



Madalena Ventures

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Argentina redraws plans to attract foreign investment as Chevron finalizes YPF deal; Madalena set to benefit

Argentina's oil and gas hub is drawing attention as a new incentive plan to attract significant investment from industry majors has been announced in the country, coming at an opportune time as Chevron (NYSE:CVX) just finalized today a \$1.3 billion deal with YPF to develop shale oil and gas assets in the Vaca Muerta formation.

This bodes well for emerging companies operating in the region with prime acreage positions in the shales, including Madalena (CVE:MVN) and Americas Petrogas (CVE:BOE), writes analyst Bill Newman at Mackie Research in a recent research report, as the news could encourage more joint ventures.

Chevron is the first global oil company to commit to new investment in Argentina since the nationalization of YPF last year, with the firms to invest US\$1.24 billion in the project's first phase, which will include drilling 100 wells. The investment may reach as much as US\$15 billion, and gives Chevron a chance to increase production beyond its 2017 target of 3.3 million barrels a day.

The news comes just as a new incentive plan in the country was announced, with companies that invest over US\$1 billion over a five year period to be allowed to sell 20 per cent of their production at world prices, without paying export taxes. The investment incentive, which applies to both conventional and unconventional assets, will also give companies the ability to repatriate 100 per cent of the 20 per cent export revenue back to their home country. The 20 per cent of production that is not exported can be sold to the local Argentina market at the world price.

Mackie's Newman said the new plan could help Madalena and Americas Petrogas secure farm-in partners. "It signals that the Argentina government is aware of the need for foreign investment and is moving away from its nationalist policies since the expropriation of YPF," the analyst took note in his report.

Indeed, Argentina's imports of both oil and natural gas are at record levels, with the incentives showing the government understands the need for foreign investment to halt production declines to slow the growing energy deficit.

The Vaca Muerta shale, which is in the Patagonian province of Neuquen, may hold at least 23 billion barrels of oil equivalent, according to a report by independent auditor Ryder Scott released in February 2012 by YPF. As a result, the area has drawn significant interest of late, with Chevron, Bidas, Shell and others announcing proposals or deals to invest a combined US\$3.2 billion in the region over the next few years.

"Since the expropriating of Repsol's shares in YPF in April, 2012, the Argentina Government has had difficulty attracting investment into the oil and gas sector. As a consequence the Government has since approved \$7.50/mmbtu natural gas prices for new production, increased the export tax reference oil price from US\$42/bbl to US\$70/bbl, and now allowed world prices for 20% of production for approved projects over US\$1 billion in size," wrote Newman, adding that the shale plays in the Neuquen Basin offer "world class resource" potential, with Madalena "well positioned" to capitalize on the unconventional plays.

Price: C\$0.32

Market Cap: C\$107.47M

1 Year Share Price Graph



Share Information

Code: MVN

Listing: TSX-V

Sector: Oil & Gas Exploration & Production

Website: www.madalena-ventures.com

Company Synopsis:

Madalena is an independent, Canadian-based domestic and international upstream oil and gas company whose main business activities include exploration, development and production of crude oil, natural gas liquids and natural gas.

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Indeed, YPF and Chevron's deal is next door to Madalena's Coiron Amargo block, as is the Sierras Blancas block, in which Shell has inked a deal to invest up to \$200 million over five years. Shell announced in March of this year that it drilled a well in the Vaca Muerta shale that tested light oil at 465 barrels per day, further proof that the Vaca Muerta resource potential at Madalena's Coiron Amargo block could be substantial, said the Mackie analyst.

Madalena, which holds three key shale blocks in the Neuquén Basin of Argentina alongside a sizeable land position in Canada, is fully funded to execute on its plans involving a combination of Vaca Muerta shale drilling within the Neuquen basin, horizontal drilling in Canada and re-entry work in both jurisdictions. The company is also focused this year on creating value through joint venture activity across its unconventional shale assets. The oil and gas play has a strong balance sheet, with \$12.4 million in cash at the end of the first quarter plus \$7.25 million raised in recently completed financings, and no debt. It also recently boosted its undrawn bank line with the National Bank of Canada to a \$10 million revolving facility and a \$3 million acquisition line, supporting its capital program this year.

An independent resource estimate, done by Ryder Scott, earlier this year showed 1.3 billion barrels of oil equivalent gross prospective resources of Vaca Muerta shale potential on Madalena's Curamhuele block - for which it is gearing up to start a joint venture process - and 414 million barrels of oil equivalent of Lower Agrio shale potential. According to the Ryder Scott resource assessment, there are a total of 2.86 billion barrels of oil equivalent of recoverable resources (net to Madalena) across its three blocks within the Neuquen basin, of which approximately 2.0 billion boe net hails from the Vaca Muerta shale alone.

Aside from the shale assets in Argentina, Madalena is in production in Western Canada, where it holds more than 150 net sections across light oil and liquids-rich horizontal development plays in the Greater Paddle river area.

Newman has a buy recommendation on Madalena, and a \$2.05 target price, citing the company's growing conventional production in Western Canada and "massive shale resource potential" in Argentina.

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