



Madalena Energy

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Madalena Energy's Argentina acreage could be worth \$1.1 bln according to industry metrics, says Beacon Securities

Madalena Energy (CVE:MVN) (OTC:MDLNF) is on its way to unlocking value from its unconventional shale and tight sand assts in the Neuquen Basin of Argentina, according to a research report from Beacon Securities' Kuno Ryckborst that initiated coverage on the junior oil and gas producer.

The Canadian junior holds over 132,000 acres in the prolific Argentinean basin, stretching across three separate blocks over land in the most active area for unconventional oil and natural gas drilling in the world outside of North America, driven by the Vaca Muerta shale, the Lower Agrio shale and the Mulchinco tight sand play.

Madalena has been a significant holder of acreage in the Vaca Muerta shale since 2007, back when the whole play was just an engineering pipe dream. Vaca Muerta is believed to be the world's second largest shale gas and fourth largest shale oil formation, with the area containing an estimated 27 billion barrels of shale oil.

"As a high impact explorer and unconventional shale player, management is focused on a delineation strategy to further prove up an estimated 2.9 billion boe of net recoverable resources within the prolific Neuquen basin on an impressive 34.8 billion boe of initially in-place petroleum," wrote Ryckborst, who initiated coverage on Madalena with a buy rating and a price target of C\$1.00.

"This P50 (best case) estimate as evaluated by Ryder Scott as a third party evaluator is the key prize to unlock for Madalena shareholders."

The analyst said near term production and cash flow growth will be driven by the implementation of the company's horizontal technology on multiple horizontal plays, including a high impact play in Argentina within the Sierras Blancas light oil zone, which is sourced out of the Vaca Muerta shale.

This year, Madalena is executing a program of high impact international wells, including a blend of three to four horizontal wells in the Sierras Blancas pools, as well as Vaca Muerta and Lower Agrio shale definition wells and reentries in the Mulchinco play.

The company also has a large land base of horizontal plays in West-central Alberta, Canada that are already on production, with plans to conduct additional horizontal drilling across the acreage of 155 net sections.

The Beacon analyst said he sees unrisksed upside of \$2.00 to \$2.77 per share driven by the Vaca Muerta shale, a region that has seen several majors ramp up activity recently. YPF --- Argentina's largest shale oil producer --- just announced two contracts valued at a total of \$1.2 billion to lease another 15 drilling rigs to develop the formation, while Chevron announced plans to drill another four wells there on top of a \$1.25 billion deal with YPF to develop just west of Madalena's Coiron Amargo block.

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

Price: C\$0.67

Market Cap: C\$233.7M

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

"Looking at the valuation of Madalena's shale acreage from a different perspective, if we take the third party valuation metric from the provincial state run company within the Neuquen basin which claims the VM shale alone could be worth an estimated \$8,000 an acre as an average blended number for oil, dry gas, and liquids rich gas shales, this would value Madalena's net acreage at approximately \$1.1 billion, or \$2.77 per share," noted Ryckborst.

Madalena Energy is currently trading at 67 cents, which would imply a potential upside of over 49% with the \$1.00 target price, and over 300% using the \$2.77 per share valuation.

Beacon is not the only brokerage to take note of Madalena's potential. Dundee Securities' analyst Geoff Ready initiated coverage of the junior oil and gas producer with a buy recommendation and a \$1.20 per share price target, while Mackie Research analyst Bill Newman sees a price of \$1.75 per share in the company's future.

The Vaca Muerta region is quickly emerging as the "North Dakota" of the Neuquen Basin, with hundreds of wells expected to be drilled over the next 15 to 24 months and rig counts looking to double by year-end.

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