



Madalena Energy

Aug 8th 2014

Madalena Energy builds business fundamentals "on all fronts"; active drill program now underway

Madalena Energy (CVE:MVN) is in a much stronger position today than it was even just a few short months ago, according to chief executive Kevin Shaw, with the company amassing a large land position in a country with the fourth largest technically recoverable shale oil resource in the world, behind only Russia, the US and China.

Shaw, who spoke on an investor conference call yesterday morning, said the company's management has positioned the emerging oil and gas producer for growth with a solid production platform, self-funding cash flow, and an experienced operating team. Madalena is ramping up its drilling operations in Argentina and Canada focused on unlocking multiple horizontal resource plays, unconventional shale assets and creating shareholder value.

The company, following its acquisition of Gran Tierra's Argentinean assets in June, now has 14 concessions across Argentina over 1 million net acres of land, compared with 3 blocks over 132,000 acres previously. It also has a land base with more than 150 net sections in Western Canada, with a large inventory of horizontal development locations.

Over the next 17 months, the company is planning to invest its cash flow and financial resources on a combination of lower risk, conventional development drilling and on unconventional shale and tight sand delineation in the Vaca Muerta and Lower Agrio shales of Argentina's well-known Nequen Basin.

It will also continue to seek potential partners on its multiple blocks to deliver on its farm-out strategy.

From July to December of this year, the company has approved a capital budget of C\$36 million, with the aim of ending the year with an exit production rate of between 5,200 and 5,400 barrels of oil equivalent per day (boe/d).

"Overall, Madalena has made significant headway over the last 19 months," Shaw told investors and analysts on the call.

"We are one of the most attractive entities in Argentina today with a strong portfolio of assets including a solid mix of unconventional shale assets, multiple high impact horizontal resource plays and a deep portfolio of exploration & appraisal projects."

Indeed, the company, which has managed to lift its production from just under 200 boe/d to just below 5,000 boe/d currently, has transformed its cash flow platform and successfully implemented North American horizontal drilling technologies internationally. It has 11.2 million boe of conventional reserves and 2.9 Billion boe in unconventional shale recoverable resources.

At the end of the year, it is planning to finish with positive working capital, no debt, and "much larger production and cash flow base to move forward and execute a sizable program in 2015."

The first priority this year will be conventional development via horizontal drilling and workover programs, which will see Madalena drill the Coiron Amargo, Puesto Morales and Rinconada South blocks in Argentina, while in Western Canada, it will focus on additional horizontal Ostracod oil wells to boost production.

Price: C\$0.42

Market Cap: C\$210.027M

1 Year Share Price Graph



Share Information

Code: MVN

Listing: TSX-V

Sector: Oil & Gas Exploration & Production

Website: www.madalenaenergy.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.

Author:

Deborah Bacal +44(0)1202770386

action@proactiveinvestors.com



As part of these efforts, Madalena said a multi-well drilling program in the Loma Montosa oil resource play is being planned for next year at the Puesto Morales field, which it recently acquired from Gran Tierra.

"We believe there is significant upside in the Puesto Morales field," said Shaw, adding that the company will focus on optimizing production on this scalable project and undertaking a multi-well horizontal program on the block next year.

Its next priority is to advance its unconventional shale and tight sand resources within the Nequen basin at the Coiron Amargo, Curamhuele and Cortadera blocks. Madalena's acreage is positioned in some of the key areas of the basin where the highest activity levels in terms of dollars spent offset its blocks.

"Our Argentina portfolio of assets is a key focus of the company. We have a development and cash flow generating platform, coupled with Madalena's unconventional shale and tight sand resources."

It is the company's exposure to the Vaca Muerta shale that has attracted several analysts to initiate coverage on Madalena, with the shale believed to be the world's second largest shale gas and fourth largest shale oil formation. The area contains an estimated 27 billion barrels of oil.

Madalena's Vaca Muerta shale is oil prone at its Coiron Amargo block, gas prone around its Cortadera block and oil, and liquids and gas prone at its Curamhuele block.

Indeed, upside seems to be synonymous with Madalena Energy. The company is trading at below \$250 an acre, with over 1.0 million net acres in Argentina alone, far below what even a portion of its shale acreage could be worth, with recent majors transacting in the area for up to \$11,000 an acre.

It is also evaluating other resource opportunities in Argentina such as the Lower Agrio shale, which is up to 225 metres thick across its Curamhuele block and has horizontal multi-stage frac potential, and the Mulchinco tight sandstone --- a liquids-rich gas-bearing tight sand play similar to the Montney shale play in Canada which is prospective at both Madalena's Curamhuele and Cortadera blocks.

But first, the company is planning to focus on executing its horizontal program at its Coiron Amargo block, beginning with a multi well program at its Sierras Blancas high impact horizontal play, which has exceeded expectations thus far. Earlier this year, a horizontal well in this area tested rates of up to 1,943 boe/d. Madalena will also spud the first of a two well horizontal program within a week at its Ostrocad oil play in Western Canada.

"We're building out the business from all sides. We have a strong production base, and a balanced strategy, focused on both horizontal development and unconventional shale assets," emphasized the chief executive.

"We are looking to grow our conventional production and advance our delineation strategy across our unconventional resources and Madalena will continue to focus on enhancing our fundamentals as a company."

The company's shares closed Thursday at 42 cents, giving it a market cap of just over \$220 million.

Proactive Investors facilitate the largest global investor network across 4 continents in 4 languages. With a team of analysts journalists & professional investors Proactive produce independent coverage on 1000's of companies across every sector for private investors, private client brokers, fund managers and international investor communities.

Contact us ■ +44 (0)1202 770386 ■ action@proactiveinvestors.com

No investment advice

Proactive Investors UK Limited, trading as "Proactiveinvestors United Kingdom", is authorised and regulated by the Financial Services Authority. Registered in England with Company Registration number 05639690. Group VAT registration number 872070825 FSA Registration number 559082. You understand and agree that no content published constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable or advisable for any specific person. You further understand that none of the information providers or their affiliates will advise you personally concerning the nature, potential, advisability, value or suitability of any particular security, portfolio of securities, transaction, investment strategy, or other matter.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including company related products, and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors



may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior articles and opinions we have published. These references may be selective, may reference only a portion of an article or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.