

One Shale Boom That Is Bulletproof To The Current Market Chaos

By [James Burgess](#)

Posted on Tue, 08 September 2015 23:21 | 0

While oil prices in the U.S. plummeted below \$39, Canadian explorer [Madalena Energy](#) has forged ahead with a strong Q2 showing and preparations for its first horizontal multi-stage frack in Argentina, where oil prices defy the market at an amazing U.S.\$77.

Madalena's strong showing is not only spurred by high oil prices in Argentina and the country's U.S. \$11 million-plus incremental incentivized oil programs, but the company has a strong balance sheet, has kicked off a three-well, back-to back horizontal program and is now preparing to launch a new high-impact well to test two major resource plays. It's also planning its first horizontal multi-stage frack well in the prized Vaca Muerta shale offsetting the activities of supermajor Shell (RDS.A) which is ramping up horizontal drilling right on Madalena's border.

And as Argentina's oil prices are coming in at \$75-\$77 despite low global prices, the effect is reverberating widely, incentivizing oil companies to put more money into the country's oil and gas sector, which in turn means steady job creation.

Argentina, as Bloomberg puts it, marches to its own oil-price drum and has done so for several decades. It is, after all, home to the second-largest reserves of shale gas and the fourth-largest reserves of shale oil in the world. And while this is definitely the place to be right now, one of the only ways to gain quality exposure to Argentina's unconventional shales is through the last-remaining small-cap company which has the staying power to unlock significant value for investors—Madalena Energy.

So let's take a look at this emerging Canadian-based company that is focused on drilling Four Strategic (Company Making) Resource Plays in 2015. Madalena has been described as a 'sleeper' that awakened earlier this year in Argentina with successful [horizontal test results on the Loma Montosa](#) oil resource play at Puesto Morales – the first of four strategic plays being progressed by the company. Madalena is now gearing up to drill a big well on its Curamhuele block to evaluate two additional strategic plays in the Agrio Shale (oil) and Mulichinco (liquids-rich gas).

The company is also underway with a three-well back-to-back horizontal drilling program on its Coiron Amargo block, which is a prime Vaca Muerta shale play that also has attractive conventional development across multiple light oil pools. In fact, the oil here is sourced from the Vaca Muerta shale itself.

With Madalena controlling a significant portion of Argentina's recoverable unconventional shale resources and potentially sitting on what could be 3X larger than all of Texas' reserves, the company is also working on plans to drill its first horizontal multi-stage frack well in the prized Vaca Muerta shale in 2016.

Recently, Madalena announced its [Q2-2015 financial and operational results](#), showing shareholders steady progression with a balanced business strategy between horizontal development drilling, to enhance future cashflows, and high-impact strategic drilling, to unlock the company's large, scaleable resource plays.

And from a financial flexibility perspective, here's where the Argentina oil price story gets even more interesting: Madalena realized a Q2 2015 oil price here of **CDN \$96.33/bbl** and **\$6.28/mcf for natural gas**. Beyond this, the company increased its oil and gas production by 155 percent from 2014, to 3,996 boe/d. It was also up 11 percent from the last quarter of this year. Topping things off, Madalena saw a 30 percent increase in revenues to \$83.50/boe, up from \$64.08/boe from the same time last year. All this while corporate operating netbacks were over \$37/boe in Argentina, with funds flowing from operations an impressive ~\$6.2 million (not including a one-time charge).

But this is already old news. We're interested in what comes next with this company's **game-changing wells across the four strategic resource plays**.

Up next is a **high-impact Curamhuele well**, which will be spudded in September to test two large unconventional oil resources in the Agrio Shale (400 meters thick) and the liquids-rich gas play in the Mulichinco (200 meters thick). Both of these targeted zones have significant upside for the company, adding to its already impressive positions in the Vaca Muerta shale and Loma Montosa oil resource plays.

Let's take a closer look at these four strategic resource plays:

With Blood In The Streets Now Is The Time To Invest In Oil

The current market turmoil has created a once in a generation opportunity for savvy energy investors.

Whilst the mainstream media prints scare stories of oil prices falling through the floor smart investors are setting up their next winning oil plays.

[Click here for more info on successful oil investing](#)

The **Loma Montosa** at Puesto Morales—in which Madalena has a 100 percent interest--has already demonstrated horizontal success with an impressive IP30 day average rate of 570 boe/d and an IP90 day average rate of 412 boe/d. Madalena has approximately 50 horizontal locations in inventory on the Loma Montosa play today, with geological mapping of 60 historic vertical wells and a 100 percent controlled plant / pipeline infrastructure in the area. Madalena has also recently secured the Puesto Morales asset under an additional 10-year exploitation contract with the option to extend for additional 10-year term thereafter.

The hotter-than-hot Vaca Muerta shale, the Agrio shale oil play and the Mulichinco liquids-rich gas play are the other three to watch here. These are also game-changers for Madalena.

All told, Madalena holds over 950,000 net acres across five provinces in Argentina, which is poised to be the venue for the next North American-style shale boom

Argentina is home to 27 billion barrels of recoverable oil and 802 trillion cubic feet of natural gas and its two shale basins could end up being bigger than the Eagle Ford and Bakken. But adding to the attraction is another significant aspect at a time of slumping oil prices: For producers in Argentina, the **price of natural gas and oil** is fixed at \$7.5 per million British Thermal Units (BTU) for new gas developments and U.S.D \$75 to \$77 per barrel respectively, well above international oil prices.

Not only is Argentina shaping up to be the next big-time shale venue, but Madalena's acreage is right in the middle of massive unconventional exploration activities of some of the world's biggest companies, including ExxonMobil (NYSE: XOM), Royal Dutch Shell (NYSE: RDS.A), Total (NYSE: TOT), Petronas, Pan American Energy, Wintershall, Chevron (NYSE: CVX) and Argentina's state-owned YPF.

As drilling activity offset Madalena's acreage continues to de-risk the company's unconventional shale assets, the biggest news is a new deal with Shell. [Shell has now signed up two offsetting blocks to Madalena for the next 35 years to exploit unconventional oil in the Vaca Muerta shale.](#) **After having success with its initial horizontal program on Madalena's border, Shell is now moving to the next phase with a horizontal pad development and ambitious plant infrastructure.**

[This news alone increases Madalena's value proposition exponentially](#) as Shell's massive drilling commitment here is on land directly adjacent to and surrounding Madalena's core Coiron Amargo acreage in the Vaca Muerta.

What does this all imply? Well, Shell's strategic move here confirms the savvy investor's theory that not only is Argentina THE place to be right now due to the country's drive to attract investment and its market-defying oil prices, but this venue is about to get even bigger. Shell's commitment will drive more shale development and production investment in the Neuquen Basin via joint ventures and buyouts of smaller players such as Madalena.

For more information on the energy opportunities in Argentina [please click here](#).

By James Burgess for Oilprice.com

Legal Disclaimer/Disclosure: Madalena Energy is an Oilprice.com client. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. No information in this Report should be construed as individualized investment advice. A licensed financial advisor should be consulted prior to making any investment decision. We make no guarantee, representation or warranty and accept no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of Oilprice.com only and are subject to change without notice. Oilprice.com assumes no warranty, liability or guarantee for the current relevance, correctness or completeness of any information provided within this Report and will not be held liable for the consequence of reliance upon any opinion or statement contained herein or any omission. Furthermore, we assume no liability for any direct or indirect loss or damage or, in particular, for lost profit, which you may incur as a result of the use and existence of the information, provided within this Report.