



Madalena Energy

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Madalena Energy in prime position to benefit from industry wave of Argentina interest: Haywood Securities

Madalena Energy (CVE:MVN) (OTC:MDLNF) is one of the best positioned to benefit from some action this weekend in Argentina, writes Haywood Securities analyst Darrell Bishop, including positive comments from Exxon (NYSE:XOM) and Chevron's (NYSE:CVX) first quarter results conference calls.

Chevron made it clear last week that the Vaca Muerta play in Argentina has clearly move dup to number two behind the Permian in the company's shale portfolio, with recent upstream milestones including signed agreements to continue the development of the Loma Campana project and to begin exploration in the Nambuenoa area of the Neuquen Basin.

Bishop noted that Madalena's Coiron Amargo block, in which it has a 35% weighted interest, is adjacent to Loma Campana while its Curamhuele block is next to the Nambuenoa area.

Madalena 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.

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. 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.

Bishop also cited comments from Chevron's call that the oil giant is encouraged by recent well results in the region: "In terms of the Vaca Muerta play itself, we're continuing to make progress there. Our plan is to drill about 140 wells. This year we've got about 17, 18 or 19 rigs drilling at this particular point in time in production there. On a growth basis is about 17,000 barrels a day. We're encouraged by the well we've built, both on cost and productivity, but there is still its early days. There is still a long way to go but we're encouraged so far," Chevron said.

Exxon also noted in its first quarter earnings call that it was encouraged that the Vaca Muerta and Argentina business unit is moving along "very well", with management saying progress was being made from both a geological and geopolitical perspective.

"Obviously there is a huge potential resource in Argentina called the Vaca Muerta. We continue to have an active program there I think we've got a total of six wells down. We've been drilling vertical wells in prior to this year, we are starting to drill our first operated horizontal wells," Exxon's management said on the conference call.

"Again without being specific, I can tell you that the data so far from our drilling and delineation is encouraging but it's still early days to determine actual commerciality."

Price: C\$0.68

Market Cap: C\$230.31M

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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The encouraging comments are clearly good news for Madalena, which is looking for joint venture partners for its assets. Madalena is planning to spend \$48 million in capital this year, \$37 million of which is allocated to its Argentina assets. The budget will be focused on a combination of horizontal wells targeting its Sierras Blancas light oil play, which is sourced from the famous Vaca Muerta shale, and unconventional shale and tight sand delineation wells. The work will also include re-entries and 3D seismic shooting.

Bishop also highlighted Monday the Neuquen government announcing a new bid round coming this summer, the first Vaca Muerta auction since 2012, when the government expropriated YPF from Repsol. The analyst says the auction could be another key macro economic point for investors.

"Argentina's Vaca Muerta shale is clearly the hot play from all the supermajors and eventually the big blocks of land in the quality areas will be gone," wrote Bishop.

"We continue to highlight Madalena Energy as one of the best positioned to benefit from the industry wave of interest and activity in the play given the proximity of Madalena's assets to the sweet spot of the Neuquén basin, industry activity, and large JVs."

Just last week, Madalena reported results from its second horizontal well on its prized Neuquén Basin assets, with over 1,900 barrels of oil equivalent flowing over a five hour period. The news followed better-than-expected results from the first horizontal well late last year, which produced 63,000 barrels of oil in the first quarter.

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