



Madalena Energy

Feb 13th 2015

Madalena provides solid mix of assets in Argentina where oil prices remain strong

Madalena Energy's (CVE:MVN) shares rose after receiving an upbeat assessment from Industrial Alliance Securities on the back of a 155 percent increase in the Argentina-focused oil and gas junior's proved plus probable reserves.

The reserve update was announced on Thursday, with a total of 11,496 Mboes of proved plus probable (2P) reserves as at year-end 2014, more than double the amount a year earlier.

The increase reflects Madalena's acquisition of Gran Tierra Energy's Argentinean assets in 2014, which helped push positive reserve additions. The company said 2P reserves now have a pre-tax net present value of \$199.4 million, at a 10 percent discount rate.

The Gran Tierra purchase boosted Madalena's concessions across Argentina to over 14, stretching over 1 million net acres of land with a major foothold in an area dominated by industry majors such as YPF, Chevron, Total and Exxon.

Industrial Alliance analyst Michael Charlton noted that the reserve estimate does not even include resource potential from its high impact, unconventional assets, which include the Lower Agrio shale or Mulichinco, and incorporating just 105 Mboe of Vaca Muerta reserves.

Some of these unconventional assets, according to a Ryder Scott resource estimate in 2012, have been assigned 34.8 net billion boe of total petroleum resources initially in place, suggesting massive further upside for Madalena. The Canadian oil and gas junior also has further upside in the Mulichinco and Loma Montosa resource plays, which have not been evaluated.

The majority of the proven undeveloped reserves in Argentina in the latest estimate are from six Sierras Blancas conventional horizontal wells at its Coiron Amargo block, and three horizontal wells at Puesto Morales. The company is currently drilling at both fields, with a well at Sierras Blancas expected to be tied in for production in March.

"Given the updated reserves, we calculate Madalena's NAV at approximately \$0.59/sh based on conventional resources, with little to no value assigned to the high impact unconventional shale resource potential," wrote Charlton in the research note released Friday.

"Optionality of the unconventional asset base in Argentina on success is high, with even a small percentage of the company's land base potentially yielding net asset value additions which are multiples above the current share prices.

"As larger industry players continue to develop and derisk the adjacent lands, Madalena's acreage becomes more attractive and could yield valuations which are also multiples of the current share price and the market capitalization of the entire company."

Industrial Alliance also highlighted that oil prices in Argentina, where Madalena is drilling ahead, remain robust, with a US\$76 per barrel Medanito price in February and gas prices of US\$4 to US\$5/mmbtu.

With these prices, Madalena is planning to drill at Coiron Amargo and Puesto Morales so as to unlock the Loma

Price: C\$0.285

Market Cap: C\$151.139M

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.

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Montosa play, with a horizontal Vaca Muerta well also in the works for later this year.

"Madalena provides investors a solid mix of high impact horizontal resource plays, prime unconventional shale acreage in the Vaca Muerta and Agrio Shales, and a large portfolio of conventional development & exploration assets," said Charlton.

Argentina is estimated to hold 27 billion barrels of technically recoverable oil and 802 trillion feet of technically recoverable shale gas, much of it attributed to the prized Vaca Muerta shale formation in the Neuquen basin, the fourth largest shale oil deposit in the world.

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 and before the recent bustle of drilling action by industry majors.

Industrial Alliance has a buy recommendation on Madalena, with a target price of C\$0.80. Shares rose 1.9 percent on Friday to \$0.275.

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