructure, inventory and opportunities, financial condition, access to capital and overall strategy;
- development and drilling plans for the Acquired Assets and transportation and infrastructure availability for the Acquired Assets;
- the integration of the Acquired Assets into the Corporation's operations;
- the performance characteristics of the Corporation's oil and natural gas properties and for the Acquired Assets;
- anticipated finding and development costs, on-stream costs and operating costs for the Corporation and those associated with the Acquired Assets;
- the quantity of the Corporation's existing oil and natural gas reserves and resources and the reserves associated with the Acquired Assets;
- the Corporation's estimated reserve life index and the reserve life index associated with the Acquired Assets;
- the Corporation's oil and natural gas production levels and production levels associated with the Acquired Assets;
- land expiries;
- abandonment and reclamation obligations and costs;
- the Corporation's capital expenditure and investment program and the timing, allocation and results therefrom;
- geologic and geographic expansion plans and the results therefrom;
- drilling, completion and tie-in plans, locations and inventory;
- the Corporation's expectations with respect to the ROFRs;
- anticipated cash flow from the Acquired Assets;
- the Corporation's capital program, production and working capital position pro forma the Acquisition;
- the impact of changes in oil and natural gas prices on cash flow;
- expectations regarding the ability to raise capital and to add to reserves;

- anticipated exploration and development programs and operational results;
- oil and natural gas production levels and sources of their growth;
- the existence, operation and strategy of the Corporation's commodity price risk management program;
- the Corporation's business and acquisition strategy and the benefits to be derived therefrom;
- the Corporation's goal to deliver production and reserve growth from its internal exploration and development program inventory;
- the joint venture process in Argentina;
- the emergence of accretive growth opportunities;
- future development and growth prospects;
- the source of funding for the Corporation's activities;
- determination of future quantities of oil and natural gas reserves and the future net revenues therefrom;
- ability to meet current and future obligations;
- treatment under governmental regulatory regimes, including royalty and tax laws;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- receipt of governmental approvals;
- potential dispositions and acquisitions;
- dividend policy and the timing and payment of dividends; and
- realization of the anticipated benefits of acquisitions (including the Acquisition) and dispositions.

Forward-looking statements are based on the Corporation's current beliefs as well as assumptions made by, and information currently available to, the Corporation concerning, among other things:

- the completion of the Acquisition and the Offering are based on a variety of assumptions relating to, among other things, the timely receipt of required regulatory approvals and the satisfaction of other closing conditions in all material respects in accordance with the terms of the definitive agreements underlying such transactions;
- anticipated geological, reserves, operational and financial performance of the Corporation, its assets and the Acquired Assets, the Corporation's plans, goals, strategies and prospects and the results therefrom and the intended use of proceeds of the Offering are based on a variety of assumptions regarding, among other things, exchange and interest rates, commodity prices, the impact of increasing competition, conditions in general economic and financial markets, availability of drilling and related equipment, availability of skilled labour, current technology, anticipated cash flow, anticipated production rates, anticipated reserves, the timing and amount of capital expenditures and the results therefrom, marketability of oil and natural gas, royalty rates, effects of regulation by governmental agencies, costs of borrowing, transportation and infrastructure availability and development, on-stream, operating and other costs;
- the operation and strategy of the Corporation's commodity price risk management program is based on a variety of assumptions including expectations regarding commodity prices, foreign exchange rates, production levels and conditions in general economic and financial markets;
- the source of funding for the Corporation's activities is based on a variety of assumptions regarding the Corporation's operational and financial performance, capital expenditure requirements and conditions in general economic and financial markets; and
- the amount of future cash dividends, if any, is based on a variety of assumptions, including expectations regarding commodity prices, realized prices, operating expenses production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens hedging tax pool utilization realized cash taxes and foreign exchange rates.

Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this short form prospectus and in certain documents incorporated by reference herein include, but are not limited to:

- failure to complete the Acquisition, in all material respects, in accordance with the Share Purchase Agreements;

- failure to receive all required regulatory approvals for the Acquisition or the Offering;
- the exercise of the ROFRs with respect to some or all of the ROFR Properties;
- general economic conditions in Canada, Argentina and globally;
- fluctuations in the price of oil and natural gas, interest and exchange rates;
- operational risks in exploring for, developing and producing crude oil and natural gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- actions taken by governmental authorities, including increases in taxes and changes in government regulations and incentive programs;
- liabilities inherent in oil and natural gas operations;
- geological, technical, drilling and processing problems;
- geology of oil and gas deposits;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- availability of sufficient financial resources to fund the Corporation's capital expenditures or any expected dividend payments;
- unforeseen difficulties in integrating the Acquired Assets into the Corporation's operations;
- uncertainty of finding reserves, developing and marketing those reserves;
- unanticipated operating events which could reduce production or cause production to be shut in or delayed;
- incorrect assessments of the value of acquisitions;
- ability to locate satisfactory properties for acquisition or participation;
- shut-ins of connected wells resulting from extreme weather conditions;
- insufficient storage or transportation capacity;
- hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury;
- encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations;
- uncertainties inherent in estimating quantities of oil and natural gas reserves and cash flows to be derived therefrom;
- failure to obtain industry partner and other third party consents and approvals, as and when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
- the availability of capital on acceptable terms;
- fluctuations in the costs of borrowing;
- the use of derivative financial instruments;
- political or economic developments;
- ability to obtain regulatory approvals;
- the occurrence of unexpected events;
- the results of litigation or regulatory proceedings that may be brought against the Corporation; and
- the other factors considered under "*Risk Factors*" herein and in the AIF.

In addition, please note that 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 resources and reserves described can be profitably produced in the future.

Management has included the above summary of assumptions and risks related to forward-looking statements provided in this short form prospectus and the documents incorporated by reference herein in order to provide potential purchasers of the Subscription Receipts with a more complete perspective on the Corporation's future operations. Readers are cautioned that this information may not be appropriate for other purposes.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statement disclosure contained in this short form prospectus, and the documents incorporated by reference herein, are expressly qualified by this cautionary statement.

These forward-looking statements are made as of the date of this short form prospectus, or in the case of documents incorporated by reference herein, as of the dates of such documents, and the Corporation disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

OIL AND GAS INFORMATION

Information Regarding Disclosure on Reserves

The reserve estimates contained herein are estimates only and there is no guarantee that the estimated reserves will be recovered. In relation to the disclosure of estimates for individual properties, companies or business units, as adjusted, such estimates may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

Meaning of Boe

The term "Boe" or barrels of oil equivalent may be misleading, particularly if used in isolation. See "*Conversions – Barrel of Oil Equivalency*".

Finding and Development Costs

NI 51-101 specifies how finding and development costs ("**F&D costs**") should be calculated if they are reported. Essentially NI 51-101 requires that the exploration and development costs incurred in the year along with the change in estimated F&D costs be aggregated and then divided by the applicable reserve additions. The calculation specifically excludes the effects of acquisitions and dispositions on both reserves and costs. Since acquisitions can have a significant impact on annual reserve replacement costs, excluding these amounts could result in an inaccurate portrayal of Madalena's cost structure. F&D costs disclosed herein are based on working interest gross reserves. The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total F&D costs related to reserve additions for that year.

Definitions

Certain terms used in this short form prospectus in describing reserves and other oil and natural gas information are defined below. Certain other terms and abbreviations used in this short form prospectus, but not defined or described, are defined in NI 51-101 or the COGE Handbook and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101 or the COGE Handbook.

Reserves

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: (a) analysis of drilling, geological, geophysical and engineering data; (b) the use of established technology; and (c) specified economic conditions, which are generally accepted as being reasonable and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates as follows:

"**proved reserves**" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

"**probable reserves**" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

The qualitative certainty levels referred to in the definitions above are applicable to "individual reserves entities" (which refers to the lowest level at which reserves calculations are performed) and to "reported reserves" (which refers to the highest-level sum of individual entity estimates for which reserves estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

Each of the reserves categories (proved and probable) may be divided into developed and undeveloped categories as follows:

"**developed reserves**" are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing as follows:

"**developed producing reserves**" are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"**developed non-producing reserves**" are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

"**undeveloped reserves**" are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to sub-divide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Interests in Reserves, Production, Wells and Properties

"**gross**" means: (a) in relation to an issuer's interest in production or reserves, its "company gross reserves", which are its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the issuer; (b) in relation to wells, the total number of wells in which an issuer has an interest; and (c) in relation to properties, the total area of properties in which an issuer has an interest.

"**net**" means: (a) in relation to an issuer's interest in production or reserves its working interest (operating or non-operating) share after deduction of royalty obligations, plus its royalty interests in production or reserves; (b) in relation to an issuer's interest in wells, the number of wells obtained by aggregating the issuer's working interest in each of its gross wells; and (c) in relation to an issuer's interest in a property, the total area in which the issuer has an interest multiplied by the working interest owned by the issuer.

"**working interest**" means the percentage of undivided interest held by an issuer in the oil and/or natural gas or mineral lease granted by the mineral owner, Crown or freehold, which interest gives the issuer the right to "work" the property (lease) to explore for, develop, produce and market the leased substances.

Description of Exploration and Development Wells and Costs

"**development costs**" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the crude oil and natural gas from the reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to: (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves; (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly; (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and (d) provide improved recovery systems.

"**development well**" means a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

"**exploration costs**" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and natural gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as "prospecting costs") and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are: (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies (collectively sometimes referred to as "geological and geophysical costs"); (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records; (c) dry hole contributions and bottom hole contributions; (d) costs of drilling and equipping exploratory wells; and (e) costs of drilling exploratory type stratigraphic test wells.

"**exploration well**" means a well that is not a development well, a service well or a stratigraphic test well.

"**service well**" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.

NON-IFRS MEASURES

Certain measures in this short form prospectus, which includes the documents incorporated by reference herein, do not have any standardized meaning as prescribed by IFRS and therefore are considered non-IFRS measures. These measures have been presented in the documents incorporated by reference into this short form prospectus in order to provide shareholders and potential investors with additional information regarding Madalena and may not be comparable to similar measures used by other companies. Please refer to the non-IFRS measures advisories in such documents for the definitions and descriptions of such terms.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice President, Finance and Chief Financial Officer of Madalena, at Suite 200, 707 – 7 Avenue SW, Calgary, Alberta T2P 3H6, Telephone (403) 262-1901. In addition, copies of the documents incorporated herein by reference may be obtained from the securities commissions or similar authorities in Canada through the System for Electronic Document Analysis and Retrieval ("**SEDAR**") website at www.sedar.com.

The following documents of Madalena, filed with the various securities commissions or similar authorities in each of the provinces of Canada where Madalena is a reporting issuer, are specifically incorporated by reference into and form an integral part of this short form prospectus:

(a) the AIF;

(b) the consolidated audited financial statements of Madalena as at December 31, 2013 and December 31, 2012 and for the years ended December 31, 2013 and 2012, together with the notes thereto and the auditor's report thereon, filed on SEDAR on April 29, 2014;

(c) the unaudited condensed consolidated interim financial statements of the Corporation as at March 31, 2014 and for the three months ended March 31, 2014 and 2013, together with the notes thereto;

(d) management's discussion and analysis of the financial condition and results of operations of Madalena for the year ended December 31, 2013, filed on SEDAR on April 29, 2014;

(e) management's discussion and analysis of the financial condition and results of operations of Madalena for the three months ended March 31, 2014, filed on SEDAR March 29, 2014;

(f) the material change report of Madalena in connection with a bought deal short form prospectus offering, filed on SEDAR on January 24, 2014;

(g) the material change report of Madalena in connection with the Offering and the Acquisition, filed on SEDAR on June 4, 2014;

(h) the information circular – proxy statement of Madalena dated June 25, 2013 for the annual and special meeting of shareholders held on July 30, 2013;

(i) the term sheet for the Offering filed on SEDAR on May 29, 2014;

(j) the presentation for the Offering filed on SEDAR on May 29, 2014;

(k) the term sheet for the Offering filed on SEDAR on June 4, 2014; and

(l) the presentation for the Offering filed on SEDAR on June 4, 2014

Any documents of the type referred to above and required by NI 44-101 to be incorporated by reference into a short form prospectus, including any material change reports (excluding confidential reports), comparative interim financial statements and comparative annual financial statements (together with the auditors' report thereon), management's discussion and analysis, business acquisition reports, annual information forms, and information circulars filed by Madalena, as the case may be, with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this short form prospectus and prior to the termination of the Offering shall be deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

MARKETING MATERIALS

Any "template version" of any "marketing materials" (as such terms are defined in NI 41-101) that are utilized by the Underwriters in connection with the Offering are not part of this short form prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this short form prospectus. Any template version of any marketing materials that has been, or will be, filed on SEDAR before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated into this short form prospectus.

SUMMARY DESCRIPTION OF THE BUSINESS OF MADALENA ENERGY INC.

Madalena is an independent, Canadian-based, international and domestic upstream oil and gas company whose main business activities include exploration, development and production of crude oil, natural gas liquids and natural gas. Internationally, Madalena holds three blocks within the Neuquén basin in Argentina comprised of approximately 132,200 net acres on the Coiron Amargo (approximately 34,951 net acres), Curamhuele (approximately 50,595 net acres) and Cortadera (approximately 46,657 net acres) blocks. Domestically, Madalena's core area of operations is located in the Greater Paddle River area of west-central Alberta, where the Corporation holds approximately 195 gross (153 net) sections of land (78% average working interest).

Madalena's principal office is located at Suite 200, 707 – 7 Avenue SW, Calgary, Alberta T2P 3H6 and its registered office is located at 2400, 525 - 8 Avenue SW, Calgary, Alberta T2P 1G1.

Madalena is a reporting issuer in each of the provinces of Canada (except Québec) and the Common Shares trade on the TSXV under the symbol "MVN".

See also "*General Development of the Business*" and the "*Description of the Business and Operations*" in the AIF.

RECENT DEVELOPMENTS

Argentina Peso

On January 27, 2014, the Corporation announced that it does not anticipate the Argentina government's recently announced easing on currency restrictions to have a significant impact on Madalena's operations and overall business plan in Argentina. While the Corporation operates in both Canada and Argentina, virtually all of its cash resources are maintained in Canada. Funding of the capital expenditure program in Argentina is provided on an as needed basis from Canada. In addition, Madalena receives US$ pricing for the sale of its oil and gas production in Argentina.

Acquisition

On May 29, 2014, the Corporation announced that it had entered into the Share Purchase Agreements to acquire the Argentina Business Unit.

Overview

The Board and management of Madalena regularly consider and investigate opportunities to enhance value for shareholders. Those opportunities have included the possibility of strategic transactions with various industry participants. Management and the Board review and consider such proposals as they arise to determine whether pursuing them would be in the best interests of the Corporation.

When the opportunity arose with respect to the Acquisition, Madalena, itself and through its technical and professional advisors, undertook an in depth due diligence investigation into the Argentina Business Unit and the Acquired Assets. As the value proposition to the Corporation began to become more clear, Madalena engaged financial advisors to assist with its evaluation of the opportunity.

Following receipt of the advice and assistance of its financial advisors and legal counsel, the Board of Directors carefully evaluated the terms of the proposed Acquisition and based upon, among other things, the advice of its financial and strategic advisors, unanimously approved the Acquisition and the entering into of the Share Purchase Agreements and all transactions contemplated thereby.

In reaching these approvals, the Board of Directors considered, among other things, the following factors, potential benefits and risks associated with Acquisition:

- the Board of Directors concluded that the Acquisition is highly accretive to the Madalena shareholders on all key metrics. Some of the key accretion metrics are as follows:
  - 104% on 1P (proved) reserves;
  - 83% on 2P (proved plus probable) reserves; and
  - 134% on estimated net production on close of the Acquisition;
- proposals received from, and discussions with, third parties with respect to various business transactions involving Madalena; and
- in the event of an intentional non-completion by the Vendor, the Deposit will be returned to Madalena and Madalena will be paid a non-completion fee equal to US$3.15 million.

This discussion of the information and factors considered and given weight to by the Board of Directors is not intended to be exhaustive. In reaching the determination to approve the Acquisition, the Board of Directors did not assign any relative or specific weight to the factors that were considered, and individual directors may have given a different weight to each factor.

Pursuant to the Share Purchase Agreements, the Corporation has agreed to acquire the Argentina Business Unit for the Purchase Price, subject to working capital closing adjustments estimated to be approximately US$6.18 million. The Acquisition is expected to close on or about June 30, 2014, or such other date as the Corporation and the Vendor may agree, and will have an effective date of April 30, 2014. The Corporation has paid the Deposit to the Vendor's counsel in connection with the Acquisition, which is being held pursuant to the Escrow Agreement.

Summary of the Acquisition

The Acquisition includes proved plus probable reserves of 6,513 MBoe[1] at December 31, 2013, estimated production on close of the Acquisition of approximately 3,300 Boe/d (~78% oil), 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 Acquisition provides Madalena with a solid platform for growth which more than triples the Corporation's production base and significantly increases cash flow from its Argentinean assets. Upon the closing of the Acquisition, Madalena's corporate production is estimated to increase to approximately 4,900 Boe/d (~72% oil and NGLs), ~80% of which will be from Argentina, with cash flow expected to be reinvested into both conventional opportunities in Argentina and to accelerate the delineation of the Corporation's unconventional resources within the Neuquén basin. Upon the completion of the Acquisition, Madalena will have a strong portfolio of assets with exposure to a stable production base, an inventory of low risk development drilling opportunities, a seismically and technically understood conventional portfolio of assets and significant unconventional shale and tight sand resources.

Madalena estimates pro forma consolidated annual cash flow from operations of US$35 - US$45 million over the next twelve months with the Corporation having the ability, when combined with cash on hand and available credit, to execute a US$50 – US$60 million capital program over the next 12 to 18 months while maintaining a strong balance sheet. Madalena will provide additional go-forward guidance subsequent to the closing of the Acquisition and the approval of a consolidated budget by the Corporation's board of directors.

Pro forma the Acquisition and the Offering (assuming no exercise of the Over-allotment Option) and after all anticipated transaction costs, on or around the anticipated closing date of the Acquisition, the Corporation estimates positive working capital of approximately US$5.0 million.

Highlights

Some of the highlights of the Acquisition are as follows:

- acquiring adjusted proved plus probable reserves of 6,513 MBoe at approximately US$16.12/Boe (US$9.67 excluding future development capital);[1]
- acquisition cost per flowing Boe of approximately US$19,091, based on current estimated production at the expected closing date of the Acquisition of 3,300 Boe/d;
- reserve life index of 5.41 years, based on current estimated production and adjusted proved plus probable reserves;
- recycle ratio of approximately 2.1x, based on Q1-2014 operating property netbacks of US$33.93/Boe and acquisition costs of approximately US$16.12/Boe;
- key producing infrastructure, including batteries and pipelines;
- approximately 890,000 net acres of developed and undeveloped lands;

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[1] Based adjustments to the acquisition reserves in the Vendor Report pursuant to internal management estimates conducted by a qualified reserves engineer. Adjustments consisted of reduced proved undeveloped (PUD) locations due to rescheduling or removal of proven undeveloped and probable locations on the subject assets.

- lands have an average working interest of approximately 83%, and the net production acquired is more than 94% operated; and
- deep inventory of development (including horizontal and vertical drilling locations), appraisal and exploration projects across the 11 blocks being acquired.

The following is a summary of production, land and reserves information that is relevant to Madalena, prior to, and following, the Acquisition and the Offering:

	Madalena[1]	Acquisition[2]	Adjustments[3]	Pro Forma
Current Production[6]				
Oil and NGLs (Bbl/d)	960	2,610	-	3,570
Gas (Mcf/d)	3,840	4,150	-	7990
Boe (Boe/d)	1,600	3,300	-	**4,900**
Oil and NGLs (%)	60	79	-	72
Land (net acres)	239,000	890,000		**1,129,000**
RESERVES[4]				
Proved				
Oil and NGL (Mbbl)	1,350	4,248	(612)	4,986
Gas (MMcf)	8,032	5,599	(510)	13,121
MBOE (6:1)	2,689	5,181	(697)	**7,173**
Proved plus Probable				
Oil and NGLs (Mbbl)	2,373	6,295	(900)	7,768
Gas (MMcf)	13,651	7,615	(900)	20,366
MBOE (6:1)	4,648	7,563	(1,050)	11,161
Proved FDC[5] (US$mm)	20	46	(21)	45
Proved plus Probable FDC (US$mm)	33	77	(35)	75

Accretion Analysis	**Madalena**	**Acquisition**	**Pro Forma**	**Accretion**
Diluted Shares (mm)	413.5	127.9	541.4	-
Proved Reserves (MBoe per mm Common Shares)	6.5	40.5	13.3	**104%**
2P Reserves (MBoe per mm Common Shares)	11.2	59.1	20.6	**83%**
Current Production (Boe/d per mm Common Shares)	3.9	25.8	9.1	**134%**

Notes:
1. Based on the independent reserve reports of Madalena evaluating the crude oil, natural gas liquids and natural gas reserves of the Corporation as at December 31, 2013 prepared by McDaniel & Associates Consultants Ltd. and Ryder Scott Company, L.P., respectively, in accordance with NI 51-101 and the COGE Handbook.
2. Based on the Vendor Report.
3. Adjustments to the acquisition reserves in the Vendor Report were made pursuant to internal management estimates conducted by a qualified reserves engineer. Adjustments consisted of reduced proved undeveloped (PUD) locations due to rescheduling or removal of proven undeveloped and probable locations on the subject assets.
4. Reserves are "gross reserves", being working interest share of reserves before the deduction of royalties owned by others.
5. "FDC" means future development costs. Please see "*Oil and Gas Information*". Madalena converted to US$ at 0.92US/CDN.
6. Based on field estimates.

Rationale for the Acquisition

Some of the rationale behind the Acquisition is as follows:

- accretive and more than triples the Corporation's production base;
- strong cash flow from the conventional asset bases that can be directed towards accelerating development of Madalena's unconventional shale oil and gas plays in Argentina;
- strengthens Madalena's Argentinean operations by adding a fully integrated professional and operating team "on the ground" in Argentina;
- enhances and improves the Corporation's flexibility regarding Madalena's current unconventional shale assets in Argentina with respect to the future delineation of, or transactions associated with (including potential joint venture partnership(s) with larger E&P companies);
- strategically positions Madalena as a strengthened and emerging oil and gas producer; and
- improves Madalena's access to exploration and production services in Argentina.

See "*Information Concerning the Argentina Business Unit*" for further information on the Acquired Assets. While management expects that the Corporation will receive the benefits noted above, the Acquisition does expose the Corporation to additional risks including the risk that the Corporation will fail to realize the anticipated benefits of the Acquisition. See "*Risk Factors*" for a further discussion of certain of the risks associated with the Acquisition.

See Schedule A of this short form prospectus – "*Unaudited Pro Forma Financial Statements*" for unaudited pro forma financial information post-Acquisition relating to the Corporation as at and for the three months ended March 31, 2014 and for the year ended December 31, 2013, based on the assumptions set forth therein, and Schedule B of this short form prospectus – "*Consolidated Financial Statements – Argentina Business Unit*" for the unaudited combined consolidated carve-out financial statements for the Argentina Business Unit for the three months ended March 31, 2014 and the audited combined consolidated carve-out financial statements for the year ended December 31, 2013.

Closing Conditions

Conditions to closing of the Acquisition include the following: TSXV approval, accuracy of representations and warranties and performance of covenants; satisfaction or waiver of conditions precedent; and other customary conditions for a transaction of this nature.

Deposit

Pursuant to the terms of the Share Purchase Agreements, if the Acquisition is completed, the Deposit will be credited against the Purchase Price. Generally, if the closing of the Acquisition does not occur for any reason or circumstance other than a breach of a representation or warranty made by Madalena in the Share Purchase Agreements or a breach by Madalena of a covenant or agreement contained in the Share Purchase Agreements, including, in particular, the failure by Madalena to obtain financing and a failure to obtain TSXV approval (a "**Madalena Default**"), the Deposit and interest earned thereon shall be returned to Madalena. If closing of the Acquisition does not occur due to a Madalena Default, the Deposit and the interest earned thereon shall be forfeited by Madalena, which forfeiture of the Deposit shall constitute the Vendor's sole remedy in such instance, with no right to claim further damages or other remedies from the Corporation.

ROFRs

The ROFR Properties pertain to the Surubi and Palmar Largo areas. See "*Information Concerning the Argentina Business Unit*" for further information on the Acquired Assets and these specific areas.

Pursuant to the Transitory Union of Enterprises agreements (Unión Transitoria de Empresas or "**UTEs**") underlying these areas, there is an obligation of the assignor of a participating interest in the oil and gas rights in such areas ("**Participating Interests**") to grant a ROFR to its UTE partner if it elects to assign that Participating Interest to a third party or in the case of change of control. Although arguably the Acquisition does not fall within the purview of these ROFRs, one may take the position that in the Surubi area, a provincial government entity partner in the

relevant UTE has a ROFR and in the Palmar Largo area where the vendor holds a non-operated minority working interest, private oil and gas company partners in the relevant UTE have a ROFR.

In each case, the Corporation will provide notice of the ROFR post-closing of the Acquisition to the partners providing for a ROFR for 30 days to acquire the relevant Participating Interest. The Notice shall include the terms (price, payment terms, representations and warranties, indemnifications, etc.) under which the Acquired Assets are being indirectly acquired. The ROFR holders will have 30 days to respond.

Based on the Corporation's experience in Argentina and the views of its Argentine professional and legal advisors, the Corporation believes that the probability that the provincial government entity partner in the Surubi area exercises its ROFR rights is low. Madalena's local professional and legal advisors have indicated that they are not aware any precedents of provincially owned companies previously exercising this type of right. The likelihood of the partners in Palmar Largo exercising the ROFR is uncertain at this time, but is likely higher than in the case of Surubi, as such partners are private parties that may have the access to funds or interest in acquiring the Participating Interest in Palmar Largo.

The ROFR Properties constitute approximately 40% of the total current production and 40% proved plus probable reserves of the Acquired Assets as at December 31, 2013 and 103,336 net acres of land. Although the exact amount has not been determined at this time, the Corporation anticipates that Surubi property will be allocated a value of approximately US$50,000,000 and the Palmar Largo property will be allocated a value of approximately US$4,000,000.

In the event that the Surubi ROFR is exercised, some of the key accretion metrics for the Acquisition would be affected as follows:

- the proved plus probable reserves would drop 37% to 3,484 Mbbls and 7,615 MMcf for a total of 4,753 MBoe;
- oil weighting would drop from 83% to 73% for the proved plus probable reserves;
- FDC would be reduced by US$23,300,000;
- Estimated production on close without Surubi would be 2,150 Boe/d for the Acquisition itself and the combined pro forma production on the closing date of the Acquisition would be expected to be approximately 3,750 Boe/d; and
- after the cash payment to exercise the ROFR, the effective purchase price would be US$13,000,000, for transaction metrics of US$6,047/Boe/d and US$2.73/Boe before FDC.

In the event that the Surubi ROFR was exercised, the Corporation would still have a strong production addition and ten concessions to pursue exploration and development opportunities with significantly more cash on its balance sheet. See "*Use of Proceeds*".

In the event that the Palmar Largo ROFR is exercised, the accretion metrics for the Acquisition would be as follows:

- the proved plus probable reserves would drop 2% to 6,107 Mbbls and 7,615 MMcf for a total of 7,376 MBoe;
- oil weighting would remain at 83% for the proved plus probable reserves and FDC would be unchanged;
- the estimated production on close of the Acquisition without Palmar Largo would be 3,150 Boe/d and the combined pro forma production on the closing date of the Acquisition would be expected to be approximately 4,750 Boe/d ;
- after the cash payment to exercise the ROFR, the effective purchase price would be US$59,000,000 for transaction metrics of $18,730/Boe/d and US$8.00/Boe before FDC.

A potential exercise of a ROFR at Palmar Largo is not expected to have a material impact on the Corporation's business plans going forward. See "*Use of Proceeds*".

Purchased Debt

The Purchase Price is allocated to Purchased Shares (as defined in the Share Purchase Agreements) and Purchased Debt (as defined in the Share Purchase Agreements). The Purchased Debt, which will be assigned to Madalena pursuant to the Share Purchase Agreements, represents certain intercompany loans for a principal amount of US$19,500,000 and US$6,777,000. These inter-company loans have been registered with the Argentina Central Bank for more than two years, which the Corporation believes should allow for tax efficient movement of funds from the Corporation's Argentina subsidiaries to Madalena.

Parent Guarantee

Pursuant to the Parent Guarantee, which was executed and delivered concurrently with the Share Purchase Agreements, the Vendor has unconditionally and irrevocably guaranteed the prompt and punctual performance and payment when due of all present and future indebtedness, liabilities, and obligations of the Vendor Signatories arising or accruing under the Share Purchase Agreements or any agreement executed and delivered by the Vendor Signatories pursuant to the Share Purchase Agreements.

Indemnities

In connection with the Acquisition, the Vendor has agreed to indemnify the Corporation and its related parties, for a period of one (1) year following closing of the Acquisition, in respect of certain losses that may arise out of the Corporation's acquisition of the Acquired Assets as a result of breaches of the representations and warranties made by the Vendor Signatories and relied on by the Corporation and an increased period of three (3) years following closing with respect to certain tax matters. Any claim for indemnity made under the Share Purchase Agreements must involve a claim in excess of 10% of the Purchase Price and then only to a maximum of 50% of the Purchase Price.

Non-Solicitation and Break Fee

Pursuant to the Share Purchase Agreements, the Vendor Signatories agreed to immediately cease and cause to be terminated all existing discussions or negotiations (including through any of its representatives), if any, with any third parties initiated before the date of the Share Purchase Agreements with respect to any Acquisition Proposal and shall within two (2) business days of the execution date request the return or destruction of all information provided to any third parties who have entered into a confidentiality agreement with any of the Vendor Signatories relating to an Acquisition Proposal and shall use all reasonable commercial efforts to ensure that such requests are honoured. The Vendor Signatories also agreed that it shall not, directly or indirectly, do or authorize or permit any of its representatives to do, any of the following:

(i) solicit, knowingly facilitate, initiate, encourage or take any action to solicit, knowingly facilitate, initiate or encourage any Acquisition Proposal, including by way of furnishing information;

(ii) enter into or participate in any negotiations or initiate any discussion regarding an Acquisition Proposal, or furnish to any other person any information with respect to its securities, business, properties, operations, prospects or conditions (financial or otherwise) in connection with, or furtherance of, an Acquisition Proposal, or otherwise cooperate in any way with, or assist or participate in, knowingly facilitate or encourage, any effort or attempt of any other person to do or seek to do any of the foregoing;

(iii) release, waive, or otherwise forbear in the enforcement of, or enter into or participate in any discussions, negotiations or agreements to release, waive or otherwise forbear in respect of, any rights or other benefits under any confidentiality agreements entered into in respect of an Acquisition Proposal, including any "standstill provisions" thereunder; or

(iv) accept, recommend, approve or enter into an agreement to implement an Acquisition Proposal without concurrently terminating the Share Purchase Agreements pursuant to Section 10.1(i) thereof and paying the Purchasers Termination Fee to the Corporation.

In addition, in the event that the Share Purchase Agreements are terminated due to an intentional breach of any representation or warranty or intentional failure to perform any covenant or agreement on the part of the Vendor under the Share Purchase Agreements, then, in addition to the return of the Deposit, the Vendor shall pay to the Corporation the Purchasers Termination Fee.

INFORMATION CONCERNING THE ARGENTINA BUSINESS UNIT

The Argentina Business Unit is comprised of five (5) indirect wholly-owned subsidiaries of the Vendor and two (2) Argentina branches of two (2) of those subsidiaries, which collectively hold the Acquired Assets comprised of participating interests in certain oil, petroleum and natural gas properties and related assets located in Argentina held under certain joint venture agreements, UTE agreements (*Acuerdosde Uniones Transitorias de Empresas*), exploration permits and exploitation concessions.

The Acquired Assets are located in Argentina's Neuquén and Noroeste basins and are comprised of a mixture of conventional and resource-based development and exploration oil and gas assets. The Acquisition represents a strategic fit with the Corporation's existing Argentina properties, as it couples stable production and cash flow with the upside opportunities represented by Madalena's existing conventional development-oriented assets and unconventional resources, reinforcing the Corporation's already significant position in the country.

The Corporation has identified more than 20 (gross) potential drilling projects within the Palmar Largo, Lumbrera, Mealla, Yacoraite, Huamampampa, Tupambi, Tarija, Loma Montosa, Sierras Blancas / Tordillo, Cuyo and Precuyo zones of interest. The Acquired Assets also include significant facilities and infrastructure assets with available capacity which the Corporation believes will create optimization opportunities. Madalena estimates pro forma consolidated annual cash flow from operations of US$35 - US$45 million over the next twelve months with the Corporation having the ability, when combined with cash on hand and available credit, to execute a US$50 – US$60 million capital program over the next 12 to 18 months while maintaining a strong balance sheet. Madalena will provide additional go-forward guidance subsequent to the closing of the Acquisition and the approval of a consolidated budget by the Board.

As the Corporation does not currently own the Acquired Assets, the following information has been summarized from publicly available information and information provided to the Corporation in connection with the Corporation's due diligence and the Vendor Report. The Vendor Report was prepared by GLJ for the Vendor and the Corporation was not given an opportunity to review the reserves data with management of the Vendor or GLJ in conjunction with the preparation of such report. As a result, the Corporation is unable to assess the Vendor's procedures for providing information to GLJ or for assembling and reporting other information to GLJ associated with the Vendor's oil and gas activities.

The information regarding the Acquired Assets set forth herein (including the unaudited pro forma financial statements set forth in Schedule A) is in respect of all of the Acquired Assets. ROFR Properties constitute approximately 40% of the total current production and proved reserves at December 31, 2013 attributable to the Acquired Assets and 103,336 net acres of land. To the extent that any third parties exercise ROFRs on the Acquired Assets, upon conveyance of the ROFR Properties to such third parties, the Corporation believes that the historical operational and reserves information set forth herein will be reduced after closing of the Acquisition in a proportion generally equivalent to the proportion of the Acquired Assets in respect of which the ROFRs are exercised. See "*Recent Developments – The Acquisition – ROFRs* and *Risk Factors – Possible Failure to Realize Anticipated Benefits of the Acquisition*".

The reserves data for the Acquired Assets set forth below is based upon an evaluation by GLJ with an effective date of December 31, 2013 contained in the Vendor Report. The reserves data summarizes the crude oil, natural gas liquids and natural gas reserves and the net present values of future net revenue for these reserves using forecast

prices and costs. GLJ has represented to the Vendor that the Vendor Report has been prepared in accordance with NI 51-101.

All evaluations of future net revenue are before the deduction of future income tax expenses and after the deduction of royalties, development costs, production costs and well abandonment costs but before consideration of indirect costs such as administrative, overhead and other miscellaneous expenses. The estimated future net revenue contained in the following tables does not necessarily represent the fair market value of the reserves. There is no assurance that the forecast price and cost assumptions contained in the Vendor Report will be attained and variations could be material. Other assumptions and qualifications relating to costs and other matters are summarized in the notes to or following the tables below. The recovery and reserve estimates described herein are estimates only. Actual reserves may be greater or less than those calculated. See "*Special Note Regarding Forward-Looking Statements*" and "*Risk Factors*".

All reserves associated with the Acquired Assets are located in Argentina. There are no heavy oil reserves associated with the Acquired Assets. Numbers in each column may not add due to rounding.

Acquired Assets

Reserves Data (Forecast Prices and Costs)

SUMMARY OF OIL AND NATURAL GAS RESERVES
AND NET PRESENT VALUE OF FUTURE NET REVENUE
AS OF DECEMBER 31, 2013
FORECAST PRICES AND COSTS

	RESERVES							
	LIGHT AND MEDIUM OIL		NATURAL GAS		NATURAL GAS LIQUIDS		TOTAL OIL EQUIVALENT	
RESERVES CATEGORY	Gross (Mbbls)	Net (Mbbls)	Gross (MMcf)	Net (MMcf)	Gross (Mbbls)	Net (Mbbls)	Gross (MBOE)	Net (MBOE)
PROVED:								
Developed Producing	2,341	2,026	4,411	3,743	100	100	3,176	2,750
Developed Non-Producing	460	396	92	77	2	2	477	411
Undeveloped	1,318	1,129	1,096	922	27	27	1,528	1,310
TOTAL PROVED	4,119	3,551	5,599	4,742	129	129	5,182	4,470
PROBABLE	2,002	1,718	2,016	1,692	43	43	2,382	2,043
TOTAL PROVED PLUS PROBABLE	6,122	5,269	7,615	6,434	173	172	7,563	6,514

	NET PRESENT VALUE OF FUTURE NET REVENUE BEFORE INCOME TAXES DISCOUNTED AT (%/year)			UNIT VALUE BEFORE INCOME TAXES DISCOUNTED AT 10%[1]	
RESERVES CATEGORY	0% (US$000s)	5% (US$000s)	10% (US$000s)	(US$/Boe)	(US$/McfGE)
PROVED:					
Developed Producing	72,649	64,858	58,692	21.34	3.56
Developed Non-Producing	26,267	21,139	17,334	42.22	7.04
Undeveloped	35,007	25,883	19,512	14.89	2.48
TOTAL PROVED	133,922	111,880	95,539	21.37	3.56
PROBABLE	69,860	53,568	42,104	20.61	3.43
TOTAL PROVED PLUS PROBABLE	203,782	165,448	137,643	21.13	3.52

Note:
(1) Unit values are based on net reserve volumes.

RESERVES CATEGORY	REVENUE[1] (US$000s)	ROYALTIES (US$000s)	OPERATING COSTS[2] (US$000s)	DEVELOP-MENT COSTS (US$000s)	ABANDON-MENT AND RECLAMATION COSTS (US$000s)	FUTURE NET REVENUE BEFORE INCOME TAXES (US$000s)
Total Proved	389,787	53,065	152,347	46,178	4,274	133,922
Total Proved plus Probable	583,051	80,243	217,552	76,498	4,976	203,782

Notes:
(1) Total revenue includes company revenue before deduction of royalties.
(2) Operating costs include estimated bonus renewal fees where applicable.

FUTURE NET REVENUE BY PRODUCTION GROUP AS OF DECEMBER 31, 2013 FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (US$000s)	UNIT VALUE[1] (US$/Boe)	($/McfGE)
Proved	Light and medium crude oil	89,449	23.90	3.96
	Associated gas and non-associated gas	6,090	8.36	1.39
	Total	95,539	21.37	3.56
Proved plus Probable	Light and medium crude oil	130,026	23.38	3.90
	Associated gas and non-associated gas	7,616	8.00	1.33
	Total	137,643	21.13	3.52

Note:
(1) Unit values are based on net reserve volumes.

Pricing Assumptions

The forecast cost and price assumptions herein assume primarily increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rates utilized in the Vendor Report were based on GLJ's January 1, 2014 price forecast. These prices are as follows:

	WORLD		ARGENTINA*			
	EXCHANGE RATE	BRENT CRUDE OIL	OIL	NATURAL GAS LIQUIDS		GAS
			NEUQUÉN	CONDENSATE	LPG	NEUQUÉN
Year	$US/$Cdn	$US/Bbl	$US/Bbl	$US/Bbl	$US/Bbl	$US/mmbtu
2014	0.950	107.50	82.00	85.00	63.00	4.55
2015	0.950	107.50	83.64	86.70	64.26	4.64
2016	0.950	105.00	85.31	88.43	65.55	4.73
2017	0.950	102.50	87.02	90.20	66.86	4.83
2018	0.950	102.50	88.76	92.01	68.19	4.93
2019	0.950	102.50	90.53	93.85	69.56	5.02
2020	0.950	102.50	92.35	95.72	70.95	5.12
2021	0.950	103.38	94.19	97.64	72.37	5.23

2022	0.950	105.45	96.08	99.59	73.81	5.33
2023	0.950	107.56	98.00	101.58	75.29	5.44
2024+	0.950	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr

* Argentina Prices are before deduction of provincial taxes

Weighted average historical prices realized by the Argentina Business Unit in respect of the Acquired Assets for the three months ended March 31, 2014 were US$4.04/Mcf for natural gas and US$72.89/Bbl for light and medium oil.

Additional Information Relating to Reserves Data

Undeveloped Reserves

Undeveloped reserves are attributed by well in accordance with standards and procedures contained in the COGE Handbook. Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production. Probable undeveloped reserves are those reserves that are less certain to be recovered than proved reserves and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

Assuming closing of the Acquisition, the Corporation plans to develop approximately 48% of the proved undeveloped and probable undeveloped reserves in the Vendor Report over the next two years. There are a number of factors that could result in delayed or cancelled development, including the following: (i) changing economic conditions (due to pricing, operating and capital expenditure fluctuations); (ii) changing technical conditions (including production anomalies, such as water breakthrough or accelerated depletion); (iii) multi-zone developments (for instance, a prospective formation completion may be delayed until the initial completion is no longer economic); (iv) a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and (v) surface access issues (including those relating to land owners, weather conditions and regulatory approvals). For more information, see "*Risk Factors*" in the AIF and in this short form prospectus.

Significant Factors or Uncertainties

The process of evaluating reserves is inherently complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and natural gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions and other factors and assumptions that may affect the reserve estimates and the present worth of the future net revenue therefrom. These factors and assumptions include, among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves. Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and government restrictions. Revisions to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

The Corporation does not anticipate any significant economic factors or significant uncertainties will affect any particular components of the reserves data for the Acquired Assets. However, reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs, royalty regimes and well performance that are beyond the Corporation's control. See "*Risk Factors*" in the AIF and in this short form prospectus.

Future Development Costs

The following table sets forth development costs deducted in the estimation of our future net revenue attributable to the reserve categories noted below for the Acquired Assets.

	FORECAST PRICES AND COSTS	
Year	**Proved Reserves (US$000s)**	**Proved Plus Probable Reserves (US$000s)**
2014	17,304	17,352
2015	21,930	24,735
2016	6,945	34,411
2017	-	-
Total (Undiscounted)	46,178	76,498

The Corporation expects to fund the development costs of these reserves through a combination of internally generated cash flow, debt, and strategic use of new equity where and when it believes appropriate.

There can be no guarantee that funds will be available or that the Board of Directors will allocate funding to develop all of the reserves attributed in the Vendor Report. Failure to develop those reserves could have a negative impact on the Corporation's future cash flow.

The interest or other costs of external funding are not included in the reserves and future net revenue estimates set forth above and would reduce reserves and future net revenue to some degree depending upon the funding sources utilized. The Corporation does not anticipate that interest or other funding costs would make development of any of the Acquired Assets uneconomic.

Other Oil and Natural Gas Information

Much of the following information is presented as at May 28, 2014 based on information provided to the Corporation in connection with the Corporation's due diligence. The Corporation does not believe that there has been any material changes to such information since such date.

Principal Oil and Natural Gas Properties

The Acquired Assets are located in the Noroeste Basin in northern Argentina and the Neuquén Basin in central Argentina. They are high working interest and synergistic with the Corporation's existing core Argentina assets, complementing the Corporation's unconventional shale opportunities in the Neuquén basin by providing a source of cash flow to fund operations, and a deep development and exploration drilling inventory while also providing additional owned gathering and processing infrastructure. The current average daily production before royalties from the Acquired Assets, based on field estimates, is 3,300 Boe/d comprised of approximately 79% oil and NGL. The Acquired Assets have an average working interest of 83% with approximately 890,000 net acres of land. Approximately 94% of the production is operated.

Some of the oil production in Argentina is trucked to a local refinery, therefore, sales of oil in the Noroeste Basin may be seasonally delayed by adverse weather and road conditions, particularly during the months November through February when the area is subject to periods of heavy rain and flooding. While storage facilities are designed to accommodate ordinary disruptions without curtailing production, delayed sales will delay revenues and may adversely impact the Corporations working capital position in Argentina.

Royalties in Argentina are based on a provincial royalty plus an additional provincial turnover tax. The provincial royalty rate is 24% for the Puesto Morales Este Block and 12% on all other blocks in Argentina. The provincial turnover tax ranges from 1.5% to 3% on the blocks.

Rio Negro Province, which includes the Puesto Morales, Puesto Morales Este, and Rinconada Sur Blocks, has enacted new legislation that changes the royalty regime associated with concession agreement extensions. Royalties in Rio Negro Province are expected to increase a minimum of 3.5% and required bonus payments, not determinable at this time, are being negotiated for the concession agreement extension. In addition, there is an additional royalty component of 0.5% per dollar per Bbl on realized oil prices greater than US$80 per Bbl and 0.5% per dollar per MMBtu for gas prices above US$3.50 per MMBtu. Under the new legislation, negotiations are required to be carried and the resulting new terms are expected to come into effect immediately thereafter. Negotiations are still in progress between the Rio Negro Province and the largest producers in the area. After terms are finalized between these parties, it is expected that these terms will form the starting base for negotiations with the smaller producers.

Set forth below are descriptions of the primary areas that form part of the Acquired Assets.

Puesto Morales Block

The Puesto Morales Block is 100% operated property covering approximately 31,000 gross acres in the Neuquén Basin. The contract was awarded on October 18, 2010, and the exploitation phase will end on January 22, 2016, with a possible ten year extension. Negotiations for an extension have commenced. Current production is approximately 880 Bbl/d, 4,165 Mcf/d for a total of 1,575 Boe/d which represents approximately 47% of the current production.

There are no current work obligations on this block however, it is anticipated future work obligations will become part of the contract extension over a multi-year period. In 2013, two development wells were drilled and completed on this block. Both wells are on production. In 2013, operations commenced on drilling a horizontal multi-stage fracture stimulated well into the Loma Montosa formation on this block to further evaluate this new play. Work on this well was suspended due to landowner related issues, which Madalena understand may have recently been resolved. The plan is to recommence drilling in 2014 based on rig availability. Additional workovers and facilities upgrades on this block are also planned for 2014.

Surubi Block

The Corporation will acquire an 85% operated working interest in this 90,824 gross acres block. The provincial oil company, Recursos Energeticos Formosa S.A. (a provincial government entity), holds the remaining 15% non-operating working interest. The contract for this block will end on August 17, 2026. There are no work obligations on this block. This block is subject to a ROFR. See "*Recent Developments – Acquisition – ROFRs*".

The Proa-2 well was drilled into the Palmar Largo formation and placed on production December 2012. It has produced approximately 975,000 Bbls gross as of April 2014 (16 months). A step out well was drilled and completed in 2014 and has recently been placed on-stream. As at June 4, 2014, production from the block is approximately 1,170 Bbls/d (40% of the total Acquired Assets). There is no further work planned in 2014. The Corporation is evaluating a second Palmar Largo structure with plans to drill late 2014 or early 2015.

Rinconada Sur Block

The Rinconada Sur Block covers 28,417 gross acres and is part of the Puesto Morales concession. It is a 100% working interest operated property. The block is adjacent to the Rinconada Norte non operated block. The contract was awarded on October 18, 2010, and the exploitation phase will end on January 22, 2016, with a possible ten year extension. There are no work obligations on this block and there are no significant capital expenditures planned for 2014.

Rinconada Norte Block

The Rinconada Norte Block covers 23,475 gross acres and is adjacent to the Rinconada Sur Block. The Corporation has a 35% non-operated working interest. The partner is the operator and has the remaining working interest. This is an exploitation concession and the exploitation phase will end on January 22, 2016, with a possible ten year extension. There are no work obligations on this block and no significant capital expenditures are planned for 2014.

Puesto Morales Este Block

The Puesto Morales Este Block covers 1,532 gross acres. It is adjacent to the main Puesto Morales Block. It is a 100% working interest operated property. The contract was awarded on October 18, 2010, and the exploitation phase will end on October 17, 2035, with a possible five year extension. There are no work obligations on this block and no significant capital expenditures are planned for 2014.

El Chivil Block

The El Chivil Block covers 30,394 acres in the Noroeste Basin adjacent to the Surubi and Palmar Largo blocks. It is a 100% working interest operated property. The contract for this block will end on September 7, 2015, with a possible ten year extension. There are no work obligations on this block. In 2013, regular field maintenance and workover activities were performed.

Palmar Largo Block

The Palmar Largo Block covers 186,688 gross acres and is adjacent to the Surubi and El Chivil blocks. The property is non-operated 14% working interest. This asset comprises several producing oil fields in the Noroeste Basin and is subdivided into three sub-blocks. The Palmar Largo Block contract will end in 2017, with a possible ten year extension. There are no work obligations on this block and no significant capital expenditures are planned for 2014. This block is subject to a ROFR. See "*Recent Developments – Acquisition – ROFRs*".

El Vinalar Block

The El Vinalar Block covers 61,035 gross acres in the Noroeste basin. It is a 100% working interest operated property. The El Vinalar Block contract will end on April 19, 2016, with a possible ten year extension. There are no work obligations on this block. In 2014, some minor workovers and facility upgrades are planned.

Valle Morado Block

This block covers 49,099 gross acres and in the Noroeste Basin. It is a 96.6% working interest operated block. The Valle Morado GTE.St.VMor-2001 well was first drilled in 1989. A previous operator completed a 3-D seismic program over the field and constructed a gas plant and pipeline infrastructure. Production began in 1999 from the GTE.St.VMor-2001 well, but was shut-in in 2001. In July 2010, a re-entry and sidetrack operation commenced on the well; however, these operations were suspended in February 2011due to unexpected operational challenges at the time. . There are no proved or probable reserves associated with this block.

The contract for this block expires in 2034. There are no work obligations on this block. In 2013, there were no significant capital expenditures and no significant expenditures are planned for 2014. The Corporation will evaluate opportunities to move this project forward.

Santa Victoria Block

This block covers 516,846 gross acres in the Noroeste Basin. It is a 100% working interest operated property. The contract is currently in the second of three exploration phases. This phase requires one exploration well to be drilled or 720 units of work (US$3.6 million). The exploration permit was recently extended one year to April 2015 requiring an additional work commitment of US$150,000. If a well is not drilled the Corporation is required to pay a penalty of US$3.75 million and relinquish the permit. In 2013, there were no significant capital expenditures. In 2014, the Corporation will look for a partner to participate in the potential drilling of a gas exploration well. There are no Proved or Probable reserves associated with this block.

Vaca Mahuida Block

This block covers 232,798 gross acres in the Neuquina Basin adjacent to the Rinconada Sur Block. It is a 25% working interest operated property. Three partners share the remaining working interest (25% each). After three gas discoveries in 2010, an exploitation concession was requested and is awaiting regulatory approval. The obligation to perform long-term production gas tests has been satisfied. There are no work obligations on this block however, when the province grants an exploitation concession there is expected that there will be development work commitments. Upon granting of the exploitation concession, there is a commitment to acquire an additional 25% working interest from a partner in this block for approximately US$900,000. There are no proved or probable reserves assigned to this block. There are no significant capital expenditures that are planned for 2014.

Oil and Natural Gas Wells

The following table sets forth the number and status of wells as at December 31, 2013 in which the Corporation will acquire a working interest pursuant to the Acquisition.

	OIL WELLS			
	Producing		**Non-Producing**	
	Gross	**Net**	**Gross**	**Net**
Argentina	74.00	61.43	13.00	3.54

	NATURAL GAS WELLS			
	Producing		**Non-Producing**	
	Gross	**Net**	**Gross**	**Net**
Argentina	14.00	14.00	0.00	0.00

None of the non-producing oil wells were placed on production as of date of this short form prospectus.

Properties with No Attributed Reserves

As at the date hereof, the Acquired Assets include 890,000 net acres of developed and undeveloped land holdings, all located in the Argentina. Rights to explore, develop and exploit approximately 527,240 net acres of these undeveloped land holdings could expire by December 31, 2015 if not continued through ongoing block contract renewal discussions which is normal course practice in Argentina.

Forward Contracts

There were no forward contracts associated with the Acquired Assets as at the effective date of the Vendor Report or as of the date hereof.

The nature of natural gas operations exposes the Corporation to risks associated with fluctuations in commodity prices and foreign currency exchange rates. Periodically, the Corporation may manage these risks through the use of derivative instruments. The Board of Directors of the Corporation periodically reviews the results of all risk management activities on all outstanding positions.

The Corporation expects to put in place additional hedge positions in connection with the Acquisition.

Additional Information Concerning Abandonment and Reclamation Costs

The future net present values disclosed herein are after well abandonment costs net of salvage values and excluding surface reclamation costs. Well abandonments are scheduled at the end of the economic life of each well. Well abandonments associated with assigned reserves were estimated by GLJ based on historical and current conditions.

The well abandonment costs associated with the Acquired Assets for which GLJ has assigned reserves in the Vendor Report, undiscounted and discounted at 10%, are provided in the following tables for the Total Proved and Probable reserves:

Period	Abandonment and Reclamation Costs Escalated at 2% Undiscounted (US$000s)	Abandonment and Reclamation Costs Escalated at 2% Discounted at 10% (US$000s)
Total liability forecasted for 2014	226	215
Forecasted to be paid in 2015	307	265
Forecasted to be paid in 2016	437	344
Remainder	4,007	1,627
Total	4,976	2,452

The Corporation estimates that an additional US$1.945 million total abandonment and reclamation costs undiscounted and 0.373 million discounted at 10% may be incurred with respect to the non-producing wells of the Acquired Assets.

Costs Incurred

The following table summarizes the property, plant and equipment costs incurred by the Vendor in relation to the Acquired Assets for the year ended December 31, 2013 and the three months ended March 31, 2014.

Expenditure	Year Ended December 31, 2013 (US$000s)	Three Months Ended March 31, 2014 (US$000s)
Property, plant and equipment	23,731	8,362

Exploration and Development Activities

The following tables sets forth the gross and net exploration and development wells on the Acquired Assets in which the Vendor participated during the year ended December 31, 2013 and the three months ended March 31, 2014:

Exploration Wells

	Year Ended December 31, 2013	
	Gross	Net
Natural Gas	0	0
Light and Medium Oil	0	0
Service	0	0
Dry	3.00	1.70
Total	3.00	1.70

Development Wells

	Year Ended December 31, 2013	
	Gross	**Net**
Natural Gas	0	0
Light and Medium Oil	4.00	3.35
Service	1.00	1.00
Dry	1.00	0.35
Total	6.00	4.70

An 85% working interest development well in the Surubi area was spudded on March 18, 2014 and completed drilling on May 18, 2014.

See "*Other Oil & Gas Information"* in the AIF incorporated by reference herein and "*Recent Developments*" in this short form prospectus for a description of Madalena's exploration and development activities.

Production Estimates

The following table sets out the volumes of the gross production estimated for the year ended December 31, 2014 for the Acquired Assets, which is reflected in the estimate of future net revenue disclosed in the forecast price tables contained above under the subheading "*Reserves Data (Forecast Prices and Costs)*".

	Light and Medium Oil (Bbls/d)	**Natural Gas (Mcf/d)**	**Natural Gas Liquids (Bbls/d)**	**BOE (Boe/d)**
Total Proved	2,435	3,160	76	3,038
Total Proved plus Probable	2,563	3,188	77	3,169

The reserves data for the Acquired Assets set forth below is based upon an evaluation by GLJ with an effective date of December 31, 2013 contained in the Vendor Report. The reserves data summarizes the crude oil, natural gas liquids and natural gas reserves and the net present values of future net revenue for these reserves using forecast prices and costs. GLJ has represented to the Vendor that the Vendor Report has been prepared in accordance with NI 51-101.

Production History

The following tables summarize certain information in respect of the gross production, product prices received, royalties paid, production costs and resulting netback in respect of the Acquired Assets for the periods indicated below.

	Quarter Ended 2013				**Year Ended**
	Mar. 31	**June 30**	**Sept. 30**	**Dec. 31**	**Dec. 31, 2013**
Average Daily Production [(1)]					
Light and Medium Oil (Bbls/d)	3,046	2,844	2,496	2,534	2,728
Gas (MMcf/d)	4,244	3,884	3,726	5,413	4,318
NGLs (Bbls/d)					
Combined (Boe/d)	3,753	3,491	3,117	3,436	3,448
Average Net Production Prices Received					
Light and Medium Oil (US $/Bbl)	71.31	72.32	83.09	83.36	77.57
Gas (US $/Mcf)	3.74	4.60	4.62	3.62	4.14
NGLs (US $/Bbl)					
Combined (US $/Boe)	62.10	64.03	72.06	67.18	66.57
Royalties Paid					
Combined (US $/Boe)	7.21	7.60	8.76	7.48	7.77

	Quarter Ended 2013				Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31, 2013
Production Costs [2][3]					
Combined (US $/Boe)	26.56	24.97	36.68	36.27	30.90
Netback Received [4]					
Combined (US $/Boe)	28.34	31.46	26.62	23.43	27.89

	Quarter Ended Mar. 31, 2014
Average Daily Production [1]	
Light and Medium Oil (Bbls/d)	2,700
Gas (MMcf/d)	5,495
NGLs (Bbls/d)	
Combined (Boe/d)	3,616
Average Net Production Prices Received	
Light and Medium Oil ($/Bbl)	72.88
Gas ($/Mcf)	4.04
NGLs ($/Bbl)	
Combined ($/Boe)	60.57
Royalties Paid	
Combined ($/Boe)	7.04
Production Costs [2][3]	
Combined ($/Boe)	19.81
Netback Received [4]	
Combined ($/Boe)	33.72

Notes:

(1) Before deduction of royalties.

(2) Production costs are composed of direct costs incurred to operate both oil and gas wells. A number of assumptions are required to allocate these costs between oil, natural gas and natural gas liquids production.

(3) Operating overhead recoveries associated with operated properties are charged to production costs and accounted for as a reduction to general and administrative costs.

(4) Netbacks are calculated by subtracting royalties, production costs and transportation costs from revenues.

DESCRIPTION OF COMMON SHARES

Madalena is authorized to issue an unlimited number of Common Shares without nominal or par value. As at the date hereof, there are 396,885,731 Common Shares issued and outstanding. See *"Consolidated Capitalization of the Corporation*". Holders of Common Shares are entitled to one vote per Common Share at meetings of shareholders. Holders of Common Shares are entitled to dividends if, as and when declared by the Board of Directors of Madalena and upon liquidation, dissolution or winding up to receive, Madalena's remaining property.

CONSOLIDATED CAPITALIZATION OF THE CORPORATION

The following table sets forth the consolidated capitalization of the Corporation as at March 31, 2014 both before and after giving effect to the Offering and the Acquisition:

Description and Amount Authorized	As at March 31, 2014 prior to giving effect to the Offering and the Acquisition	As at March 31, 2014 after giving effect to the Offering and the Acquisition[(1)]	As at March 31, 2014 after giving effect to the Offering and the Acquisition, assuming full exercise of Over-allotment Option[(2)]
($000s, except share amounts)			
Shareholders' Capital	$180,850	$242,594	$249,648
Common Shares ('000s)	396,886 Common Shares	524,817 Common Shares	539,532 Common Shares
(unlimited)			

Notes:

(1) Based on the issuance of: (a) 98,100,000 Underlying Common Shares, upon the exchange of 98,100,000 Subscription Receipts, pursuant to the Offering for aggregate gross proceeds of $50,031,000 less the Underwriters' fee of $3,001,860 and expenses of the Offering estimated to be $500,000; and (b) 29,831,537 Common Shares to the Vendor at a price of $0.51 per Common Share as partial payment of the Purchase Price pursuant to the Acquisition. The aggregate net proceeds from the Offering are estimated to be $46,529,140, which will be applied to partially satisfy payment of the Purchase Price. See "*Recent Developments – Acquisition*", "*Information Concerning the Argentina Business Unit*", "*Use of Proceeds*" and "*Risk Factors – Possible Failure to Realize Anticipated Benefits of the Acquisition*".

(2) Assuming the Over-allotment Option is exercised in full, based on the issuance of: (a) 112,815,000 Underlying Common Shares, upon the exchange of 112,815,000 Subscription Receipts, pursuant to the Offering for aggregate gross proceeds of $57,535,650 less the Underwriters' fee of $3,452,139 and expenses of the Offering estimated to be $500,000; and (b) 29,831,537 Common Shares to the Vendor at a price of $0.51 per Common Share to the Vendor as partial payment of the Purchase Price pursuant to the Acquisition. Assuming the exercise in full of the Over-allotment Option, the aggregate net proceeds from the Offering are estimated to be $53,583,511 (after deducting expenses of the Offering estimated to be $500,000), which will be applied to partially satisfy payment of the Purchase Price. See "*Recent Developments – Acquisition*", "*Information Concerning the Argentina Business Unit*", "*Use of Proceeds*" and "*Risk Factors – Possible Failure to Realize Anticipated Benefits of the Acquisition*".

(3) The Corporation has an undrawn credit facility consisting of a revolving operating demand loan to a maximum of $10 million with interest charged at the bank's prime rate plus 1.0% per annum and an acquisition / development demand loan to a maximum of $3 million with interest charged at the bank's prime rate plus 1.50% per annum (collectively, the "**Credit Facility**").

(4) As of the last trading day before the filing of this short form prospectus, 19,529,999 options issued pursuant to the Corporation's stock option plan were outstanding at exercise prices between $0.105 and $0.96.

PRICE RANGE AND TRADING VOLUME OF SECURITIES

The Common Shares are listed and trade on the TSXV under the symbol "MVN". The following table sets forth the trading history of the Common Shares since May 1, 2013.

	Price Range		
	High ($)	Low ($)	Volume
2013			
May	0.48	0.29	45,851,352
June	0.39	0.26	20,198,848
July	0.38	0.27	13,958,524
August	0.42	0.34	13,252,014
September	0.50	0.36	29,994,439
October	0.60	0.45	28,373,955
November	0.57	0.45	25,806,010
December	0.73	0.48	42,758,480

	Price Range		
	High ($)	Low ($)	Volume
2014			
January	0.83	0.61	42,532,160
February	0.69	0.56	40,041,002
March	0.74	0.61	23,904,454
April	0.78	0.64	33,230,118
May	0.71	0.59	20,137,439

On May 28, 2014, which was the last completed trading day that Common Shares traded on the TSXV prior to the public announcement of this Offering and also the last trading day prior to the date of this short form prospectus, the closing price of the Common Shares on the TSXV was $0.63.

PRIOR SALES

The following table summarizes the issuances of Common Shares or securities convertible into Common Shares in the 12 month period prior to the date hereof.

Date	Securities	Number of Securities	Price per Security
May 28, 2013	Common Shares upon exercise of stock options	500,000	$0.21
July 11, 2013	Common Shares[3]	200,000	$0.31
July 11, 2013	CDE flow-through Common Shares[3]	4,780,000	$0.32
July 11, 2013	CEE flow-through Common Shares[3]	16,651,765	$0.34
August 1, 2013	Common Shares upon exercise of stock options	50,000	$0.21
August 27, 2013	Issuance of stock options[1]	6,000,000	$0.35[2]
September 19, 2013	Common Shares upon exercise of stock options	25,000	$0.105
September 19, 2013	Common Shares upon exercise of stock options	150,000	$0.21
October 19, 2013	Common Shares upon exercise of stock options	200,000	$0.42
November 21, 2013	CDE flow-through Common Shares	5,555,556	$0.54
December 5, 2013	Common Shares	19,575,300	$0.47
February 11, 2014	Common Shares	32,857,225	$0.70

Notes:

(1) As of the last trading day before the filing of this short form prospectus, 19,529,999 options issued pursuant to the Corporation's stock option plan were outstanding at exercise prices between $0.105 and $0.96.

(2) Reflects the exercise price of the options granted.

DETAILS OF THE OFFERING

The following is a summary of the material attributes and characteristics of the Subscription Receipts. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the terms of the Subscription Receipt Agreement.

The Subscription Receipts will be issued at the closing of the Offering pursuant to the Subscription Receipt Agreement. The Escrowed Funds will be delivered to and held by the Escrow Agent and invested in short term obligations of, or guaranteed by, the Government of Canada (or other approved investments) pending the satisfaction of the Release Condition.

If, on or before the Termination Time all conditions under the Share Purchase Agreements for the Acquisition have been satisfied or waived (any such waiver being consented to by the Lead Underwriter in writing, acting reasonably), other than the payment of the Purchase Price under the Acquisition (the "**Release Condition**"), the Escrowed Funds and the interest earned thereon (less the remaining portion of the Underwriters' Fee to be paid) will

be released to the Corporation and each holder of Subscription Receipts will receive one Common Share for each Subscription Receipt held, without payment of additional consideration or further action. The Corporation will utilize the Escrowed Funds to pay the remaining cash portion of the Purchase Price payable for the Argentina Business Unit, which is described in more detail in "*Use of Proceeds*".

Forthwith upon satisfaction of the Release Condition in accordance with the terms and conditions of the Subscription Receipt Agreement, the Corporation and the Lead Underwriter, on behalf of the Underwriters, will execute and deliver to the Escrow Agent a notice confirming that all of the Release Condition have been satisfied (the "**Release Notice**"), and the Corporation will issue and deliver the Underlying Shares to the Escrow Agent. Contemporaneously with the delivery of the Release Notice, the Corporation will issue a press release specifying that the Underlying Shares have been issued.

If: (i) the Release Notice is not delivered on or before 5:00 p.m. (Calgary time) on July 31, 2014 (the "**Deadline**"); (ii) the Acquisition is terminated in accordance with the terms of the Share Purchase Agreements at any earlier time; or (iii) the Corporation has advised the Underwriters or disclosed to the public that it does not intend to proceed with the Acquisition (the time of occurrence of any such event being the "**Termination Time**"), then holders of Subscription Receipts shall be entitled to receive an amount per Subscription Receipt equal to the Offering Price of the Subscription Receipts and a pro rata share of interest earned thereon calculated from the Closing Date to and including the Termination Time and upon the occurrence of the Termination Time the Subscription Receipts will only represent the holders' right to receive such payment from the Escrow Agent. The Escrowed Funds will be applied towards payment of such amount. The issuance of a cheque in payment of the subscription price for the Subscription Receipts will require the surrender of the certificate(s), by the holder thereof, representing the same at the principal office of the Escrow Agent in Calgary, Alberta. If any certificates representing Subscription Receipts have not been surrendered one year after the Termination Time, the Escrow Agent will mail the cheques that the holders thereof are entitled to receive to their last addresses of record.

Under the Subscription Receipt Agreement, original purchasers of Subscription Receipts under the Offering will have a contractual right of rescission following the issuance of Underlying Shares to such purchaser upon the exchange of the Subscription Receipts to receive the amount paid for the Subscription Receipts if this short form prospectus (including the documents incorporated by reference herein) and any amendment contains a misrepresentation or is not delivered to such purchaser, provided such remedy for rescission is exercised within 180 days of closing of the Offering.

Holders of Subscription Receipts are not Shareholders and do not have rights as Shareholders of the Corporation, including the right to vote at meetings of Shareholders, the right to receive dividends declared by the Corporation or the right to receive the remaining property of the Corporation upon dissolution. Holders of Subscription Receipts are entitled only to receive Underlying Shares on surrender of their Subscription Receipts to the Escrow Agent or to a return of the subscription price for the Subscription Receipts together with any payments of interest, as described above.

Except in the limited circumstances otherwise disclosed herein, the Subscription Receipts will be issued in "book entry only" form and must be purchased or transferred through a Participant.

Book-Entry Only System

Except in certain limited circumstances, the Subscription Receipts will be issued in "book entry only" form and must be purchased or transferred through a Participant. On the Closing Date, one or more certificates representing the Subscription Receipts will be issued in registered form to CDS or its nominee, CDS & Co., and will be deposited with CDS pursuant to the book entry only system.

Unless the book entry only system is terminated as described below, a purchaser acquiring a beneficial interest in the Subscription Receipts (a "**Subscription Receipt Beneficial Owner**"), will not be entitled to receive a certificate for Subscription Receipts, or, unless requested, for the Underlying Shares, other than Subscription Receipts sold pursuant to Regulation D under the 1933 Act, and Underlying Shares issued in respect of Subscription Receipts that bear a legend describing transfer restrictions under the 1933 Act, which shall be represented by individual, definitive

certificates. The following provisions in this section will not apply to such purchasers. Purchasers of Subscription Receipts will not be shown on the records maintained by CDS, except through a Participant.

Except in the limited circumstances otherwise disclosed herein, beneficial interests in Subscription Receipts will be represented solely through the book entry only system and such interests will be evidenced by customer confirmations of purchase from the registered dealer from which the Subscription Receipts are purchased in accordance with the practices and procedures of that registered dealer. In addition, registration of interests in and transfers of the Subscription Receipts will be made only through the depository service of CDS.

As indirect holders of Subscription Receipts, investors should be aware that they (subject to the situations described below): (a) may not have Subscription Receipts registered in their name; (b) may not have physical certificates representing their interest in the Subscription Receipts; (c) may not be able to sell the Subscription Receipts to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Subscription Receipts as security.

The Subscription Receipts will be issued to beneficial owners thereof in fully registered and certificate form (the "**Subscription Receipt Certificates**") only if: (a) required to do so by applicable law; (b) the book entry only system ceases to exist; (c) the Corporation or CDS advises the Escrow Agent that CDS is no longer willing or able to properly discharge its responsibilities as depository with respect to the Subscription Receipts and the Corporation is unable to locate a qualified successor; or (d) the Corporation, at its option, decides to terminate the book entry only system through CDS.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Escrow Agent must notify CDS, for and on behalf of Participants and Subscription Receipt Beneficial Owners of the availability through CDS of Subscription Receipt Certificates. Upon surrender by CDS of the global certificates representing the Subscription Receipts and receipt of instructions from CDS for the new registrations, the Escrow Agent will deliver the Subscription Receipts in the form of Subscription Receipt Certificates and thereafter the Corporation will recognize the holders of such Subscription Receipt Certificates as Subscription Receipt holders under the Subscription Receipt Agreement.

Neither the Corporation nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Subscription Receipts held by CDS or any payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Subscription Receipts; or (c) any advice or representation made by or with respect to CDS and contained in this short form prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of a Participant. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and Subscription Receipt Beneficial Owners must look solely to Participants for any payments relating to the Subscription Receipts paid by or on behalf of the Corporation to CDS.

PLAN OF DISTRIBUTION

Under the Underwriting Agreement dated effective May 29, 2014 among Madalena and the Underwriters, as underwriters, Madalena has agreed to sell and the Underwriters have agreed to purchase on June 24, 2014, or such other date as may be agreed among the parties to the Underwriting Agreement, but, in any event, such date shall be no later than July 31, 2014, the Firm Receipts at a price of $0.51 per Firm Receipt, payable in cash to Madalena against delivery of physical and/or electronic certificates representing Subscription Receipts. The obligations of the Underwriters under the Underwriting Agreement may be terminated upon the occurrence of certain stated events, as described further in this section. Delivery of the Subscription Receipts is conditional upon payment on the Closing Date of $0.51 per Subscription Receipt by the Underwriters to the Escrow Agent.

Madalena has also granted the Over-allotment Option to the Underwriters to purchase up to 14,715,000 Option Receipts in addition to the Firm Receipts at a price of $0.51 per Option Receipt on the same terms and conditions as the Offering, exercisable from time to time at the sole discretion of the Underwriters, in whole or in part, up to 30 days after closing of the Offering. If the Over-allotment Option is exercised in full, the total price to the public, Underwriters' Fee and net proceeds to the Corporation (before deducting expenses of the Offering) will be

$57,535,650, $3,452,139 and $54,083,511. This short form prospectus also qualifies for distribution the grant of the Over-allotment Option and the issuance of the Option Receipts pursuant to the exercise of the Over-allotment Option.

Completion of the Offering is subject to a number of conditions, including the approval of the TSXV. The Corporation has received conditional acceptance from the TSXV with respect to the listing of the Subscription Receipts distributed under this short form prospectus and the Underlying Shares. Listing of such securities is subject to the Corporation fulfilling all of the requirements of the TSXV.

The Underwriting Agreement provides that the Corporation will pay the Underwriters' Fee of $0.0306 per Subscription Receipt for Subscription Receipts issued under the Offering in consideration for their services in connection with the Offering. The Underwriters' Fee in respect of the Subscription Receipts is payable as to 50% upon the closing of the Offering and 50% upon closing of the Acquisition. If the Termination Time occurs, the Underwriters' Fee in respect of the Subscription Receipts will be reduced to the amount payable upon closing of the Offering. The terms of the Offering were determined by negotiation between the Corporation and the Lead Underwriter, on its own behalf and on behalf of the other Underwriters.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint, and may be terminated at their discretion upon the occurrence of certain stated events. Such events include, but are not limited to: (i) any order to cease or suspend trading in any securities of the Corporation or prohibiting or restricting the distribution of any of the Offered Receipts is made, or proceedings are announced, commenced or threatened for the making of any such order, by any securities commission or similar regulatory authority, the TSXV or any other competent authority, and such order or proceeding has not been rescinded, revoked or withdrawn or such announced, commenced or threatened proceeding has not been terminated or withdrawn; (ii) any inquiry, action, suit, investigation or other proceeding (whether formal or informal) in relation to the Corporation or any of its directors or senior officers is announced, commenced or threatened by any federal, provincial, state, municipal, other governmental agency or any securities commission or similar regulatory authority, the TSXV or any other competent authority, or there is a change in law, regulation or policy or the interpretation or administration thereof, if, in the sole opinion of the Underwriters, or any one of them, acting reasonably, the change, announcement, commencement or threatening thereof, as the case may be, operates or could operate to prevent, suspend or restrict the Acquisition or, the trading or distribution of the Offered Receipts or any other securities of the Corporation or otherwise materially adversely affects, or may materially adversely affects the Corporation or the market price or value of the Offered Receipts or Underlying Shares; (iii) there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence, including, without limitation, any military conflict, civil insurrection, act of terrorism, war or like event, or a governmental action, law, regulation, inquiry or any occurrence of any nature whatsoever, which, in the sole opinion of the Underwriters or any one of them, acting reasonably, seriously adversely affects or involves, or may seriously adversely affect or involve, the financial markets generally or the business, operations, affairs or profitability of the Corporation, the Acquisition, or the market price or value or marketability of the of the Offered Receipts or any other securities of the Corporation; (iv) there should occur any material change, change of a material fact, occurrence, event, fact or circumstance (whether actual, anticipated, proposed, contemplated or threatened) or any development that could result in a material change or change of a material fact, any of which, in the sole opinion of the Underwriters, or any one of them, as determined by the Underwriter in its sole discretion, could reasonably be expected to have a material adverse effect on the business, operations, affairs or profitability of the Corporation, the Acquisition or the market price or value or the marketability of the Offered Receipts or other securities of the Corporation; (v) the Underwriters or any one of them, determine in its sole discretion that the Corporation shall be in breach of, default under or non-compliance with any covenant, term or condition of this Agreement or the Share Purchase Agreements in any material respect, or any representation or warranty given by the Corporation in the Underwriting Agreement or either of the Share Purchase Agreements becomes or are false in any material respect; (vi) the Underwriters or any one of them, becomes aware, as a result of its due diligence review or otherwise, of any adverse material information, fact or change with respect to the Corporation or the Acquisition (in the sole opinion of the Underwriters acting reasonably) which had not been publicly disclosed or disclosed to the Underwriters prior to the date hereof or which occurred after the effective date hereof but prior to the Closing Date and which would have a material adverse effect on the market price or value of the Offered Receipts or the Acquisition; (vii) either of the Share Purchase Agreements are terminated and not replaced by an amendment or restatement of such on

substantially the same terms and satisfactory in form and containing terms and conditions acceptable to the Underwriters, acting reasonably, or the Corporation otherwise notifies the Underwriters that the Acquisition will not occur; or (viii) the Termination Time has occurred.

The obligations of the Corporation and the Underwriters under the Underwriting Agreement to complete the purchase and sale of the Subscription Receipts will terminate automatically if the Termination Time occurs. If an Underwriter fails to purchase the Subscription Receipts which it has agreed to purchase, the remaining Underwriter(s) may terminate their obligation to purchase their allotment of Subscription Receipts, or may, but are not obligated to, purchase the Subscription Receipts not purchased by the Underwriter or Underwriters which fail to purchase; provided, however, that in the event that the percentage of the total number of Subscription Receipts which one or more Underwriters has failed or refused to purchase is less than or equal to 5% or less of the total number of the Subscription Receipts which the Underwriters have agreed to purchase, the non-defaulting Underwriters shall be obligated severally to purchase on a pro rata basis the Subscription Receipts which would otherwise have been purchased by the defaulting Underwriters which failed or refused to purchase. If any one or more of the Underwriters shall fail or refuse to purchase its applicable percentage of the Subscription Receipts at the Closing Time, and the number of such securities which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is greater than 5% of the aggregate number of Subscription Receipts to be purchased at such time, then the other Underwriters shall have the right, but not the obligation, to purchase all of the Offered Receipts which would otherwise have been purchased by such one or more of the Underwriters; the Underwriters exercising such right shall purchase such Subscription Receipts pro rata to their respective percentages aforesaid or in such other proportions as they may otherwise agree. In the event such right is not exercised, the Underwriters which are not in default shall be entitled by written notice to the Corporation to terminate the Underwriting Agreement without liability. The Underwriters are, however, obligated to take up and pay for all Subscription Receipts if any are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that the Corporation will indemnify the Underwriters and their directors, officers, agents, shareholders and employees against certain liabilities and expenses.

Pursuant to rules and policy statements of certain securities regulators, the Underwriters may not, throughout the period of distribution under this short form prospectus, bid for or purchase Common Shares. The foregoing restriction is subject to exceptions, provided the bid or purchase is not engaged in for the purpose of creating actual or apparent trading in, or raising the price of, the Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of the TSXV relating to market stabilization and passive market-making activities. In connection with the Offering, and subject to the foregoing, the Underwriters may effect transactions which stabilize or maintain the market price of the Common Shares at levels above those which might otherwise prevail in the open market, including by way of over-allotments and the exercise of the Over-allotment Option. Such transactions, if commenced, may be discontinued at any time.

This short form prospectus is only being and may only be distributed to and directed at (i) persons outside the U.K.; or (ii) persons in the U.K. who (a) are a "qualified investor" within the meaning of Section 86(7) of the FSMA who are acting as principal (or in circumstances where section 86(2) of FSMA applies), and (b) persons referred to in Article 19 (investment professionals) or Article 49 (high net worth companies, unincorporated associations, etc.) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (all such persons together being referred to as "relevant persons"). The securities being offered hereunder are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons in transactions thereby permitting the marketing and offering of the Subscription Receipts and the distribution of this prospectus without (i) breach of Section 21 of FSMA, (ii) the need for a prospectus to have been approved by the FSA under Section 87A of FSMA, (iii) the need for a prospectus to have been filed with the FSA pursuant to the U.K. Prospectus Rules, or (iv) the need for a prospectus to have been approved by a person authorized under FSMA. By accepting a copy of this short form prospectus and by offering to acquire the securities comprising the Subscription Receipts, potential investors in the U.K. will be deemed to have represented that they satisfy the criteria specified in clause (ii) above to be a relevant person. Any person who is not a relevant person should not act or rely on this document or any of its contents. This document is not a prospectus for the purposes of Section 85(1) of FSMA and contains no offer to the public within the meaning of section 102B of FSMA, the U.K. Companies Act 2006. Accordingly, this document has not been approved as a prospectus by the FSA, under Section

87A of FSMA and has not been filed with the FSA pursuant to the U.K. prospectus rules nor has it been approved by a person authorized under FSMA.

Each of the Underwriters has covenanted and agreed in the Underwriting Agreement that it will offer the Subscription Receipts for sale to the public in the United Kingdom under appropriate exemptions under the United Kingdom Financial Services and Markets Act 2000, the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, the rules published by the United Kingdom Financial Services Authority implementing the Prospectus Directive (2003/71/EC) and, to so conduct their activities in connection with the sale of the Subscription Receipts in compliance with the applicable United Kingdom securities laws on a basis exempt from Section 21 of the United Kingdom Financial Services and Markets Act 2000.

There are tax considerations and risks applicable to investors acquiring securities pursuant to this Offering who are resident or ordinarily resident in the United Kingdom for tax purposes. Accordingly, investors resident in the United Kingdom for tax purposes should consult their own tax advisors having regard to their own particular circumstances.

Except in limited circumstances described herein, the Subscription Receipts will be issued in "book entry only" form and must be purchased or transferred through a Participant. See "*Details of the Offering – Book Entry Only System*".

The Underwriters propose to offer the Subscription Receipts initially at the offering price specified herein. After a reasonable effort has been made to sell all of the Subscription Receipts at the price specified, the Underwriters may subsequently reduce the selling prices to investors from time to time in order to sell any of the Subscription Receipts remaining unsold. In the event the offering price of the Subscription Receipts is reduced, the compensation received by the Underwriters will be decreased by the amount the aggregate price paid by the purchasers for the Subscription Receipts is less than the gross proceeds paid by the Underwriters to the Corporation for the Subscription Receipts. Any such reduction will not affect the proceeds received by the Corporation.

Pursuant to the Underwriting Agreement, the Corporation has agreed that, from the date thereof and ending on the date that is 90 days following the Closing Date that it will not offer, or announce the offering of, or make or announce any agreement to issue, sell, or exchange Common Shares or securities convertible or exchangeable into Common Shares without the prior consent of the Lead Underwriter, not to be unreasonably withheld, provided that notwithstanding the foregoing, the Corporation may, without such consent, (i) grant options to directors, officers, consultants or employees of the Corporation pursuant to the Corporation's board approved stock option plan, (ii) issue Common Shares on exercise of outstanding stock options and warrants to purchase Common Shares, (iii) issue the Underlying Shares in accordance with the terms of the Subscription Receipts, (iv) issue Common Shares as contemplated by the Share Purchase Agreements, and (v) issue Common Shares to acquire assets.

The Subscription Receipts offered hereby and the Underlying Shares (collectively, the "**Securities**") have not been and will not be registered under the 1933 Act or any state securities laws, and accordingly may not be offered or sold within the United States, except in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. Except as permitted by the Underwriting Agreement, the Underwriters may not offer or sell the Subscription Receipts within the United States. The Underwriting Agreement permits the Underwriters to offer and resell the Subscription Receipts that they have acquired pursuant to the Underwriting Agreement, through their United States registered broker-dealer affiliates, to "qualified institutional buyers" (as defined in Rule 144A under the 1933 Act) in the United States, provided such offers and sales are made in transactions exempt from the registration requirements of the 1933 Act in accordance with Rule 144A and exemptions under applicable state securities laws. In addition, the Underwriting Agreement permits the Underwriters to offer the Offered Receipts to institutional "accredited investors" (within the meaning of Rule 501(a)(1) ,(2), (3) or (7) of Regulation D under the 1933 Act) in the United States, for sale directly by the Corporation, provide such offers and sales are made in transactions exempt from the registration requirements of the 1933 Act in accordance with Rule 506(b) of Regulation D thereunder and exemptions under applicable state securities laws. Moreover, the Underwriting Agreement provides that all offers and sales of Offered Receipts outside the United States shall be made in accordance with Rule 903 of Regulation S under the 1933 Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Securities within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the

1933 Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the 1933 Act.

NOTICE TO PROSPECTIVE INVESTORS IN CERTAIN JURISDICTIONS

United Kingdom

The Offered Receipts may not be offered to the public in the United Kingdom. This short form prospectus does not contain an offer or constitute any part of an offer to the public in the United Kingdom within the meaning of sections 85 and 102B of the United Kingdom *Financial Services and Markets Act 2000* ("**FSMA**"), or otherwise, is not an approved prospectus for the purposes of section 85 of FSMA, and has not been (nor will be) delivered to the Financial Conduct Authority or delivered to or approved by any other authority which could be a competent authority for the purposes of the Directive 2003/71/EC (as amended).

This short form prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of section 86(7) of FSMA acting as principal or in circumstances to which section 86(2) of the FSMA applies and that are also (a) investment professionals falling within Article 19 of the United Kingdom *Financial Services and Markets Act 2000 (Financial Promotion) Order 2005*, as amended (the "**Order**") or (b) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49 of the Order (each such person being referred to as a "**relevant person**"). This short form prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this short form prospectus or any of its contents. Each purchaser of Offered Receipts in the United Kingdom will be deemed to have represented to Madalena and the Underwriters, and acknowledges that each of Madalena and the Underwriters is relying on such representation, that they satisfy the criteria to be a relevant person.

European Economic Area

For purposes of this notice, the expression an "offer to the public" in relation to any Offered Receipts in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and any Offered Receipts to be offered so as to enable an investor to decide to purchase or subscribe for any Offered Receipts, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended from time to time) and includes any relevant implementing measure in each relevant member state.

In relation to each member state of the European Economic Area, other than France and the United Kingdom, that has implemented the Prospectus Directive (each, a "relevant member state"), with effect from, and including, the date on which the Prospectus Directive is implemented in the relevant member state, an offer to the public of any Offered Receipts which are the subject of this Offering may not be made in that relevant member state prior to the publication of a prospectus in relation to such Offered Receipts that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that an offer to the public in that relevant member state of Offered Receipts may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that relevant member state:

a. to legal entities which are authorized or regulated to operate in the financial markets;

b. to other "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive;

c. to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or

d. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offered Receipts shall result in a requirement for the publication by Madalena or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of Offered Receipts described in this short form prospectus located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

The sellers of the Offered Receipts have not authorized and do not authorize the making of any offer of the Offered Shares through any financial intermediary on their behalf, other than offers made by the Underwriters and their respective affiliates with a view to the final placement of the Offered Receipts as contemplated in this short form prospectus. Accordingly, no purchaser of the Offered Receipts, other than the Underwriters and their respective affiliates, is authorized to make any further offer of the Offered Receipts on behalf of the sellers or the Underwriters.

France

Neither this short form prospectus nor any other offering material relating to the Offered Receipts described in this short form prospectus has been submitted to the clearance procedures of the *Autorité des marchés financiers* or by the competent authority of another member state of the European Economic Area and notified to the *Autorité des marchés financiers*. The Offered Receipts have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this short form prospectus nor any other offering material relating to the Offered Receipts has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the Offered Receipts to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restraint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, Article L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*; or
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des marches financiers*, does not constitute a public offer (*appel public à l'épargne*).

The Offered Receipts may be resold, directly or indirectly, only in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

RELATIONSHIP BETWEEN THE CORPORATION AND CERTAIN UNDERWRITERS

The Lead Underwriter has also been engaged to act as a financial advisor to the Corporation with respect to the Acquisition. National Bank Financial Inc., one of the Underwriters, is a direct or indirect subsidiary of a Canadian chartered bank which is a lender to the Corporation, and with which the Corporation has a credit facility. In addition, RBC Dominion Securities Inc., one of the Underwriters, has been engaged to act as Madalena's exclusive advisor to solicit interest in a joint venture or other transaction related to Madalena's Neuquén basin assets and has also been engaged to act as a strategic advisor to the Corporation with respect to the Acquisition. As a consequence of the Offering, such Underwriters will each receive its respective share of the Underwriters' Fee.

Security for the Credit Facility is provided by way of a charge over the Canadian petroleum and natural gas assets of the Corporation. The Credit Facility includes a working capital ratio covenant, whereby the Corporation's working capital deficiency (excluding any unrealized hedging gains or losses) may not exceed $10 million. Standby fees associated with the Credit Facility are 0.25% per annum on the undrawn portion. The Credit Facility is subject to a periodic review by the bank and the next review is currently underway. The Credit Facility was unutilized at March

31, 2014 and is unutilized as at the date hereof. The Corporation is in compliance with all material terms of the agreement governing the Credit Facility and the lender under the Credit Facility has waived any breach by the Corporation thereunder since its execution. Neither the Corporation's financial position nor the value of the security under the Credit Facility has materially changed, in an adverse manner, since the Credit Facility was executed. As the Credit Facility is a demand loan, it may be called at any time. Accordingly, there is no assurance that the Credit Facility will be renewed when the current scheduled review is completed.

The decision to distribute the Offered Receipts hereby and the determination of the terms of distribution were made through negotiations between the Corporation and the Lead Underwriter, on behalf of the Underwriters. The lender under the Credit Facility did not have any involvement in such decision or determination; however, such lender has been advised of the issuance and the terms thereof.

USE OF PROCEEDS

The net proceeds to the Corporation from the sale of the Firm Receipts hereunder are estimated to be $46,529,140 after deducting the Underwriters' Fee of $3,001,860 and the estimated expenses of the Offering of $500,000. In the event that the Over-allotment Option is exercised in full, the net proceeds to the Corporation from the sale of the Offered Receipts hereunder are estimated to be $53,583,511 after deducting the Underwriters' Fee of $3,452,139 and the estimated expenses of the Offering of $500,000.

As noted in the table below, the net proceeds of the Offering will be used to fund the remaining cash component of the Purchase Price, including the working capital adjustment, after crediting the Deposit. The balance of the Purchase Price will be funded through the issuance of 29,831,537 Common Shares at a deemed issue price of $0.51 per Common Share. Net proceeds over and above the required cash to close the Acquisition, which are estimated to be $257,738 for the Offering and $7,312,109 assuming exercise in full of the Over-allotment Option, will be used for general corporate and working capital purposes.

	Assuming No Exercise of Over-Allotment Option[(1)]		**Assuming Full Exercise of Over-Allotment Option[(1)]**	
	CAD	**USD**	**CAD**	**USD**
Total Purchase Price[(2)]	***$68,463,378***	***$63,000,000***	***$68,463,378***	***$63,000,000***
- *Plus Working Capital Adjustment*	$6,715,931	$6,180,000	$6,715,931	$6,180,000
- *Less Deposit*	-$13,692,676	-$12,600,000	-$13,692,676	-$12,600,000
- *Less Share Consideration*	-$15,214,084	-$14,000,000	-$15,214,084	-$14,000,000
Cash to Close	***$46,272,549***	***$42,580,000***	***$46,272,549***	***$42,580,000***
Net Proceeds	$46,529,140	$42,816,115	$53,583,511	$49,307,547
Difference	***$256,591***	***$236,115***	***$7,310,962***	***$6,727,547***

Notes:

(1) Where applicable, amounts converted at the Bank of Canada noon exchange rate on May 28, 2014 of 0.9202 CAD to USD.
(2) Does not include immaterial amounts referred to in the Share Purchase Agreement including, among other things, interest accrued on the Deposit.

See "*Recent Developments – Acquisition*", "*Consolidated Capitalization of the Corporation*" and "*Relationship Between the Corporation and Certain Underwriters*".

There are ROFRs on certain of the Acquired Assets, specifically in the Surubi and Palmar Largo areas. Based on the Corporation's experience in Argentina and the views of its Argentine legal and oil and gas industry professional advisors, the Corporation believes that the probability that government entity partner in the Surubi area exercises its ROFR rights is negligible. Such professional advisors have indicated that they have not seen any precedents of provincially owned companies exercising this type of right. The likelihood of the partners in Palmar Largo exercising the ROFR is uncertain at this time, but is likely higher than in the case of Surubi, as such partners are private parties that may have the funds and interest in acquiring the Participating Interest in Palmar Largo. See "*Recent Developments – Acquisition – ROFRs*", "*Information Concerning the Argentina Business Unit*" and "*Risk Factors – Possible Failure to Realize Anticipated Benefits of the Acquisition*".

In the event that the ROFRs are exercised after the closing of the Acquisition, the Corporation will have an additional USD$ 54 MM of cash on hand. The Board has not yet approved a budget for such circumstances. However, should that occur, it is expected that such funds would be deployed over the next 12 – 18 months, generally, as follows (US$):

Coiron Amargo – additional Sierras Blancas horizontal development oil wells	$10 - 15MM
Vaca Muerta shale delineation work and Santa Victoria exploration drilling	$9 - 15MM
Curamhuele – lower Agrio oil and Mulichinco gas step out wells	$12 - 20MM
Puesto Morales – Sierras Blancas and Loma Montosa horizontal development oil wells	$15 - 20MM

The business objective that the Corporation expects to accomplish using the net proceeds of the Offering is to complete the Acquisition of the Argentina Business Unit by funding the balance of the Purchase Price. Other than the completion of the Offering and the Acquisition and the receipt of all required regulatory approvals related thereto, there is no particular significant event or milestone that must occur for the Acquisition to close.

While the Corporation intends to use the net proceeds as stated, there may be circumstances that are not known at this time where a reallocation of the net proceeds may be advisable for business reasons that management believes are in the Corporation's best interests.

See "*Recent Developments – Acquisition*", "*Information Concerning the Argentina Business Unit*" and "*Risk Factors*".

INTEREST OF EXPERTS

Certain legal matters relating to the Offering will be passed upon on behalf of the Corporation by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by McCarthy Tétrault LLP.

As at the date hereof, the partners and associates of McCarthy Tétrault LLP, as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares. As at the date hereof, the partners and associates of Burnet, Duckworth & Palmer LLP, as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares. Mr. Jay Reid, a director of Madalena, is a partner of Burnet, Duckworth & Palmer LLP and P.L. (Lonny) Tetley, the Corporate Secretary of Madalena, is an associate of Burnet, Duckworth & Palmer LLP, which law firm renders legal services to Madalena.

As at the date hereof, the designated professionals of McDaniel & Associates Consultants Ltd. and of Ryder Scott Company, L.P., Madalena's independent reserves evaluators, as a group, each owned, directly or indirectly, less than 1% of the outstanding Common Shares.

As at the date hereof, the designated professionals of GLJ, the Vendor's independent reserves evaluators, as a group, each owned, directly or indirectly, less than 1% of the outstanding Common Shares.

KPMG LLP is the auditor of the Corporation and has confirmed it is independent with respect to the Corporation within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation and regulations.

Deloitte LLP is the auditor of Gran Tierra Energy - Argentina Business as of and for the year ended December 31, 2013 and are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Burnet, Duckworth and Palmer LLP, counsel to the Corporation, and McCarthy Tétrault LLP, counsel to the Underwriters (collectively, "**Counsel**"), the following is a fair and adequate summary of the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable as of the date hereof to a purchaser who acquires Subscription Receipts pursuant to the Offering and who, for purposes of the Tax Act, holds the Subscription Receipts and will hold the Underlying Shares (collectively, the "**Securities**") as capital property and deals at arm's length with, and is not affiliated with, the Corporation and the Underwriters. Generally, the Securities will be considered to be capital property to a holder provided the holder does not hold the Securities in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain holders resident in Canada who might not otherwise be considered to hold their Common Shares as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This election is not available in respect of the Subscription Receipts.

This summary is not applicable to: (i) a holder that is a "financial institution", as defined in the Tax Act for purposes of the mark-to-market rules; (ii) a holder an interest in which would be a "tax shelter investment" as defined in the Tax Act; (iii) a holder that is a "specified financial institution" as defined in the Tax Act; (iv) a holder whose functional currency for purposes of the Tax Act is the currency of a country other than Canada; or (v) a holder that has or will enter into a "derivative forward agreement" (as defined in the Tax Act) with respect to the Securities. **Any such holder should consult its own tax advisor with respect to an investment in the Securities.**

This summary is based upon the provisions of the Tax Act in force as of the date hereof and Counsel's understanding of the current published administrative and assessing practices of the CRA. Except for specifically proposed amendments to the Tax Act that have been publicly announced by the federal Minister of Finance prior to the date hereof, this summary does not take into account or anticipate changes in the income tax law, whether by legislative, governmental or judicial action, nor any changes in the administrative or assessing practices of the CRA.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any prospective purchaser or holder of Securities, and no representations with respect to the income tax consequences to any prospective purchaser or holder are made. Consequently, prospective holders of Securities should consult their own tax advisors with respect to their particular circumstances.

Holders Resident in Canada

The following portion of the summary is applicable to a holder of Subscription Receipts who, at all relevant times, for the purposes of the Tax Act, is or is deemed to be resident in Canada (a "**Resident Holder**").

Acquisition of Common Shares Pursuant to Terms of the Subscription Receipts

A Resident Holder will not realize a capital gain or a capital loss on the issuance of an Underlying Share pursuant to a Subscription Receipt.

The cost of any such Underlying Shares will generally be equal to the amount paid by such Resident Holder to acquire the Subscription Receipts. The cost of Underlying Shares received will generally be averaged with the cost of all other Common Shares held by the Resident Holder as capital property to determine the adjusted cost base of each Common Share held by the Resident Holder.

Other Dispositions of Subscription Receipts

A disposition or deemed disposition by a Resident Holder of Subscription Receipts, other than on the exchange thereof for an Underlying Share, but including on the repayment of the issue price thereof by the Escrow Agent in the event the Acquisition is not completed before the Termination Time, will generally result in the Resident Holder realizing a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of disposition are greater (or less) than the aggregate of the Resident Holder's adjusted cost base thereof and any reasonable costs of disposition. The cost to a Resident Holder of a Subscription Receipt will generally be the amount paid to acquire the Subscription Receipt. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*".

In the event that a Resident Holder becomes entitled to the repayment of the issue price of a Subscription Receipt, any amount that is paid to the holder as, or on account of, interest and that is included in the Resident Holder's income, will be excluded from the holder's proceeds of disposition.

Pro Rata Share of Interest

If: (i) the Release Notice is not delivered by the Deadline; (ii) the Acquisition is terminated in accordance with the terms of the Share Purchase Agreements at any earlier time; or (iii) Madalena advises the Underwriters or announces to the public that it does not intend to proceed with the Acquisition, then holders of Subscription Receipts shall be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their pro rata share of interest accrued on the Escrowed Funds.

A Resident Holder that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year the amount of any such interest accrued to the Resident Holder on the Escrowed Funds to the end of the Resident Holder's taxation year, or that is receivable or received by the Resident Holder before the end of that taxation year, except to the extent that such interest was included in computing the Resident Holder's income for a preceding taxation year.

Any other Resident Holder that is entitled to receive its share of accrued interest will be required to include in computing income for a taxation year such interest that is receivable or received by the Resident Holder in that taxation year, depending upon the method regularly followed by the Resident Holder in computing income.

A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax of 6⅔% on its certain investment income, including interest income.

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Resident Holder (except to Madalena) will generally result in the Resident Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share exceeds (or are less than) the aggregate of the adjusted cost base to the Resident Holder thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*".

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "**taxable capital gain**") realized by a Resident Holder in a taxation year must be included in the Resident Holder's income for the year, and one-half of any capital loss (an "**allowable**

capital loss") realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year. Allowable capital losses in excess of taxable capital gains realized in a taxation year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances described by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares, directly or indirectly, through a partnership or a trust.

A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay a refundable tax of 6⅔% on certain investment income, including taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act. Resident Holders who are individuals should consult their own tax advisors in this regard.

Receipt of Dividends on Common Shares

Dividends received or deemed to be received on Common Shares held by a Resident Holder will be included in the Resident Holder's income for the purposes of the Tax Act.

Such dividends received by a Resident Holder that is an individual (other than certain trusts) will be subject to the gross-up and dividend tax credit rules in the Tax Act normally applicable to dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit in respect of dividends designated by Madalena as "eligible dividends". There may be limitations on Madalena's ability to designate dividends as "eligible dividends".

Taxable dividends received by a Resident Holder who is an individual (other than certain trusts) may result in such Resident Holder being liable for alternative minimum tax under the Tax Act. Resident Holders who are individuals should consult their own tax advisors in this regard.

A Resident Holder that is a corporation will include such dividends in computing its income and generally will be entitled to deduct the amount of such dividends in computing its taxable income. A Resident Holder that is a "private corporation" or "subject corporation" (as such terms are defined in the Tax Act) may be liable under Part IV of the Tax Act to pay a refundable tax of 33 1/3% of dividends received or deemed to be received on the Common Shares to the extent such dividends are deductible in computing the Resident Holder's taxable income.

Holders Not Resident in Canada

This portion of the summary applies to a holder of Subscription Receipts, who at all relevant times, for the purposes of the Tax Act, is not, and is not deemed to be, resident in Canada and is not an insurer that carries on an insurance business in Canada and elsewhere (a "**Non-Resident Holder**"). Prospective holders of Subscription Receipts who are not resident in Canada should consult their own tax advisors with respect to their particular circumstances in their country of residence.

Acquisition of Common Shares pursuant to terms of the Subscription Receipts

A Non-Resident Holder will not realize a capital gain or loss on the issuance of an Underlying Share pursuant to a Subscription Receipt.

Other Dispositions of Subscription Receipts

On a disposition of a Subscription Receipt (other than on the acquisition of a Common Share pursuant to the terms of Subscription Receipts as discussed above), a Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder, unless the Subscription Receipt constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the holder is not entitled to relief under an applicable income tax convention.

As long as the Common Shares are then listed on a designated stock exchange (which currently includes the TSXV), Subscription Receipts will not constitute "taxable Canadian property" to a Non-Resident Holder at the time of the disposition or deemed disposition thereof unless at any particular time during the 60-month period immediately preceding the disposition the following two conditions have been met concurrently: (a) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm's length (within the meaning of the Tax Act), partnerships in which the Non-Resident Holder or a person with whom the Non-Resident Holder does not deal at arm's length (within the meaning of the Tax Act) holds a membership interest directly or indirectly through one or more partnerships, or any combination thereof owned 25% or more of the issued Common Shares, and (b) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of (i) real or immovable property situated in Canada, (ii) "Canadian resource properties" (as defined in the Tax Act), (iii) "timber resource properties" (as defined in the Tax Act) or (iv) an option, an interest or right in such property, whether or not such property exists (the conditions described in (a) and (b) are the "**TCP Conditions**"). A Non-Resident Holder contemplating a disposition of Subscription Receipts that may constitute taxable Canadian property should consult its own tax advisor prior to such disposition.

Pro Rata Share of Interest

If: (i) the Release Notice is not delivered by the Deadline; (ii) the Acquisition is terminated in accordance with the terms of the Share Purchase Agreements at any earlier time; or (iii) Madalena advises the Underwriters or announces to the public that it does not intend to proceed with the Acquisition, then holders of Subscription Receipts shall be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their pro rata share of accrued interest on the Escrowed Funds. A Non-Resident Holder will generally not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by Madalena as, on account or in lieu of payment of, or in satisfaction of, any such interest.

Disposition of Common Shares

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition of a Common Share issuable pursuant to the terms of the Subscription Receipts, unless the Common Share constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax convention.

As long as the Common Shares are then listed on a designated stock exchange (which currently includes the TSXV), Common Shares will not constitute "taxable Canadian property" to a Non-Resident Holder at the time of the disposition or deemed disposition thereof unless at any particular time during the 60 month period immediately preceding the disposition, the TCP Conditions are met. A Non-Resident Holder contemplating a disposition of Common Shares that may constitute taxable Canadian property should consult its own tax advisor prior to such disposition.

Receipt of Dividends on Common Shares

Any dividends paid or credited, or deemed to be paid or credited, on the Common Shares to a Non-Resident Holder will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax convention between Canada and the Non-Resident Holder's country of residence. For instance, where the Non-Resident Holder is a resident of the United States that is entitled to full benefits under the *Canada-United States Income Tax Convention (1980)* as amended and is the

beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%.

ELIGIBILITY FOR INVESTMENT

In the opinion of Counsel, based on the provisions of the Tax Act in force on the date hereof, proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and the current published administrative policies and assessing practices of the Canada Revenue Agency, provided that Madalena is, on the closing date of the Offering and at all relevant times, a public corporation within the meaning of the Tax Act, the Subscription Receipts and the Underlying Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds ("**RRIFs**"), deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("**TFSAs**" and collectively, "**Deferred Plans**") provided that, in the case of the Subscription Receipts, Madalena and any person that does not deal at arm's length with Madalena is not an annuitant, beneficiary, employer or subscriber under, or a holder of, the particular Deferred Plan at all relevant times.

Notwithstanding the foregoing, an annuitant under a RRSP or RRIF or the holder of a TFSA, as the case may be, that holds Subscription Receipts or Underlying Shares will be subject to a penalty tax if such securities are a "prohibited investment" for the purposes of the Tax Act. The Subscription Receipts and Underlying Shares will generally be a "prohibited investment" if the annuitant or the holder, as the case may be: (i) does not deal at arm's length with Madalena for the purposes of the Tax Act; or (ii) has a "significant interest" (within meaning of the Tax Act) in Madalena.

Prospective investors who intend to hold the Subscription Receipts or Underlying Shares in Deferred Plans should consult their own tax advisors regarding their particular circumstances and requirements and rules regarding holding and transferring securities therein.

RISK FACTORS

An investment in the Subscription Receipts and the Underlying Shares is subject to certain risks due to the nature of the Corporation's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves. Investors should carefully consider the risks described under the heading "*Risk Factors*" in the AIF incorporated by reference in this short form prospectus, the risks identified elsewhere in this short form prospectus and the documents incorporated by reference herein and the risk factors set forth below prior to making an investment in the Subscription Receipts.

Possible Failure to Complete the Transactions

The Acquisition is subject to normal commercial risk that such transaction may not be completed on the terms negotiated or at all. If the Acquisition is not completed on or before the Termination Time in all material respects in accordance with the terms of the Share Purchase Agreements without material amendment or waiver adverse to the Corporation (unless any such amendment or waiver has been agreed to by the Lead Underwriter, on behalf of the Underwriters, acting reasonably), then the Subscription Receipts will be cancelled and holders of Subscription Receipts will be entitled to receive a refund of their subscription price and their *pro rata* entitlement to interest accrued on such amount. The purchaser would not be entitled to participate in any growth in the trading price of the Common Shares. Further, the purchaser would be restricted from using the funds devoted to the acquisition of the Subscription Receipts for any other investment opportunities until the Escrowed Funds are returned to the purchaser. In addition, if closing of the Acquisition does not take place as contemplated, the Corporation could suffer materially adverse consequences, including the forfeiture of the Deposit, which could jeopardize the Corporation's capital program and potentially limit activity and/or the loss of investor confidence.

Possible Failure to Realize Anticipated Benefits of the Acquisition

The Corporation is proposing to complete the Acquisition to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits. In particular, although the transaction metrics would remain accretive, if the Surubi ROFR was exercised, the size of the Acquisition will decrease materially. Achieving the benefits of the Acquisition depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Corporation's ability to achieve critical mass in Argentina and realize the anticipated growth opportunities and synergies from combining the Acquired Assets and operations with those of the Corporation. The integration of the Acquired Assets requires the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect the Corporation's ability to achieve the anticipated benefits of the Acquisition.

Evaluation of the Acquisition

Acquisitions of oil and natural gas properties or companies are based in large part on engineering, environmental and economic assessments made by the acquiror, independent engineers and consultants. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Corporation. All such assessments involve a measure of geologic, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

Although title and environmental reviews are typically conducted prior to any purchase of resource assets, any such reviews cannot guarantee that any unforeseen defects in the chain of title will not arise to defeat the Corporation's title to certain assets or that environmental defects or deficiencies do not exist. Although the Corporation engaged legal counsel to review title on the Acquired Assets, a full title opinion was not obtained prior to entering into the Share Purchase Agreements.

Operational and Reserves Risks Relating to the Acquired Assets

The risk factors set forth in the AIF and in this short form prospectus relating to the oil and natural gas business and the operations and reserves of the Corporation apply equally in respect of the Acquired Assets that the Corporation is acquiring pursuant to the Acquisition. In particular, the reserve and recovery information contained in the Vendor Report in respect of the Acquired Assets are only estimates, and the actual production from and ultimate reserves of those properties may be greater or less than the estimates contained in such reports. See "*Information Concerning the Argentina Business Unit – Significant Factors or Uncertainties*".

Nature of Acquisitions

Acquisitions of oil and gas properties or companies are based in large part on engineering, environmental and economic assessments made by the acquiror, independent engineers and consultants. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Corporation. All such assessments involve a measure of geologic, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated. Although select title and environmental reviews are conducted prior to any purchase of resource assets, such reviews cannot guarantee that any unforeseen defects in the chain of title will not arise to defeat the Corporation's title to certain assets or that environmental defects, liabilities or deficiencies do not exist or are greater

than anticipated. Such deficiencies or defects could adversely affect the value of the Acquired Assets and the Corporation's securities.

Risks of Argentinean Operations

As the Corporation has oil and gas properties and operations located in Argentina, the Corporation is subject to political, economic, and other uncertainties, including, but not limited to, changes in energy policies or the personnel administering them, nationalization, currency fluctuations, exchange controls, and royalty and tax increases. The Corporation's business, financial condition, results of operations, and the value of the Common Shares could also be materially adversely affected by social instability in Argentina and other factors which are not within the control of the Corporation including, among other things, the risks of terrorism, civil strikes, abduction, renegotiation or nullification of existing concessions and contracts, economic sanctions, the imposition of specific drilling obligations, and the development and abandonment of fields. The Corporation's operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Corporation's operations in Argentina, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. The Corporation may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Corporation's exploration, development and production activities in Argentina could be substantially affected by factors beyond the Corporation's control, any of which could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

Use of Proceeds of the Offering

As set out under "*Use of Proceeds*" in this short form prospectus, the Corporation intends to use certain of the proceeds of the Offering to pay the cash consideration pursuant to the Acquisition. There may be circumstances that are not known at this time where a reallocation of the net proceeds of the Offering and the exercise of the Over-allotment Option, if any, may be advisable for business reasons that the Board of Directors and management believe are in the Corporation's best interests.

Litigation

This Acquisition captures entities involved in litigation or potential litigation around claims resulting from among others, breaches of contracts, labour claims, taxation claims and environmental damages. The Corporation has accrued liabilities in its working capital estimate where it is expected that a claim may result in liability to the Argentina Business Unit.

Although the Corporation does not believe such litigation to be material, there can be no certainty that these provisions are sufficient to settle current claims or potential future claims. Some claims, if large enough, could have a material adverse effect on the Corporations business, financial condition and the value of the Common Shares.

Tax

The Acquisition involves seven different entities operating in three different tax jurisdictions (Canada, Barbados and Argentina). Issues around cross border finance and taxation are complicated for operating companies. Funds transferred between entities may be subject to adverse taxation rules. For example, losses in one entity may not be used to shelter income in another entity. The entities to be acquired have been subject to numerous audits by taxation authorities in Argentina. In some cases, these audits have resulted in negative reassessments in respect of current tax owing and penalties. There are provisions in the accrued liabilities where there is a reasonable chance of a tax claim being paid out. In other cases, the Corporation has an indemnity for some uncertain tax provisions.

There can be no certainty that the future audits will not uncover additional adverse tax rulings, assessments or reassessments, which may have a significant negative impact on the value of the Corporation.

Additional Funding Requirements

Madalena's cash flow from its oil and gas production, in addition to its current working capital and the net proceeds from the Offering, may not be sufficient to fund its planned capital expenditures to the extent that cash flow is lower than expected or that the costs associated with such capital expenditures are greater than expected. In addition, if the Corporation does decide to proceed with an acquisition a portion of the net proceeds from the Offering may be used as consideration for such acquisition and, as a result, the Corporation may require additional funding to proceed with planned capital expenditures on its current properties and on any properties acquired pursuant to such acquisition. Failure to obtain such financing on a timely basis could cause Madalena to forfeit its interest in certain properties, be unable to capitalize on certain acquisition opportunities and reduce or terminate its operations. If Madalena's revenues from its oil and gas production decrease as a result of lower oil and natural gas prices or otherwise, it will affect Madalena's ability to expend the necessary capital to replace its reserves or to maintain its production. If Madalena's cash flow from operations, current working capital and the net proceeds of the Offering are not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Madalena.

Volatility of Market Price of Common Shares

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders to sell the Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to the Corporation's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "*Special Note Regarding Forward-Looking Statements*". In addition, the market price for securities on stock markets, including the TSXV, is subject to significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market price of the Common Shares.

Additional and Unforeseen Capital Costs

Although Madalena intends to use the net proceeds from the Offering for exploration, appraisal and development on oil and gas assets in its core areas in Argentina and the Paddle River Area, Alberta, and to produce from such assets, Madalena may not be able to accurately estimate the cost of these initiatives. There could be unforeseen costs and expenses with such appraisal and development and the Corporation could require additional capital to implement its plan.

Joint Venture

The Corporation cautions that, notwithstanding the ongoing efforts to work towards a joint venture with respect to Madalena's 90% Curamhuele block in the Neuquén basin in Argentina and the fact that RBC Dominion Securities Inc., Madalena's exclusive advisor related to its Neuquén basin assets, is in communication with a broad spectrum of parties to solicit interest in a joint venture or other transaction with the Corporation, there are no assurances that an acceptable joint venture arrangement or other transaction will be reached.

Initial Well Rates Are Not Determinative of Future or Continuing Production Rates

Any references in this short form prospectus or the documents incorporated by reference herein to test rates, flow rates, initial and/or final raw test or production rates, early production, test volumes 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. In addition, much of the Corporation's assets are comprised of resource plays and, like many other projects where operators deploy similar operational approaches to those utilized by the Corporation, may be subject to high initial decline rates of production and pressure. Such production rates may also include recovered "load" fluids used in well completion stimulation. Readers are cautioned: (a) not to place reliance

on such rates in calculating the aggregate production for Madalena; and (b) test or early production results are not necessarily indicative of long-term performance or of ultimate recovery.

Market for Securities

There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell Subscription Receipts purchased under this short form prospectus. There can be no assurance that an active trading market will develop for the Subscription Receipts after completion of the Offering, or if developed, that such a market will be sustained at the price level of the Offering.

Volatility of Market Price of Common Shares

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders of Common Shares to sell the Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to the Corporation's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "*Special Note Regarding Forward-Looking Statements*". In addition, the market price for securities in the stock markets recently experienced significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the Common Shares.

Forward Looking Information May Prove Inaccurate

Investors are cautioned not to place undue reliance on forward looking information. By its nature, forward looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumptions and uncertainties are found in this short form prospectus under the heading "*Special Note Regarding Forward-Looking Statements*".

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

In addition, original purchasers of Subscription Receipts will have the benefit of a contractual right of rescission exercisable following the issuance of the Underlying Shares to such purchasers. See "*Details of the Offering*".

SCHEDULE A
UNAUDITED PRO FORMA FINANCIAL STATEMENTS

Madalena Energy Inc.

Pro forma Consolidated Statement of Financial Position
As at March 31, 2014
(Unaudited)

	Madalena CDN $000s	Argentina Business Unit USD $000s	Argentina Business Unit CDN $000s	Pro forma adjustments CDN $000s	Note	Consolidated pro forma CDN $000s
Assets						
Current assets						
Cash and cash equivalents	26,248	16,717	18,481	(14,472)	a,c	30,257
Trade and other receivables	4,510	12,783	14,132	-		18,642
Taxes receivable	-	2,428	2,684	-		2,684
Other current assets	1,231	3,674	4,062	6,955	a	12,248
	31,989	35,602	39,359	(7,517)		63,831
Property, plant and equipment	39,028	73,216	80,940	1,623	a	121,591
Exploration and evaluation assets	39,214	17,653	19,515	(17,415)	a	41,314
Other capital assets	-	1,316	1,455	(1,455)	a,d	-
Other non-current assets	1,881	1,819	2,011	-	a	3,892
	112,112	129,606	143,280	(24,764)		230,628
Liabilities						
Current liabilities						
Trade and other payables	12,526	18,692	20,664	7,938	a,e	41,128
Payable to related parties	-	32,152	35,544	(35,544)	b	-
Loan from related parties	-	29,532	32,648	(32,648)	b	-
Taxes payable	-	16,133	17,835	-	a	17,835
	12,526	96,509	106,691	(60,254)		58,963
Flow-through share liability	333	-	-	-		333
Payable to related parties	-	6,605	7,302	(7,302)	b	-
Decommissioning obligations	4,903	10,176	11,250	2,878	a	19,031
	17,762	113,290	125,243	(64,678)		78,327
Shareholders' Equity						
Share capital	180,850	-	-	61,743	g	242,593
Contributed surplus	12,999	-	-	-		12,999
Net parental investment	-	16,316	18,037	(18,037)	a	-
Accumulated other comprehensive loss	(23,674)	-	-	-		(23,674)
Deficit	(75,825)	-	-	(3,792)	e	(79,617)
	94,350	16,316	18,037	39,914		152,301
	112,112	129,606	143,280	(24,764)		230,628

See the accompanying notes to the unaudited pro forma consolidated Financial Statements.

Madalena Energy Inc.

Pro Forma Consolidated Statement of Loss
For the three months ended March 31, 2014
(Unaudited)

	Madalena	Argentina Business Unit	Argentina Business Unit	Pro forma adjustments		Consolidated pro forma
	CDN $000s	USD $000s	CDN $000s	CDN $000s	Note	CDN $000s
Revenues						
Oil and natural gas revenues	6,306	-	-	22,128	**d**	28,434
Royalties	(764)	-		(2,796)	**d**	(3,560)
Oil and natural gas sales	-	17,513	19,332	(19,332)	**d**	-
	5,542	17,513	19,332	-		24,874
Interest and other income	30	404	446	221	b	697
Unrealized loss on commodity contracts	(352)	-	-	-		(352)
	5,220	17,917	19,778	221		25,219
Expenses						
Operating	2,500	6,143	6,781	-		9,281
General and administrative	1,096	2,913	3,216	(77)	**d**	4,235
Finance cost	47	-	-	671	**f**	718
Share-based compensation	349	-	-	77	**d**	426
Depletion and depreciation	1,918	8,096	8,937	(3,777)	**f**	7,078
Impairment	658	-	-	-		658
Foreign exchange (gain) loss	(1,593)	4,492	4,959	-		3,366
	4,975	21,644	23,893	(3,106)		25,762
Income (loss) before income taxes	245	(3,727)	(4,115)	3,327		(543)
Income taxes						
Current income tax expense	-	-	-	463	**d**	463
Deferred income tax recovery	52	-	-	-	**d**	52
Income tax expense	-	419	463	(463)	**d**	-
	52	419	463	-		515
Net income (loss)	297	(3,308)	(3,652)	3,327		(28)
Loss per share						
Basic and diluted	0.00				**g**	(0.00)

See the accompanying Notes to the unaudited pro forma Consolidated Financial Statements.

Madalena Energy Inc.

Pro Forma Consolidated Statement of Loss
For the year ended December 31, 2013
(Unaudited)

	Madalena	Argentina Business Unit	Argentina Business Unit	Pro forma adjustments		Consolidated pro forma
	CDN $000s	USD $000s	CDN $000s	CDN $000s	Note	CDN $000s
Revenues						
Oil and natural gas revenues	17,960	-	-	88,554	**d**	106,514
Royalties	(2,375)	-		(10,747)	**d**	(13,122)
Oil and natural gas sales	-	75,555	77,807	(77,807)	**d**	-
	15,585	75,555	77,807	-		93,392
Interest and other income	335	1,019	1,049	206	b	1,590
Foreign exchange gain (loss)	3,586	(6,737)	(6,938)	-		(3,352)
Unrealized loss on commodity contracts	(90)	-	-	-		(90)
	19,416	69,837	71,918	206		91,540
Expenses						
Operating	9,536	39,568	40,747	-		50,283
General and administrative	6,050	13,849	14,262	(395)	**d**	19,917
Finance cost	137	-	-	2,776	**f**	2,913
Share-based compensation	1,234	-	-	395	**d**	1,629
Depletion and depreciation	6,638	65,092	67,032	(49,496)	**f**	24,174
Impairment	19,719	-	-	-		19,719
	43,314	118,509	122,041	(46,720)		118,635
(Loss) income before income taxes	(23,898)	(48,672)	(50,123)	46,926		(27,095)
Income taxes						
Current income tax expense	-	-	-	(4,508)	**d**	(4,508)
Deferred income tax recovery	613	-	-	652	**d**	1,265
Income tax expense	-	(3,744)	(3,856)	3,856	**d**	-
	613	(3,744)	(3,856)	-		(3,243)
Net (loss) income	(23,285)	(52,416)	(53,979)	46,926		(30,338)
Loss per share						
Basic and diluted	(0.07)				**g**	(0.07)

See the accompanying Notes to the unaudited pro forma Consolidated Financial Statements.

1. Basis of Presentation

The accompanying unaudited pro forma consolidated financial statements of Madalena Energy Inc. (the "Company" or "Madalena") have been prepared by management of Madalena and give effect to the proposed acquisition (the "acquisition") of certain businesses and subsidiaries of Grand Tierra Energy Inc.'s– Argentina Business Unit ("Argentina Business Unit"). The unaudited pro forma consolidated statement of financial position of Madalena as at March 31, 2014 and the unaudited pro forma consolidated statements of loss of Madalena for the three months ended March 31, 2014 and the year ended December 31, 2013 have been prepared from information derived from the following:

- Audited financial statements of Madalena for the year ended December 31, 2013 prepared in accordance with International Reporting Standards ("IFRS").
- Unaudited financial statements of Madalena as at and for the three months ended March 31, 2014 prepared in accordance with IFRS
- Audited financial statements of Argentina Business Unit for the year ended December 31, 2013 prepared in accordance with accounting principles generally accepted in the United States ("USGAAP").
- Unaudited financial statements of Argentina Business Unit as at and for the three months ended March 31, 2014 prepared in accordance with USGAAP.

The pro forma consolidated financial statements have been prepared in accordance with applicable Canadian securities legislation. The pro forma financial statements are not in compliance with IFRS as certain notes and information have been omitted or condensed for the purpose of the pro forma presentation. The unaudited pro forma consolidated statement of financial position gives effect to the proposed transaction and assumptions as if they had occurred at the financial position date. The unaudited pro forma consolidated statement of loss for the three months ended March 31, 2014 and the year ended December 31, 2013 gives effect to the proposed transaction and assumptions as if they had occurred at January 1, 2013. These pro forma consolidated statements of loss are not necessarily indicative of the results that would have occurred for the three months ended March 31, 2014 or the year ended December 31, 2013 or for future periods. No adjustments have been made to reflect the expected operating synergies and administrative cost savings that could result from the acquisition.

The accounting polices used in the preparation of the pro forma consolidated financial statements are consistent with those used by Madalena in the audited consolidated financial statements for the year ended December 31, 2013. Management of Madalena reviewed the significant accounting policies used by the Argentina Business Unit under USGAAP and, where material, has made adjustments to the pro forma statements of loss to conform these policies with those of Madalena under IFRS (see note 2(f)). No pro forma adjustments were made to the pro forma consolidated statement of financial position in order to conform the historic accounting policies of the Argentina Business Unit under USGAAP to Madalena's IFRS accounting policies as the draft purchase price allocation described in 2(a) results in the assets acquired and liabilities assumed to be recognized at fair value. The pro forma consolidated financial statements should be read in conjunction with the above noted financial statements.

2. Pro Forma Assumptions and Adjustments

The purchase price for the acquisition, which includes all of the shares and debt of Argentina Business Unit (see note 2.(b)) will consist of US$63.0 million plus US$6.2 million in working capital adjustments, comprised of US$55.2 million of cash and 29,831,537 Common Shares at a deemed issue price of $0.51 per Common Share.

(a) Fair value of the acquisition

The preliminary purchase price and recognized amounts of identifiable assets and liabilities assumed has been determined as follows:

Canadian $000s	
Estimated Fair Value of Net assets acquired	
Net working capital	3,668
Property, plant and equipment	82,564
Exploration and evaluation assets	2,100
Other non-current assets	2,011
Decommissioning obligation	(14,128)
	76,215
Cost of acquisition	
Cash	61,001
Fair value of shares issued	15,214
Total Consideration	76,215

The above allocation has been determined from information that is available to the management of Madalena at this time and incorporates certain estimates. The Company continues to obtain knowledge of the tax basis of the assets to be acquired and liabilities assumed in the acquisition. Until such analysis is complete, the deferred tax impact of certain adjustments cannot be determined. The actual acquisition accounting will be finalized after all actual results have been obtained and the final fair values of the assets and liabilities have been determined. Accordingly, the above acquisition accounting is subject to change.

The consideration was comprised of cash and shares and was negotiated in US dollars.

- Total cash consideration to be paid in US dollars was determined based on a negotiated amount of $49.0 million plus an adjustment for working capital at April 30, 2014 of $6.2 million. The actual amount paid in Canadian dollars will be based on the exchange rate on the date of the close of the acquisition. In the pro forma consolidated statement of financial position the net assets acquired and consideration was converted to Canadian dollars at the closing exchange rate at March 31, 2014.
- The fair value of shares issued as part of the acquisition have been estimated using the price for the concurrent equity financing of $0.51/share. The fair value of the shares issued will be based on the price of Madalena's shares on the date of the close of the acquisition. A 5% increase or decrease in the price of the shares will result in a corresponding increase or decrease of $0.8 million in the cost of the acquisition.

As part of the purchase price allocation presented above, adjustments to historic Argentina Business Unit balances include:

- Recognition of a current asset for approximately $7.0 million related to indemnifications provided by Gran Tierra Energy Inc. for which associated liabilities are recognized in the pro forma statement of financial position as at March 31, 2014;
- recognition of a $4.1 million contingent liability related to a penalty that the Corporation will incur for not spending a required work commitment on one of the exploration permits acquired.

(b) Forgiveness of related party loans and amounts payable

As part of the acquisition agreement, various subsidiaries within Gran Tierra Energy Inc. have agreed to forgive certain intercompany loans and amounts payable with the remaining balance owing to be transferred to subsidiaries of Madalena. Of the $75.5 million owing by Argentina Business Unit to related parties at March

31, 2014, $29.1 million has been purchased by Madalena as part of the consideration paid and the remaining balance of $46.4 million will be forgiven by subsidiaries within Gran Tierra Energy Inc. Upon completion of the purchase and forgiving of this debt, no amounts will remain outstanding to entities outside of Madalena's consolidated group. A pro forma adjustment of $0.2 million was made to deduct interest paid on these loans for the year ended December 31, 2013 and the three months ended March 31, 2014.

(c) Bought deal financing

In order to finance the acquisition, the Company entered into a bought deal letter for a subscription receipt offering of 98,100,000 subscription receipts at a price of $0.51 per subscription receipt for gross proceeds of $50.0 million. Subscription receipts will be exchanged for common shares of Madalena upon close of the acquisition. Share issue costs for this financing are estimated to be $3.5 million. These pro forma financial statements do not include an amount for any proceeds that may be received pursuant to the over-allotment option for the underwriters to purchase up to an additional 14,715,000 subscription receipts for net proceeds of $7.1 million.

(d) Financial information presentation

Certain reclassification adjustments have been made to the unaudited condensed consolidated financial statements to conform Argentina Business Unit presentation of the financial information to Madalena's presentation.

(e) Transaction costs

Transaction costs incurred by Madalena including advisor fees, legal and accounting fees and other acquisition costs are estimated to be approximately $1.6 million. Transaction costs incurred by Argentina Business Unit including advisory fees and amounts payable to employees are estimated to be $2.2 million.

(f) Depletion, depreciation, impairment and accretion

Pro forma Depletion relating to the oil and gas properties acquired was calculated based on the preliminary estimated fair value of the assets and estimated future development costs and depleted using actual production over proved plus probable reserves. The pro forma adjustments reflect changes to the Argentina Business Units depletion policies under USGAAP, which were based on units of production using only proved oil and natural gas reserves. Pro forma depreciation was calculated on the adjusted fair value of the assets acquired.

For the year ended December 31, 2013, Argentina Business Unit recognized an impairment loss of US$31.6 million (March 31, 2014 – nil) which had been recorded as a component of depletion and depreciation expense. This impairment charge was reversed as part of the pro forma adjustments as the new cost base, that would have been assigned to property, plant and equipment at the beginning of the year, was the fair value amount of the assets.

Accretion expense on the decommissioning obligation acquired was adjusted to reflect Madalena's accounting policies and is recognized as a finance cost.

(g) Share capital

Common shares outstanding	**Number of Shares 000s**	**Share Capital $000s**
Madalena common shares outstanding at March 31, 2014	396,886	180,850
Shares issued pursuant to subscription receipt financing	98,100	50,031
Shares issued to purchase Argentina Business Unit	29,831	15,214
Shares issue costs	-	(3,502)
Pro forma balance	**524,817**	**242,593**

Weighted average common shares outstanding Basic and diluted	For the three months ended March 31, 2014 000s	For the year ended December 31, 2013 000s
Weighted average common shares outstanding, prior to the acquisition	381,917	328,771
Shares issued pursuant to subscription receipt financing	98,100	98,100
Shares issued to purchase Argentina Business Unit	29,831	29,831
Pro forma weighted average shares for the period	**509,848**	**456,702**

All share options were excluded from the calculation of diluted earnings per share as their effect is antidilutive.

SCHEDULE B
CONSOLIDATED FINANCIAL STATEMENTS – ARGENTINA BUSINESS UNIT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Gran Tierra Energy Inc.:

We have audited the accompanying combined consolidated financial statements of Gran Tierra Energy – Argentina Business, which comprise the combined consolidated carve-out balance sheet as at December 31, 2013, and the combined consolidated carve-out statements of operations, net parental investment and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these combined consolidated financial statements in accordance with accounting standards generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of combined consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined consolidated carve-out financial statements present fairly, in all material respects, the financial position of Gran Tierra Energy – Argentina Business as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the United States of America.

/s/ Deloitte LLP

Chartered Accountants
May 27, 2014
Calgary, Alberta

Gran Tierra Energy - Argentina Business
Combined Consolidated Carve-Out Statements of Operations
(Thousands of U.S. Dollars)

Year Ended December 31,	Notes	2013	2012 (unaudited)
REVENUE AND OTHER INCOME			
Oil and natural gas sales		**$ 75,555**	$ 79,674
Interest income		**1,019**	369
		76,574	80,043
EXPENSES			
Operating		**39,568**	32,696
Depletion, depreciation, accretion and impairment		**65,092**	31,467
General and administrative		**13,849**	13,760
Foreign exchange loss		**6,737**	2,720
		125,246	80,643
LOSS BEFORE INCOME TAXES		**(48,672)**	(600)
Income tax expense	6	**(3,744)**	(4,155)
NET LOSS AND COMPREHENSIVE LOSS		**$ (52,416)**	$ (4,755)

(See notes to the combined consolidated carve-out financial statements)

Gran Tierra Energy - Argentina Business
Combined Consolidated Carve-Out Balance Sheets
(Thousands of U.S. Dollars)

As at December 31,	Notes	2013	2012 (unaudited)
ASSETS			
Current Assets			
Cash and cash equivalents		**$ 21,179**	$ 17,278
Restricted cash		**—**	835
Accounts receivable	3	**13,545**	19,541
Inventory	3	**2,358**	1,783
Taxes receivable		**2,904**	8,233
Prepaids		**446**	529
Total Current Assets		**40,432**	48,199
Oil and Gas Properties (using the full cost method of accounting)			
Proved		**74,898**	94,380
Unproved		**17,441**	42,284
Total Oil and Gas Properties		**92,339**	136,664
Other capital assets		**1,310**	2,185
Total Property, Plant and Equipment	4	**93,649**	138,849
Other Long-Term Assets			
Deferred tax assets	6	**—**	1,401
Taxes receivable		**1,839**	—
Total Other Long-Term Assets		**1,839**	1,401
Total Assets		**$ 135,920**	$ 188,449
LIABILITIES AND NET PARENTAL INVESTMENT			
Current Liabilities			
Accounts payable	7	**$ 6,776**	$ 9,004
Accrued liabilities	7	**15,237**	11,004
Payable to related parties	10	**31,269**	29,987
Loan from related parties	10	**29,532**	2,000
Taxes payable		**16,731**	13,190
Total Current Liabilities		**99,545**	65,185
Long-Term Liabilities			
Deferred tax liabilities	6	**—**	2,035
Asset retirement obligation	5	**9,755**	7,182
Loan from related parties	10	**6,605**	45,205
Total Long-Term Liabilities		**16,360**	54,422
Commitments and Contingencies	8		
Net parental investment		**20,015**	68,842
Total Net Parental Investment		**20,015**	68,842
Total Liabilities and Net Parental Investment		**$ 135,920**	$ 188,449

(See notes to the combined consolidated carve-out financial statements)

Gran Tierra Energy - Argentina Business
Combined Consolidated Carve-Out Statements of Cash Flows
(Thousands of U.S. Dollars)

Year Ended December 31,	Notes	2013	2012 (unaudited)
Operating Activities			
Net loss		**$ (52,416)**	$ (4,755)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depletion, depreciation, accretion and impairment		**65,092**	31,467
Deferred tax recovery	6	**(634)**	(540)
Non-cash related party expense		**916**	1,007
Unrealized foreign exchange loss		**4,996**	1,958
Settlement of asset retirement obligation	5	**—**	(404)
Net change in assets and liabilities from operating activities			
Accounts receivable		**5,986**	(9,905)
Inventory		**(221)**	61
Prepaids		**82**	(61)
Accounts payable and accrued liabilities		**3,820**	1,037
Payable to related parties		**1,293**	17,187
Taxes receivable and payable		**7,165**	11,784
Deferred tax assets and liabilities		**—**	(162)
Net cash provided by operating activities		**$ 36,079**	$ 48,674
Investing Activities			
Decrease in restricted cash		**$ 835**	$ 905
Additions to property, plant and equipment		**(23,731)**	(37,879)
Proceeds from acquisition of oil and gas properties	4	**4,097**	—
Net cash used in investing activities		**$ (18,799)**	$ (36,974)
Financing Activities			
Advances from (repayments to) related parties		**$ 2,829**	$ (28,434)
Loans (repaid to) provided by related parties	9	**(11,100)**	25,000
Net cash used in financing activities		**$ (8,271)**	$ (3,434)
Foreign exchange loss on cash and cash equivalents		**$ (5,108)**	$ (2,055)
Net increase in cash and cash equivalents		**$ 3,901**	$ 6,211
Cash and cash equivalents, beginning of year		**17,278**	11,067
Cash and cash equivalents, end of year		**$ 21,179**	$ 17,278
Cash		**$ 21,179**	$ 14,837
Term deposits		**—**	2,441
Cash and cash equivalents, end of year		**$ 21,179**	$ 17,278
Supplemental cash flow disclosures:			
Cash paid for income taxes		**$ 133**	$ 447
Non-cash investing activities:			
Non-cash net liabilities related to property, plant and equipment, end of year		**$ 6,206**	$ 8,294

Gran Tierra Energy - Argentina Business
Combined Consolidated Carve-Out Statement of Net Parental Investment
(Thousands of U.S. Dollars)
(Unaudited)

Balance, January 1, 2012 (unaudited)	$	100,670
Net loss and comprehensive loss for the year		(4,755)
Net transfers to Parent		(27,073)
Balance, December 31, 2012 (unaudited)		**68,842**
Net loss and comprehensive loss for the year		**(52,416)**
Net transfers from Parent		**3,589**
Balance, December 31, 2013	**$**	**20,015**

(See notes to the combined consolidated carve-out financial statements)

Notes to the Combined Consolidated Carve-Out Financial Statements

For the Years Ended December 31, 2013 (audited) and 2012 (unaudited)

(Expressed in U.S. thousand Dollars, unless otherwise indicated)

1. Nature of operations and basis of presentation

Nature of operations

The combined consolidated carve-out financial statements of Gran Tierra Energy - Argentina Business (the "Business"), have been prepared using the historical cost basis of accounting for the purpose of presenting the results of the Business expected to be disposed. The Business's principal activities are the exploration, development and production of oil and natural gas properties in Argentina.

Basis of presentation

The combined consolidated carve-out financial statements of the Business have been derived from the consolidated financial statements and accounting records of Gran Tierra Energy Inc. ("Gran Tierra" or the "Parent") as if it were operated on a stand-alone basis and were prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

The combined consolidated carve-out statements of operations reflect allocations of general corporate expenses from Parent including, but not limited to, executive management, finance, audit, tax, internal audit, legal, information technology, human resources, employee benefits administration, treasury, risk management and other shared services. The allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of capital expenditures incurred, production or other costs incurred. Management of the Business and Parent consider these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to the Business. The allocations may not, however, reflect the expense the Business would have incurred as a stand-alone company for the periods presented or of the costs expected to be incurred in the future. Actual costs that may have been incurred if the Business had been a stand-alone business would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure.

The combined consolidated carve-out balance sheets of the Business include Parent assets and liabilities that are specifically identifiable or otherwise attributable to the Business. Parent's cash has not been assigned to the Business for any of the periods presented because those cash balances are not directly attributable to the Business nor is the Business expected to acquire or assume that cash presently or in connection with the proposed disposal.

Parent has historically used a centralized approach to cash management and financing of its operations. Transactions between the Business and Parent are considered to be effectively settled for cash at the time the transaction is recorded. The net effect of these transactions is included in the combined consolidated carve-out statements of cash flows as financing activities. During the years ended December 31, 2013, and 2012, the Business was allocated $3.3 million and $3.8 million, respectively, of general corporate expenses incurred by the Parent which are included within general and administrative expenses in the combined consolidated carve-out statements of operations.

2. Significant Accounting Policies

Management of the Business believes that the information and disclosures presented are adequate to ensure the information presented is not misleading.

Significant accounting policies are:

Relationship with Parent

Gran Tierra's net investment in the Business is shown in lieu of shareholders' equity in the combined consolidated carve-out financial statements because the Business in its entirety is not a separate legal entity. Gran Tierra's net investment in the Business is presented as ''Net Parental Investment''. Changes in net parental investment include net cash transfers and other transfers to and from Gran Tierra and the Business.

Basis of consolidation

The combined consolidated carve-out financial statements include the accounts of Gran Tierra's Argentina entities and Argentina operations, including its wholly-owned subsidiaries: Gran Tierra Energy Argentina S.R.L; Petrolifera Petroleum Americas Limited; Petrolifera Petroleum Americas Limited Sucursal Argentina; Petrolifera Petroleum Limited Sucursal Argentina; Petrolifera Petroleum

Limited; Petrolifera Petroleum Holdings Limited; and PETJA S.A. All intercompany accounts and transactions between the Argentina entities have been eliminated.

Use of estimates

The preparation of combined consolidated carve-out financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined consolidated carve-out financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include: oil and natural gas reserves and related present value of future cash flows; depreciation, depletion, amortization and impairment ("DD&A"); timing of transfers from oil and gas properties not subject to amortization to the amortization base; asset retirement obligations; income taxes; legal and other contingencies; and allocation of general corporate costs. Although management believes these estimates are reasonable, changes in facts and circumstances or discovery of new information may result in revised estimates, and actual results may differ from these estimates.

Cash and cash equivalents

The Business considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted cash

Restricted cash comprises cash and cash equivalents pledged to secure letters of credit. Letters of credit currently secured by cash relate to work commitment guarantees contained in exploration contracts. Cash and claims to cash that are restricted as to withdrawal or use for other than current operations or are designated for expenditure in the acquisition or construction of long-term assets are excluded from the current asset classification

Allowance for doubtful accounts

The Business estimates losses on receivables based on known uncollectible accounts, if any, and historical experience of losses incurred and accrues a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of the reserve may be reasonably estimated. The allowance for doubtful receivables was nil at December 31, 2013, and 2012.

Inventory

Inventory consists of oil in tanks and supplies and is valued at the lower of cost or market value. The cost of inventory is determined using the weighted average method. Oil inventories include expenditures incurred to produce, upgrade and transport the product to the storage facilities and include operating, depletion and depreciation expenses and cash royalties.

Income taxes

Gran Tierra's historical financial statements included the operations of the Business. For purposes of these combined consolidated carve-out financial statements, the taxes of the Business are computed and reported on a "separate return basis." Income taxes as presented herein allocate current and deferred taxes of Gran Tierra to the Business in a manner that is systematic, rational, and consistent with the liability method prescribed by GAAP.

Income taxes are recognized using the liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the combined consolidated carve-out financial statement carrying amounts of existing assets and liabilities and their respective tax base, and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry forwards are expected to be recovered or settled. Valuation allowances are provided if, after considering available evidence, it is more likely than not that some or all of the deferred tax assets will be realized.

The tax benefit from an uncertain tax position is recognized when it is more likely than not, based on the technical merits of the position, that the position will be sustained on examination by the taxing authorities. Additionally, the amount of the tax benefit recognized is the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Business presumes that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The Business recognizes potential penalties and interest related to unrecognized tax benefits as a component of income tax expense.

Oil and gas properties

The Business uses the full cost method of accounting for its investment in oil and natural gas properties as defined by the United States Securities and Exchange Commission ("SEC"). Under this method, the Business capitalizes all acquisition, exploration and development costs incurred for the purpose of finding oil and natural gas reserves, including salaries, benefits and other internal costs directly attributable to these activities. Costs associated with production and general corporate activities; however, are expensed as incurred. The Business computes depletion of oil and natural gas properties on a quarterly basis using the unit-of-production method based upon production and estimates of proved reserve quantities. Future development costs related to properties with proved reserves

are also included in the amortization base for computation of depletion. The costs of unproved properties are excluded from the amortization until the properties are evaluated. The cost of exploratory dry wells is transferred to proved properties, and thus is subject to amortization, immediately upon determination that a well is dry. The Business performs a ceiling test calculation each quarter in accordance with SEC Regulation S-X Rule 4-10. In performing its quarterly ceiling test, the Business limits the capitalized costs of proved oil and natural gas properties, net of accumulated depletion and deferred income taxes, to the estimated future net cash flows from proved oil and natural gas reserves discounted at 10%, net of related tax effects, plus the lower of cost or fair value of unproved properties included in the costs being amortized. If such capitalized costs exceed the ceiling, the Business will record a write-down to the extent of such excess as a non-cash charge to net income. Any such write-down will reduce earnings in the period of occurrence and results in a lower DD&A rate in future periods. A write-down may not be reversed in future periods even though higher oil and natural gas prices may subsequently increase the ceiling.

The Business calculates future net cash flows by applying the unweighted average of prices in effect on the first day of the month for the preceding 12 month period, adjusted for location and quality differentials. Such prices are utilized except where different prices are fixed and determinable from applicable contracts for the remaining term of those contracts.

Unproved properties are not depleted pending the determination of the existence of proved reserves. Costs are transferred into the amortization base on an ongoing basis as the properties are evaluated and proved reserves are established or impairment is determined. Unproved properties are evaluated quarterly to ascertain whether impairment has occurred. This evaluation considers, among other factors, seismic data, requirements to relinquish acreage, drilling results and activity, remaining time in the commitment period, remaining capital plans, and political, economic, and market conditions. During any period in which factors indicate impairment, the cumulative costs incurred to date for such property are transferred to the full cost pool and are then subject to amortization. In exploration areas, related geological and geophysical ("G&G") costs are capitalized in unproved property and evaluated as part of the total capitalized costs associated with a property. G&G costs related to development projects are recorded in proved properties and therefore subject to amortization as incurred.

Gains and losses on the sale or other disposition of oil and natural gas properties are not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas attributable.

Asset retirement obligation

The Business records the fair value of a liability for a legal obligation to retire an asset in the period in which the liability is incurred with an offsetting increase to the related oil and gas properties. The fair value of asset retirement obligations are measured by reference to the expected future cash outflows required to satisfy the retirement obligations discounted at the Business's credit-adjusted risk-free interest rate. Accretion expense is recognized over time as the discounted liabilities are accreted to their expected settlement value, while the asset retirement cost is amortized over the estimated productive life of the related assets. The accretion of the asset retirement obligation and amortization of the asset retirement cost are included in DD&A. If estimated future costs of asset retirement obligations change, an adjustment is recorded to both the asset retirement obligation and oil and gas properties. Revisions to the estimated asset retirement obligation can result from changes in retirement cost estimates, revisions to estimated inflation rates and changes in the estimated timing of abandonment.

Other capital assets

Other capital assets, including additions and replacements, are recorded at cost upon acquisition and include furniture, fixtures and leasehold improvement, computer equipment and automobiles. Depreciation is provided using the declining-balance method at a 30% annual rate for furniture and fixtures, computer equipment and automobiles. Leasehold improvements are depreciated on a straight-line basis over the shorter of the estimated useful life and the term of the related lease. The cost of repairs and maintenance is charged to expense as incurred.

Revenue recognition

Revenue from the production of oil and natural gas is recognized when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable, the sale is evidenced by a contract and collection of the revenue is reasonably assured.

In Argentina, Gran Tierra transports oil from the field to the customer's refinery or the oil terminal by pipeline or truck, where title is transferred. For the Business's gas sales customers take title when the gas is transferred to the customer's pipeline. Revenue represents the Business's share and is recorded net of royalty payments to governments and other mineral interest owners.

Foreign currency translation

The functional and reporting currency of the Business, including its subsidiaries, is the United States dollar. Monetary items are translated into the reporting currency at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Revenue and expense items are translated in a manner that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred. Depreciation or amortization of assets is translated at the historical exchange rates similar to the assets to which they relate.

Gains and losses resulting from foreign currency transactions, which are transactions denominated in a currency other than the Business's functional currency, are recognized in net income.

Recently Issued Accounting Pronouncements

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is fixed at the Reporting Date

In February 2013, the FASB issued Accounting Standards Update ("ASU") 2013-04, "*Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* ". The ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. Examples of obligations within the scope of this update include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The implementation of this update is not expected to materially impact the Business's combined consolidated carve-out financial position, results of operations or cash flows.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued ASU 2011-13, *"Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists"*. The ASU provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The implementation of this update is not expected to materially impact the Business's combined consolidated carve-out financial position, results of operations or cash flows.

3. Accounts Receivable and Inventory

Accounts Receivable

	As at December 31,	
(Thousands of U.S. Dollars)	**2013**	**2012**
Trade	**$ 13,115**	$ 18,363
Other	**430**	1,178
	$ 13,545	$ 19,541

Inventory

At December 31, 2013, oil and supplies inventories were $2.3 million and $0.1 million, respectively (December 31, 2012 - $1.6 million and $0.2 million, respectively).

4. Property, Plant and Equipment

Property, Plant and Equipment

(Thousands of U.S. Dollars)	As at December 31, 2013 Cost	Accumulated Depletion, Depreciation and Impairment	Net Book Value	As at December 31, 2012 Cost	Accumulated Depletion, Depreciation and Impairment	Net Book Value
Oil and natural gas properties						
Proved	**$ 333,825**	**$ (258,927)**	**$ 74,898**	$ 290,097	$ (195,717)	$ 94,380
Unproved	**17,441**	**—**	**17,441**	42,284	—	42,284
Total Oil and Gas Properties	**351,266**	**(258,927)**	**92,339**	332,381	(195,717)	136,664
Furniture and fixtures and leasehold improvements	**1,074**	**(855)**	**219**	1,463	(834)	629
Computer equipment	**2,684**	**(1,698)**	**986**	2,463	(1,115)	1,348
Automobiles	**623**	**(518)**	**105**	635	(427)	208
Total Property, Plant and Equipment	**$ 355,647**	**$ (261,998)**	**$ 93,649**	$ 336,942	$ (198,093)	$ 138,849

Depletion and depreciation expense on property, plant and equipment for the year ended December 31, 2013, was $33.1 million (year ended December 31, 2012 - $ 31.0 million). A portion of depletion and depreciation expense was recorded as inventory in each year.

In the second quarter of 2013, the Business assumed its partner's 50% working interest in the Santa Victoria Block and received cash consideration of $4.1 million from its partner, comprising the balance owing for carry consideration and compensation for the second exploration phase work commitment.

In the year ended December 31, 2013, the Business recorded a ceiling test impairment loss of $31.6 million (year ended December 31, 2012- $nil) as a result of deferred investment and inconclusive waterflood results.

Rio Negro Province has enacted legislation that changes the royalty regime associated with concession agreement extensions. The Business is negotiating concession agreement extensions and royalty rates for its Puesto Morales, Puesto Morales Este, Rinconada Norte and Rinconada Sur Blocks and expects that royalty rates in Rio Negro Province will likely increase and a bonus payment, not determinable at this time, may be payable for the concession agreement extensions.

Unproved oil and natural gas properties consist of exploration lands held in Argentina. These properties are being held for their exploration value and are not being depleted pending determination of the existence of proved reserves. The Business will continue to assess the unproved properties over the next several years as proved reserves are established and as exploration dictates whether or not future areas will be developed. The Business expects that 100% of costs not subject to depletion at December 31, 2013, will be transferred to the depletable base within the next 5 years.

The following is a summary of Business's oil and natural gas properties not subject to depletion as at December 31, 2013:

(Thousands of U.S. Dollars)	Costs Incurred in 2013	2012	2011	Prior to 2011	Total

Acquisition costs	**$ (4,885)**	**$ —**	**$ 14,889**	**$ —**	**$ 10,004**
Exploration costs	**204**	**(588)**	**2,595**	**5,226**	**7,437**
Total oil and natural gas properties not subject to depletion	**$ (4,681)**	**$ (588)**	**$ 17,484**	**$ 5,226**	**$ 17,441**

5. Asset Retirement Obligation

Changes in the carrying amounts of the asset retirement obligation associated with the Business's oil and natural gas properties were as follows:

	Year Ended December 31,	
(Thousands of U.S. Dollars)	**2013**	**2012**
Balance, beginning of year	**$ 7,182**	$ 6,688
Settlements	**—**	(404)
Liability incurred and foreign exchange	**1,828**	918
Accretion	**745**	596
Revisions in estimated liability	**—**	(616)
Balance, end of year	**$ 9,755**	$ 7,182
Asset retirement obligation - current	**—**	—
Asset retirement obligation - long-term	**9,755**	7,182
Balance, end of year	**$ 9,755**	$ 7,182

Revisions to estimated liabilities relate primarily to changes in estimates of asset retirement costs and include, but are not limited to, revisions of estimated inflation rates, changes in property lives and the expected timing of settling the asset retirement obligation. At December 31, 2013, and 2012 no assets were legally restricted assets for the purposes of settling asset retirement obligations.

6. Taxes

The income tax expense reported differs from the amount computed by applying the Argentina statutory rate (the Argentina statutory rate was because Argentina is the primary residency of the Business) to loss before income taxes for the following reasons:

	Year Ended December 31,	
(Thousands of U.S. Dollars)	**2013**	**2012**
Loss before income taxes	**$ (48,672)**	$ (600)
	35%	35%
Income tax recovery expected	**(17,035)**	(210)
Foreign currency translation adjustments	**4,207**	223
Impact of foreign taxes	**2,311**	1,161
Non-cash related party expense	**134**	229
Increase in valuation allowance	**16,574**	6,638
Branch and other foreign loss pick-up	**(2,362)**	(3,809)
Other permanent differences	**(85)**	(77)
Total income tax expense	**$ 3,744**	$ 4,155
Current income tax expense	**4,378**	4,695
Deferred income tax recovery	**(634)**	(540)
Total income tax expense	**$ 3,744**	$ 4,155

	Year Ended December 31,	
(Thousands of U.S. Dollars)	**2013**	**2012**
Deferred Tax Assets		
Tax benefit of loss carryforwards	**$ 14,379**	$ 16,526
Tax basis in excess of book basis	**15,304**	(2,126)
Foreign taxes and other accruals	**16,815**	17,666
Tax benefit of capital loss carry forwards	**16**	7
Deferred tax assets before valuation allowance	**46,514**	32,073
Valuation allowance	**(46,514)**	(30,672)
	$ —	$ 1,401
Deferred tax assets - current	**$ —**	$ —
Deferred tax assets - long-term	**—**	1,401
	$ —	$ 1,401
Deferred tax liabilities - current	**$ —**	$ —
Deferred tax liabilities - long-term	**—**	(2,035)
	$ —	$ (2,035)
Net Deferred Tax Liabilities	**$ —**	$ (634)

As at December 31, 2013, the Business had operating loss carryforwards of $97.2 million (December 31, 2012 - $91.7 million) and capital losses of $0.1 million (December 31, 2012 – $0.1 million) before valuation allowance. The operating loss carryforwards will expire between 2014 and 2033 and the capital losses can be carried forward indefinitely.

The valuation allowance increased by $15.8 million during the year ended December 31, 2013. The change in the valuation allowance primarily related to the change in the tax basis in excess of book basis. The Business continues to incur losses in certain entities. The losses are fully offset by a valuation allowance as their recognition does not meet the “more likely than not” threshold.

As at December 31, 2013, the total amount of the Business’s unrecognized tax benefit was $20.0 million (December 31, 2012 - $21.0 million), $9.7 million of which, if recognized, would affect the Business’s effective tax rate. To the extent interest and penalties may

be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and are classified as a component of income taxes in the combined consolidated carve-out statement of operations. As at December 31, 2013, the amount of interest and penalties on the unrecognized tax benefit included in current income tax liabilities in the combined consolidated carve-out balance sheet was $3.9 million (December 31, 2012 - $ nil). The Business had no other material interest or penalties included in the combined consolidated carve-out statement of operations for the two years ended December 31, 2013, respectively.

Changes in the Business's unrecognized tax benefit were as follows:

	Year Ended December 31,	
(Millions of U.S. Dollars)	**2013**	**2012**
Unrecognized tax benefit, beginning of year	**$ 20,998**	$ 18,281
Increases for tax positions relating to prior year	**—**	1,523
Decreases for tax positions relating to prior year	**(954)**	—
Increases for tax positions relating to the current year	**—**	1,474
Decreases due to lapse of statute of limitations	**—**	(280)
Unrecognized tax benefit, end of year	**$ 20,044**	$ 20,998

The Business and its subsidiaries file income tax returns in Argentina, Barbados and Canada. The Business is potentially subject to income tax examinations for the tax years 2005 through 2012 in certain jurisdictions. The Business does not anticipate any material changes to the unrecognized tax benefit disclosed above within the next twelve months.

7. Accounts Payable and Accrued Liabilities

	As at December 31,	
(Thousands of U.S. Dollars)	**2013**	**2012**
Trade	**$ 12,537**	$ 13,185
Royalties	**656**	878
VAT and withholding tax	**4,909**	3,414
Other	**3,911**	2,531
	$ 22,013	$ 20,008

8. Commitments and Contingencies

Purchase Obligations, Firm Agreements and Leases

The following is a schedule by year of purchase obligations, future minimum payments for firm agreements and leases that had initial or remaining non-cancellable lease terms in excess of one year as of December 31, 2013:

		Year Ended December 31,					
	Total	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**
(Thousands of U.S. Dollars)							
Oil transportation services	**$ 443**	$ 443	$ —	$ —	$ —	$ —	$ —
Drilling and G&G	**639**	639	—	—	—	—	—
Facility construction	**5,333**	4,635	698	—	—	—	—
Operating leases	**141**	141	—	—	—	—	—
	$ 6,556	$ 5,858	$ 698	$ —	$ —	$ —	$ —

The Business leases certain office space. Total rent expense for the year ended December 31, 2013, was $0.3 million (year ended December 31, 2012 – $0.3 million).

The Business has several lawsuits and claims pending. Although the outcome of these lawsuits and disputes cannot be predicted with certainty, the Business believes the resolution of these matters would not have a material adverse effect on the Business's combined consolidated carve-out financial position, results of operations or cash flows. The Business records costs as they are incurred or become probable and determinable.

9. Financial Instruments, Fair Value Measurements and Credit Risk

At December 31, 2013, the Business's financial instruments recognized in the balance sheet were cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and related party payables and loans.

The fair values of financial instruments approximate their carrying amounts due to the short-term maturity of these instruments. At December 31, 2013, and December 31, 2012, the Business held no derivative instruments.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and have the highest priority. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and have lower priorities. The Business uses appropriate valuation techniques based on the available inputs to measure the fair values of assets and liabilities. The disclosure in the paragraph above regarding the fair value of cash and restricted cash is based on Level 1 inputs.

Credit risk arises from the potential that the Business may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. The Business's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivables. The carrying value of cash and cash equivalents and accounts receivable reflects management's assessment of credit risk.

At December 31, 2013, cash and cash equivalents included balances in savings and checking accounts, as well as term deposits and certificates of deposit, placed primarily with governments and financial institutions with strong investment grade ratings, or the equivalent in the Business's operating areas. Any foreign currency transactions are conducted on a spot basis, with major financial institutions in the Business's operating areas.

Most of the Business's accounts receivable relate to uncollateralized sales to customers in the oil and natural gas industry and are exposed to typical industry credit risks. The concentration of revenues in a single industry affects the Business's overall exposure to credit risk because customers may be similarly affected by changes in economic and other conditions. The Business manages this credit risk by entering into sales contracts with only credit worthy entities and reviewing its exposure to individual entities on a regular

basis. For the year ended December 31, 2013, the Business had three significant customers.

The Argentina government has imposed a number of monetary and currency exchange control measures that include restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad, with certain exceptions for transfers related to foreign trade and other authorized transactions approved by the Argentina Central Bank. The Argentina Central Bank may require prior authorization and may or may not grant such authorization for Gran Tierra's Argentina subsidiaries to make payments. During the year ended December 31, 2013, Grant Tierra repatriated $11.1 million from one of its Argentina subsidiaries through loan repayments, authorized by the Argentina Central Bank. These were repayments of loan principal and as such had no withholding tax applied. At December 31, 2013, $19.5 million, or 92%, of the Business's cash and cash equivalents was deposited with banks in Argentina.

The majority of the Business's capital expenditures within Argentina are based in U.S. dollars, but are paid in local currency translated according to current exchange rates.

10. Related Party Transactions

Relationship with the Parent

The Business has historically been managed and operated in the normal course of business by Gran Tierra along with other Gran Tierra affiliates.

Loans and Payables with Related Parties

	As at December 31,			
(Thousands of U.S. Dollars)	**2013**	**2012**	**Term**	**Interest Rate**
Gran Tierra Energy International Cayman Holdings	**$ 27,532**	$ 27,500	2014	Libor +6%
Gran Tierra Energy Inc. (Alberta)	**6,605**	17,705	2015	5%
Gran Tierra Energy Inc. (Alberta)	**2,000**	2,000	Due December 31, 2012, but not yet paid	Interest Free
	36,137	47,205		
Current Liability	**29,532**	2,000		
	$ 6,605	$ 45,205		

Interest expense on related party loans for the year ended December 31, 2013, was $0.2 million (December 31, 2012-$nil). The Parent waived a portion of interest expense during the years ended December 31, 2013, and 2012.

At December 31, 2013, there was $31.3 million (December 31, 2012- $30.0 million) payable to Gran Tierra Energy Inc. (Alberta) and Gran Tierra Energy Inc. (Nevada) which was due on demand and was non-interest bearing.

Gran Tierra Energy - Argentina Business
Condensed Combined Consolidated Carve-Out Statements of Operations
(Thousands of U.S. Dollars)
(Unaudited)

	Three months ended March 31,	
	2014	**2013**
REVENUE AND OTHER INCOME		
Oil and natural gas sales	$ **17,513**	$ 18,700
Interest income	**404**	245
	17,917	18,945
EXPENSES		
Operating	**6,143**	8,971
Depletion, depreciation and accretion	**8,096**	7,950
General and administrative	**2,913**	2,687
Foreign exchange loss	**4,492**	1,169
	21,644	20,777
LOSS BEFORE INCOME TAXES	**(3,727)**	(1,832)
Income tax recovery (expense) (Note 5)	**419**	(65)
NET LOSS AND COMPREHENSIVE LOSS	**$ (3,308)**	$ (1,897)

(See notes to the condensed combined consolidated carve-out financial statements)

Gran Tierra Energy - Argentina Business
Condensed Combined Consolidated Carve-Out Balance Sheets
(Thousands of U.S. Dollars)
(Unaudited)

	As at March 31, 2014	As at December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 16,717**	$ 21,179
Accounts receivable	**12,783**	13,545
Inventory	**2,102**	2,358
Taxes receivable	**2,428**	2,904
Prepaids	**1,572**	446
Total Current Assets	**35,602**	40,432
Oil and Gas Properties (using the full cost method of accounting)		
Proved	**73,216**	74,898
Unproved	**17,653**	17,441
Total Oil and Gas Properties	**90,869**	92,339
Other capital assets	**1,316**	1,310
Total Property, Plant and Equipment (Note 3)	**92,185**	93,649
Taxes receivable	**1,819**	1,839
Total Other Long-Term Assets	**1,819**	1,839
Total Assets	**$ 129,606**	$ 135,920

	As at March 31, 2014	As at December 31, 2013
LIABILITIES AND NET PARENTAL INVESTMENT		
Current Liabilities		
Accounts payable	**$ 6,594**	$ 6,776
Accrued liabilities	**12,098**	15,237
Payable to related parties (Note 7)	**32,152**	31,269
Loan from related parties (Note 7)	**29,532**	29,532
Taxes payable	**16,133**	16,731
Total Current Liabilities	**96,509**	99,545
Long-Term Liabilities		
Asset retirement obligation (Note 4)	**10,176**	9,755
Loan from related parties (Note 7)	**6,605**	6,605
Total Long-Term Liabilities	**16,781**	16,360
Net parental investment	**16,316**	20,015
Total Net Parental Investment	**16,316**	20,015
Total Liabilities and Net Parental Investment	**$ 129,606**	$ 135,920

(See notes to the condensed combined consolidated carve-out financial statements)

Gran Tierra Energy - Argentina Business
Condensed Combined Consolidated Carve-Out Statements of Cash Flows
(Thousands of U.S. Dollars)
(Unaudited)

	Three months ended March 31,	
	2014	**2013**
Operating Activities		
Net loss	**$ (3,308)**	$ (1,897)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depletion, depreciation and accretion	**8,096**	7,950
Deferred tax expense (Note 5)	**-**	67
Unrealized foreign exchange loss	**3,456**	741
Non-cash related party expense	**200**	170
Net change in assets and liabilities from operating activities		
Accounts receivable	**761**	6,764
Inventory	**406**	253
Prepaids	**(1,125)**	(309)
Accounts payable and accrued liabilities	**(1,377)**	(880)
Payable to related parties	**871**	(2,959)
Taxes receivable and payable	**(123)**	1,217
Net cash provided by operating activities	**$ 7,857**	$ 11,117
Investing Activities		
Decrease in restricted cash	**$ -**	$ 85
Additions to property, plant and equipment	**(8,362)**	(9,002)
Net cash used in investing activities	**$ (8,362)**	$ (8,917)

Financing Activities				
(Repayments to) advances from related parties	**$**	**(533)**	$	4,990
Loans provided by related parties		**32**		-
Net cash (used in) provided by financing activities	**$**	**(501)**	$	4,990
Foreign exchange loss on cash and cash equivalents	**$**	**(3,456)**	$	(757)
Net (decrease) increase in cash and cash equivalents	**$**	**(4,462)**	$	6,433
Cash and cash equivalents, beginning of period		**21,179**		17,278
Cash and cash equivalents, end of period	**$**	**16,717**	$	23,711
Cash	**$**	**11,749**	$	12,033
Term Deposits		**4,968**		11,678
Cash and cash equivalents, end of period	**$**	**16,717**	$	23,711
Supplemental cash flow disclosures:				
Cash paid for income taxes	$	**4**	$	114
Non-cash investing activities:				
Non-cash net liabilities related to property, plant and equipment, end of period	**$**	**4,700**	$	5,547

(See notes to the condensed combined consolidated carve-out financial statements)

Gran Tierra Energy - Argentina Business
Condensed Combined Consolidated Carve-Out Statement of Net Parental Investment
(Thousands of U.S. Dollars)
(Unaudited)

Balance, January 1, 2013	$	68,842
Net loss and comprehensive loss for the period		(1,897)
Net transfers from Parent		5,220
Balance, March 31, 2013	$	72,165
Balance, January 1, 2014	**$**	**20,015**
Net loss and comprehensive loss for the period		**(3,308)**
Net transfers to Parent		**(391)**
Balance, March 31, 2014	**$**	**16,316**

(See notes to the condensed combined consolidated carve-out financial statements)

Notes to the Condensed Combined Consolidated Carve-Out Financial Statements
For the Three Months Ended March 31, 2014 and 2013 unaudited

(Expressed in U.S. Dollars, unless otherwise indicated)

1. Nature of operations and basis of presentation

Nature of operations

The interim unaudited condensed combined consolidated carve-out financial statements of Gran Tierra Energy - Argentina Business (the "Business"), have been prepared using the historical cost basis of accounting for the purpose of presenting the results of the Business expected to be disposed. The Business's principal activities are the exploration, development and production of oil and natural gas properties in Argentina.

Basis of presentation

The interim unaudited condensed combined consolidated carve-out financial statements of the Business have been derived from the consolidated financial statements and accounting records of Gran Tierra Energy Inc. ("Gran Tierra" or the "Parent") as if it were operated on a stand-alone basis and were prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). All intercompany transactions and account balances within the Business have been eliminated. The entities that comprise the Business are: Gran Tierra Energy Argentina S.R.L; Petrolifera Petroleum Americas Limited; Petrolifera Petroleum Americas Limited Sucursal Argentina; Petrolifera Petroleum Limited Sucursal Argentina; Petrolifera Petroleum Limited; Petrolifera Petroleum Holdings Limited; and PETJA S.A.

The interim unaudited condensed combined consolidated carve-out statements of operations reflect allocations of general corporate expenses from Parent including, but not limited to, executive management, finance, audit, tax, internal audit, legal, information technology, human resources, employee benefits administration, treasury, risk management and other shared services. The allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of capital expenditures incurred, production or other costs incurred. Management of the Business and Parent consider these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to the Business. The allocations may not, however, reflect the expense the Business would have incurred as a stand-alone company for the periods presented or of the costs expected to be incurred in the future. Actual costs that may have been incurred if the Business had been a stand-alone business would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure.

The interim unaudited condensed combined consolidated carve-out balance sheets of the Business include Parent assets and liabilities that are specifically identifiable or otherwise attributable to the Business. Parent's cash has not been assigned to the Business for any of the periods presented because those cash balances are not directly attributable to the Business nor is the Business expected to acquire or assume that cash presently or in connection with the proposed disposal.

Parent has historically used a centralized approach to cash management and financing of its operations. Transactions between the Business and Parent are considered to be effectively settled for cash at the time the transaction is recorded. The net effect of these transactions is included in the interim unaudited condensed combined consolidated carve-out statements of cash flows as financing activities. During the three months ended March 31, 2014, and 2013, the Business was allocated $0.6 million and $0.1 million, respectively, of general corporate expenses incurred by Parent which are included within general and administrative expenses in the interim unaudited condensed combined consolidated carve-out statements of operations.

2. Significant Accounting Policies

Management of the Business believes that the information and disclosures presented are adequate to ensure the information presented is not misleading.

The note disclosure requirements of annual financial statements provide additional disclosures to that required for interim unaudited condensed combined consolidated carve-out financial statements. Accordingly, these interim unaudited condensed combined consolidated carve-out financial statements should be read in conjunction with the Business's combined consolidated carve-out financial statements as at and for the year ended December 31, 2013.

Relationship with Parent

Gran Tierra's net investment in the Business is shown in lieu of shareholders' equity in the interim unaudited condensed combined consolidated carve-out balance sheets because the Business in its entirety is not a separate legal entity. Gran Tierra's net investment in the Business is presented as ''Net Parental Investment''. Changes in net parental investment include net cash transfers and other transfers to and from Gran Tierra and the Business.

Recently Adopted Accounting Pronouncements

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is fixed at the Reporting Date

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013- 04, "*Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is fixed at the Reporting Date* ". The ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. Examples of obligations within the scope of this update include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The ASU was effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The implementation of this update did not materially impact the Business's combined consolidated carve-out financial position, results of operations, cash flows or disclosure.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued ASU 2013-11, "*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists".* The ASU provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU was effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The implementation of this update did not materially impact the Business's combined consolidated carve-out financial position, results of operations, cash flows, or disclosure.

3. Property, Plant and Equipment

Property, Plant and Equipment

(Thousands of U.S. Dollars)	As at March 31, 2014 Cost	Accumulated depletion, depreciation and impairment	Net book value	As at December 31, 2013 Cost	Accumulated depletion, depreciation and impairment	Net book value
Oil and natural gas properties						
Proved	**$ 340,045**	**$ (266,829)**	**$ 73,216**	$ 333,825	$ (258,927)	$ 74,898
Unproved	**17,653**	**—**	**17,653**	17,441	—	17,441
Total Oil and Gas Properties	**$ 357,698**	**$ (266,829)**	**$ 90,869**	$ 351,266	$ (258,927)	$ 92,339
Furniture and fixtures and leasehold improvements	**1,146**	**(885)**	**261**	1,074	(855)	219
Computer equipment	**2,707**	**(1,750)**	**957**	2,684	(1,698)	986
Automobiles	**623**	**(525)**	**98**	623	(518)	105
Total Property, Plant and Equipment	**$ 362,174**	**$ (269,989)**	**$ 92,185**	$ 355,647	$ (261,998)	$ 93,649

Depletion and depreciation expense on property, plant and equipment for the three months ended March 31, 2014, was $8.0 million (three months ended March 31, 2013 - $7.5 million). A portion of depletion and depreciation expense was recorded as inventory in each period.

Rio Negro Province has enacted legislation that changes the royalty regime associated with concession agreement extensions. The Business is negotiating concession agreement extensions and royalty rates for its Puesto Morales, Puesto Morales Este, Rinconada Norte and Rinconada Sur Blocks and expects that royalty rates in Rio Negro Province will likely increase and a bonus payment, not determinable at this time, may be payable for the concession agreement extensions.

4. Asset Retirement Obligation

Changes in the carrying amounts of the asset retirement obligation associated with the Business's oil and natural gas properties were as follows:

(Thousands of U.S. Dollars)	Period Ended March 31, 2014	December 31, 2013
Balance, beginning of period	**$ 9,755**	$ 7,182
Liability incurred and foreign exchange	**176**	1,828
Accretion	**245**	745
Balance, end of period	**$ 10,176**	$ 9,755

5. Taxes

The income tax expense reported differs from the amount computed by applying the Argentina statutory rate (the Argentina statutory rate was used because Argentina is the primary residency of the Business) to loss before income taxes for the following reasons:

	Three Months Ended March 31,	
(Thousands of U.S. Dollars)	**2014**	**2013**
Loss before income taxes	**$ (3,727)**	$ (1,832)
	35%	35%
Income tax recovery expected	**(1,304)**	(641)
Foreign currency translation adjustments	**5,875**	51
Impact of foreign taxes	**(173)**	778
Non-cash related party expense	**24**	39
(Decrease) increase in valuation allowance	**(6,008)**	803
Branch and other foreign loss(income) pick-up	**254**	(827)
Other permanent differences	**913**	(138)
Total income tax (recovery) expense	**$ (419)**	$ 65
Current income tax recovery	**(419)**	(2)
Deferred income tax expense	**-**	67
Total income tax (recovery) expense	**$ (419)**	$ 65

(Thousands of U.S. Dollars)	As at March 31, 2014	As at December 31, 2013
Deferred Tax Assets		
Tax benefit of operating loss carryforwards	**$ 12,557**	$ 14,379
Tax basis in excess of book basis	**11,344**	15,304
Foreign tax credits and other accruals	**18,276**	16,815
Tax benefit of capital loss carryforwards	**16**	16
Deferred tax assets before valuation allowance	**42,193**	46,514
Valuation allowance	**(42,193)**	(46,514)
	$ -	$ -

As at March 31, 2014, the Business had operating loss carryforwards of $92.6 million (December 31, 2013 - $97.2 million) and capital loss carryforwards of $0.1 million (December 31, 2013 – $0.1 million) before valuation allowance. The operating loss carryforwards will expire between 2014 and 2034 and the capital loss carryforwards can be carried forward indefinitely.

As at March 31, 2014, the total amount of Gran Tierra's unrecognized tax benefit was $19.2 million (December 31, 2013 - $20.0 million), $9.7 million of which, if recognized, would affect the Business's effective tax rate. To the extent interest and penalties may be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and are classified as a component of income taxes in the consolidated statement of operations.

Changes in the Business's unrecognized tax benefit were as follows:

(Thousands of U.S. Dollars)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Unrecognized tax benefit at beginning of period	**$ 20,044**	$ 20,998
Decreases for positions relating to prior period	**(882)**	(358)
Unrecognized tax benefit at end of period	**$ 19,162**	$ 20,640

The Business is potentially subject to income tax examinations for the tax years 2006 through 2013 in certain jurisdictions. The Business does not anticipate any material changes to the unrecognized tax benefit disclosed above within the next twelve months.

6. Contingencies

The Business has several lawsuits and claims pending. Although the outcome of these lawsuits and disputes cannot be predicted with certainty, the Business believes the resolution of these matters would not have a material adverse effect on the Business's interim unaudited condensed combined consolidated carve-out financial position, results of operations or cash flows. The Business records costs as they are incurred or become probable and determinable.

7. Related Party Transactions

Relationship with the Parent

The Business has historically been managed and operated in the normal course of business by Gran Tierra along with other Gran Tierra affiliates. Significant transactions with Gran Tierra are discussed individually as follows:

Loans and Payables from Related Parties

(Thousands of U.S. Dollars)	March 31, 2014	December 31, 2013
Loans from related parties	**$ 36,137**	$ **36,137**
Current portion	**(29,532)**	**(29,532)**
	$ 6,605	**$ 6,605**

Terms of the loans and payables were as follows:

	Amount	Term	Interest rate
Gran Tierra Energy International Cayman Holdings	**$ 27,532**	2014	Libor +6%
Gran Tierra Energy Inc. (Alberta)	**6,605**	2015	5%
Gran Tierra Energy Inc. (Alberta)	**2,000**	Due December 31, 2012, but not yet paid	Interest free
	$ 36,137		

Interest expense on the related party loans and payables for the three months ended March 31, 2014, was $0.2 million (three months ended March 31, 2013- $nil). The Parent waived a portion of interest expense during the three months ended March 31, 2014, and 2013.

At March 31, 2014, there was $32.2 million (December 31, 2013- $31.3 million) payable to Gran Tierra Energy Inc. (Alberta) and Gran Tierra Energy Inc. (Nevada), which was due on demand and was non-interest bearing.

CERTIFICATE OF THE CORPORATION

Dated: June 4, 2014

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia.

MADALENA ENERGY INC.

(signed) "*Kevin D. Shaw*"
President and Chief Executive Officer

(signed) "*Thomas Love*"
Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(signed) "*Ving Woo*"
Director

(signed) "*Jay P. Reid*"
Director

CERTIFICATE OF UNDERWRITERS

Dated: June 4, 2014

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia.

DUNDEE SECURITIES LTD.

By: (signed) "*James Heaps*"

RBC DOMINION SECURITIES INC.

By: (signed) "*Darrell Law*"

HAYWOOD SECURITIES INC.

By: (signed) "*Jeff Reymer*"

BEACON SECURITIES LIMITED

By: (signed) "*Kirk Wilson*"

NATIONAL BANK FINANCIAL INC.

By: (signed) "*Tom MacInnis*"

FIRSTENERGY CAPITAL CORP.

By: (signed) "*Erik Bakke*"

MACKIE RESEARCH CAPITAL CORPORATION

By: (signed) "*Gage Jull*"

TD SECURITIES INC.

By: (signed) "*Bryce Hipp*"

CANACCORD GENUITY CORP.

By: (signed) "*Bruce McDonald*"

JENNINGS CAPITAL INC.

By: (signed) "*David McGorman*"

RAYMOND JAMES LTD.

By: (signed) "*Jason Holtby*"