

# Extractive Sector Transparency Measures Act - Annual Report



|                              |                     |          |            |            |                       |           |
|------------------------------|---------------------|----------|------------|------------|-----------------------|-----------|
| <b>Reporting Entity Name</b> | Madalena Energy Inc |          |            |            |                       |           |
| <b>Reporting Year</b>        | <b>From</b>         | 1/1/2017 | <b>To:</b> | 12/31/2017 | <b>Date submitted</b> | 5/29/2018 |

|   |         |  |
|---|---------|--|
| <b>Reporting Entity ESTMA Identification Number</b> | E615230 | <input checked="" type="radio"/> Original Submission |
|   |         | <input type="radio"/> Amended Report                 |

**Other Subsidiaries Included**  
(optional field)

**Not Consolidated**

**Not Substituted**

**Attestation by Reporting Entity**

*In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest I have reviewed the information contained in the ESTMA report for the entity(ies) listed above. Based on my knowledge, and having exercised reasonable diligence, the information in the ESTMA report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above.*

|   |                         |             |           |
|---|-------------------------|-------------|-----------|
| <b>Full Name of Director or Officer of Reporting Entity</b> | Ezequiel Ariet Martinez | <b>Date</b> | 5/29/2018 |
| <b>Position Title</b>                                       | Chief Financial Officer |             |           |

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|  |                     |          |     |            |                        |
|--|---------------------|----------|-----|------------|------------------------|
| Reporting Year                               | From:               | 1/1/2017 | To: | 12/31/2017 |                        |
| Reporting Entity Name                        | Madalena Energy Inc |          |     |            | Currency of the Report |
| Reporting Entity ESTMA Identification Number | E616230             |          |     |            | CAD                    |
| Subsidiary Reporting Entities (if necessary) |                     |          |     |            |                        |

**Payments by Payee**

| Country   | Payee Name <sup>1</sup>   | Departments, Agency, etc... within Payee that Received Payments <sup>2</sup> | Taxes     | Royalties | Fees    | Production Entitlements | Bonuses | Dividends | Infrastructure Improvement Payments | Total Amount paid to Payee | Notes <sup>3,4</sup> |
|-----------|---|--|-----------|-----------|---------|-------------------------|---------|-----------|-------------------------------------|----------------------------|----------------------|
| Argentina | AFIP-Administracion Federal de Ingresos Publicos-Federal government     |  | 2,076,000 |           |         |                         |         |           |                                     | 2,076,000                  |                      |
| Argentina | AFIP-Administracion Federal de Ingresos Publicos-Provincial government  |  | 1,140,000 |           |         |                         |         |           |                                     | 1,140,000                  |                      |
| Argentina | Ministerio de Economia y Hacienda                                       | Rentas Generales Rio Negro   |           | 137,000   |         |                         |         |           |                                     | 137,000                    |                      |
| Argentina | Provincia de Formosa  |  |           | 1,999,000 | 122,000 | 280,000                 |         |           |                                     | 2,401,000                  |                      |
| Argentina | Provincia de Salta  | Regalias   |           | 138,000   |         |                         |         |           |                                     | 138,000                    |                      |
| Argentina | Provincia del Neuquen Administracion Central                            |  |           | 328,000   |         |                         |         |           |                                     | 328,000                    |                      |
| Argentina | Provincia de Rio Negro - Regalias de crudo - Puesto Morales             |  |           | 2,757,000 |         |                         |         |           |                                     | 2,757,000                  |                      |
| Argentina | Provincia de Rio Negro - Regalias de Gas - Rinconada Puesto Morales Sur |  |           | 714,000   |         |                         |         |           |                                     | 714,000                    |                      |
| Argentina | Rentas Generales de la Provincia de Rio Negro                           |  | 283,000   |           |         |                         |         |           |                                     | 283,000                    |                      |
| Argentina | Tesoreria de la Provincia de Salta                                      |  | 457,000   |           |         |                         |         |           |                                     | 457,000                    |                      |
|           |   |  | 3,956,000 | 6,073,000 | 122,000 | 280,000                 | -       | -         | -                                   | 10,431,000                 |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |
|           |   |  |           |           |         |                         |         |           |                                     |                            |                      |

Additional Notes:

**Extractive Sector Transparency Measures Act - Annual Report**

|  |                     |                |                             |
|--|---------------------|----------------|-----------------------------|
| Reporting Year                               | From: 1/1/2017      | To: 12/31/2017 |                             |
| Reporting Entity Name                        | Madalena Energy Inc |                | Currency of the Report: CAD |
| Reporting Entity ESTMA Identification Number | E615230             |                |                             |
| Subsidiary Reporting Entities (if necessary) |                     |                |                             |

**Payments by Project**

| Country   | Project Name <sup>1</sup> | Taxes     | Royalties | Fees    | Production Entitlements | Bonuses | Dividends | Infrastructure Improvement Payments | Total Amount paid by Project | Notes <sup>2,3</sup> |
|-----------|---------------------------|-----------|-----------|---------|-------------------------|---------|-----------|-------------------------------------|------------------------------|----------------------|
| Argentina | Corporate                 | 2,076,000 |           |         |                         |         |           |                                     | 2,076,000                    |                      |
| Argentina | Chivil                    | 48,000    | 244,000   | 21,000  |                         |         |           |                                     | 313,000                      |                      |
| Argentina | Coiron Amargo North       | 114,000   |           |         |                         |         |           |                                     | 114,000                      |                      |
| Argentina | Coiron Amargo Southeast   | 47,000    | 99,000    |         |                         |         |           |                                     | 146,000                      |                      |
| Argentina | Curamhuele                |           |           | 229,000 |                         |         |           |                                     | 229,000                      |                      |
| Argentina | Palmar Largo              | 198,000   | 267,000   |         |                         |         |           |                                     | 465,000                      |                      |
| Argentina | Puesto Morales            | 697,000   | 3,608,000 |         |                         |         |           |                                     | 4,305,000                    |                      |
| Argentina | Santa Victoria            |           |           | 353,000 |                         |         |           |                                     | 353,000                      |                      |
| Argentina | Surubi                    | 292,000   | 1,488,000 | 101,000 | 280,000                 |         |           |                                     | 2,161,000                    |                      |
| Argentina | Valle Morado              |           |           | 76,000  |                         |         |           |                                     | 76,000                       |                      |
| Argentina | Vinalar                   | 28,000    | 138,000   | 27,000  |                         |         |           |                                     | 193,000                      |                      |
|           |                           | 3,500,000 | 5,844,000 | 807,000 | 280,000                 | -       | -         | -                                   | 10,431,000                   |                      |

Additional Notes<sup>3</sup>:

**Madalena Energy Inc**  
**Report on Payments to Governments for the Year 2017**  
**December 31, 2017**

**Introduction**

This report provides an overview of the payments to governments made by Madalena Energy Inc and its subsidiaries (hereinafter referred to as "Madalena") for the year ended December 31, 2017 as required under the Extractive Sector Transparency Measures Act (the "Act" / "ESTMA"). This Act, as enacted on June 1, 2015 requires extractive entities to report annually on payments made to governments relating to the commercial development of oil, natural gas, or minerals, at home and abroad

This Report is available for download from <http://www.madalenaenergy.com/download/ESTMA%202018%20Reporting%20Madalena%20Energy%20Inc.pdf>

**Basis for Preparation - Report on Payments to Governments for the year 2017.**

**Legislation**

This report is prepared in accordance with ESTMA as enacted on June 1, 2015.

**Reporting Entity**

This report includes payments to governments made by Madalena Energy Inc. and its subsidiary undertakings ("Madalena"). Payments made by entities over which Madalena has joint control and is not the operator, are excluded from this report.

**Activities**

Payments made by Madalena, to governments, relating to the commercial development of oil, natural gas, or minerals, at home and abroad are disclosed in this report

**Government**

Government includes any national, regional or local authority of a country, and includes a department, agency or entity that is a subsidiary of a government

**Project**

Payments are reported at project level except that payments that are not attributable to a specific project are reported at entity level.

Project is defined as operational activities which are governed by a single contract, license, lease, concession or similar legal agreement, and form the basis for payment liabilities with a government. If such agreements are substantially interconnected, those agreements are to be treated as a single project

"Substantially interconnected" means forming a set of operationally and geographically integrated contracts, licences, leases or concessions or related agreements with substantially similar terms that are signed with a government giving rise to payment liabilities. Such agreements can be governed by a single contract, joint venture production sharing agreement, or other overarching legal agreement. Indicators of integration include, but are not limited to, geographic proximity, the use of shared infrastructure and common operational management.

**Payment**

The information is reported under the following payment types:

**Taxes**

These are taxes paid by Madalena on its income, profits or production (which include turnover taxes). Payments are reported net of refunds. Consumption taxes, personal income taxes, sales taxes, property and environmental taxes are excluded.

**Royalties**

These are payments from the rights to extract oil and gas resources, typically at set percentages of revenue less any deductions that may be taken

**Fees**

These are fees and other sums paid as consideration for acquiring a licence for gaining access to an area where extractive activities are performed. Administrative government fees that are not specifically related to

the extractive sector, or to access the extractive resources, are excluded.

**Production entitlements**

These are the host government's share of production in the reporting period derived from projects operated by Madalena. This includes the government's share as a sovereign entity or through its participation as an equity or interest holder in projects within its sovereign jurisdiction (home country). Production entitlements arising from activities or interests outside of its home country are excluded

In certain contractual arrangements, typically a production sharing contract, a government through its participation interest may contribute funding of capital and operating expenditures to projects, from which it derives production entitlement to cover such funding (cost recovery). Such cost recovery production entitlement is included

There are no situations whereby a government settles Madalena's income tax obligation on behalf of Madalena

**Bonuses**

These are payments for Bonuses. These are usually paid upon signing an agreement or a contract, or when a commercial discovery is declared, or production has commenced or reached a milestone. For the year-ended December 31, 2017, there were no bonus payments made to a government.

**Dividends**

These are dividend payments other than dividends paid to a government as an ordinary shareholder of an entity unless paid in lieu of production entitlements or royalties. For the year-ended December 31, 2017 there were no reportable dividend payments to a government.

**Infrastructure improvement payments**

These are payments which relate to the construction of infrastructure (road, bridge, or rail) not substantially dedicated for the use of extractive activities. Payments which are of a social investment nature, for example building of a school or hospital, are excluded. For the year-ended December 31, 2017, there were no infrastructure improvement payments to a government

**OTHER**

**Operatorship**

When Madalena makes a payment directly to a government arising from a project, regardless of whether Madalena is the operator, the full amount paid is disclosed even where Madalena as the operator is partially reimbursed by its non-operating venture partners through a partner billing process (cash-call).

**Cash and in-kind payments**

Payments are reported on cash basis. In-kind payments are converted to an equivalent cash value based on the most appropriate and relevant valuation method for each payment, which can be at cost or market value or such value as stated in the contract. In-kind payments are reported in both volumes and the equivalent cash value. For the year-ended December 31, 2017 there were no in-kind payments to a government.

**Materiality level**

For each payment type, total payments below \$100,000 Canadian dollars to a government are excluded from this report.

**Exchange Rate**

Payments made in currencies other than Canadian dollars are translated for this report based on the foreign exchange rate at the relevant quarterly average rate which approximate the exchange rate at the time the transactions occurred.

The following quarterly rates were used in 2017

|         | Peso to USD | USD to CAD |
|---------|-------------|------------|
| Q1 2017 | 15.67       | 1.3238     |
| Q2 2017 | 15.72       | 1.3448     |
| Q3 2017 | 17.28       | 1.2526     |
| Q4 2017 | 17.56       | 1.2713     |