



Madalena Energy

Feb 19th 2014

Madalena Energy one of the best positioned for ongoing macro turnaround in Argentina, says Haywood

Shares of Madalena Energy (CVE:MVN) were rising on Wednesday, benefiting from two key news headlines that emerged late yesterday from Argentina, one of which entails state-backed YPF and Petronas signing a deal to develop the Vaca Muerta shale.

The other noteworthy news pertains to Repsol saying it is nearing a final compensation deal with Argentina over the expropriation of YPF in 2012.

Haywood Securities energy research analyst, Darrell Bishop, said the news is a positive read-through for energy industry players in Argentina, "including and especially Madalena."

Madalena is the owner of over 132,000 net acres in the prolific Nequen Basin of Argentina, stretching across three separate blocks. Over the past few years, the company has been busy developing wells in the Vaca Muerta play, which is believed to be the world's second largest shale gas and fourth largest shale oil formation.

In fact, the play has been likened to the Bakken, with the belief that Vaca Muerta has the potential to be bigger than the formation on the subsurface of the Williston Basin.

The YPF and Petronas partnership is based on a memorandum of understanding to pursue an exploration deal for a block in the heart of Argentina's emerging Vaca Muerta shale. The area under discussion is the Amarga Chica block, which is northwest of Loma Campana, where a \$1.24 billion joint venture was signed with Chevron last year, and next door to Madalena's Coiron Amargo block.

The area is in the shallower part of the Basin, in the oil window of the Vaca Muerta shale.

Bishop said that while further details around the structure of the preliminary deal were not released, he sees Petronas' entrance into Argentina as a "positive for the industry and a big positive for Madalena given the proximity of the acreage to Coiron Amargo."

Coiron Amargo is Madalena's prized block, where drilling and acquisition activity has been rampant ahead of potential joint venture partnerships.

Meanwhile, preliminary terms of a deal negotiated last November between Repsol and YPF are reported to be in the \$5 billion range, payable in 10-year bonds.

"With the weakening of Argentina's peso over the last month speculation grew that this would impact the potential to reach a final deal. Reports today indicate both sides are still at the table and appear committed to getting the terms finalized and ready to present to Repsol at the company's board meeting on Feb 26th," Bishop noted in his analyst report.

"We would see a final deal announcement as hugely positive for industry as it lifts a two year overhang for many looking

Price: C\$0.65

Market Cap: C\$226.93M

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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to invest in Argentina's energy sector by showing the gov't's commitment to work with industry and removes the threat of legal action by Repsol for those looking to partner with YPF."

Indeed, despite the macro-level emerging market concerns on the heels of Argentina's declining peso, majors continue to step up investments in the country. Bishop said he believes that YPF's latest move signals it is keen to continue to bolster investor confidence to ensure the country attracts the foreign capital necessary to develop its "world class shale resources and decrease the dependence on costly imports."

The Haywood analyst concludes: "We continue to highlight Madalena as one of the best positioned to benefit from the ongoing macro turnaround in Argentina given: 1) the proximity of Madalena's assets in Argentina to the sweet spot of the Neuquén basin and large industry JVs, 2) Pending Repsol YPF settlement which could spur on a rush of investment, etc."

The junior oil and gas company has been a significant holder of acreage in the Argentina shale since 2007, back when the whole play was just an engineering pipe dream. It wasn't until three years later, in November 2010, when Argentine state-owned major oil player YPF brought the country's first shale oil well online that activities began to get heated in the Vaca Muerta.

In early 2012, Madalena completed its first test of the Vaca Muerta, showing a test rate of 314 barrels a day, increasing this to 1,340 barrels per day just a few months later from a light oil reservoir sourced from the Vaca Muerta. The company's learning curve has continued, with recent well results showing even better performance.

Two months ago, it drilled its first horizontal well, with rates coming in at 2,238 barrels of oil equivalent per day.

Madalena's stock rose over 3% on Wednesday, to 67 Canadian cents.

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