



### **Madalena Announces its 2016 Year End Financial and Operating Results and Year End Reserves**

*(All dollar figures are expressed in United States Dollars)*

**Madalena Energy Inc.** (the "**Company**" or "**Madalena**") (TSXV: MVN and OTCQX: MDLNF) announces its financial and operating results for the three months and year ended December 31, 2016 and the Company's 2016 year end reserves. The Company also announces that its audited consolidated financial statements for the year ended December 31, 2016, the related management's discussion and analysis (the "MD&A") and the Annual Information Form (the "AIF") for the year ended December 31, 2016 will be available on the System for Electronic Document Analysis and Retrieval ("Sedar") under the Company's profile at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.madalenaenergy.com](http://www.madalenaenergy.com).

#### **Recent Highlights in 2017**

- Madalena closed the previously announced Coirón Amargo Sur Este ("CASE") transaction in January 2017, providing the Company with cash payments of \$10 million, \$3 million of which was received in December 2016 and the balance in January 2017;
- The 2017 work program at CASE has commenced. A Vaca Muerta horizontal trajectory of approximately 1,000 meters has been drilled and a liner has been run at CAS.x-15(r)(h);
- Madalena repaid its \$1.6 million Argentine debt facility in full in February 2017;
- Argentine oil prices are expected to converge with international Brent pricing over the coming months;
- Madalena sold 1.6 million free-trading shares of Point Loma Resources Ltd. ("Point Loma") in January 2017 for net proceeds of \$0.5 million; and
- The Company sold 4.7 million escrowed common shares in Point Loma in April 2017 for gross cash proceeds of \$0.8 million. These common shares will be released from escrow in 20% increments in six month intervals commencing July 2017.

#### **Outlook**

With the assistance of Evercore Group Inc., the Company is actively pursuing strategic alternatives with a view to enhance liquidity and meet ongoing capital commitments. There can be no guarantee that this review will result in a transaction(s), or if a transaction(s) is undertaken, as to its terms or timing. At the same time, the Board of Directors is seeking to identify the appropriate CEO candidate to lead the Company.

#### **Highlights in 2016**

The Company entered 2016 with liquidity restraints due to limited working capital. Accordingly, the focus for 2016 was directed towards accessing additional funding and opportunities to monetize assets. Changes in management and the Board were made in March 2016 with Mr. Steven Sharpe, Chairman of the Board appointed as Interim President and Chief Executive Officer and Mr. Eric Mark appointed to the Board as an independent director. Both have significant experience in corporate restructurings, capital and debt markets.

Measures were taken to reduce expenses and conserve cash. Office and field personnel have been reduced in both countries, office space has been downsized in Canada and other costs saving measures were implemented.

#### **2016 Activity**

- **Review of Strategic Alternatives**  
In April 2016, Madalena retained Evercore Group LLC ("Evercore") as its exclusive financial advisor in connection with identifying and securing a joint venture partner for the 90% working interest Curamhue block in Argentina. In late June 2016, Evercore had its mandate broadened to encompass a complete review of strategic alternatives.

- **Coirón Amargo**

On July 11, 2016, the Company entered into definitive agreements whereby Coirón Amargo Sur (35% working interest) was divided into two evaluation lots – CASE and *Coirón Amargo Sur Oeste* (“CASO”). Madalena sold its interest in CASO in return for an additional 55% working interest at CASE, thereby increasing its working interest to 90% and becoming operator.

On December 7, 2016, the Company entered into agreements with Pan American Energy LLC, Sucursal Argentina (“PAE”) relating to its 90% working interest at CASE. Pursuant to these agreements, Madalena received cash payments of an aggregate of \$10 million on closing and sold a 55% working interest and operatorship to PAE, thereby retaining a 35% non-operated working interest in CASE. A 2017 work program (“Work Program”), comprised of two well re-entries, will be undertaken by PAE as the new operator of CASE. Madalena will receive \$5.6 million in carried capital costs through this Work Program. Concurrently, PAE agreed, subject to certain conditions, to provide Madalena with a loan of up to \$40 million, on a limited recourse basis, to be drawn-down as required to fund CASE capital expenditures. This limited recourse loan will bear interest at 7% per annum and is repayable in five years from the net revenue generated from the CASE capital expenditure program. This transaction closed on January 10, 2017.

- **Curamhuele**

The Yapai.x-1001 well was successfully completed in Q1-2016 with four hydraulic fractures, the upper three intervals being within the Lower Agrio shale and the lowest interval containing both the Lower Agrio shale and Mulichinco tight sand formations. Initial test results were sufficiently encouraging for the Company to request renewal of the Curamhuele evaluation concession for four years with a total of \$8.2 million of work commitments to be incurred by March 9, 2019.

- **Sale of Canadian Assets**

On June 28, 2016, Madalena and Point Loma completed a transaction pursuant to which, Point Loma acquired Madalena's Canadian petroleum and natural gas assets in exchange for 6.2 million escrowed common shares of Point Loma, with a value of \$1.9 million and a five-year \$2.4 million secured convertible debenture (“Point Loma Convertible Debenture”), bearing interest at 3% per annum, payable at the end of the debenture term.

In December 2016, the Company sold the Point Loma Convertible Debenture for net cash proceeds of \$0.5 million.

- **Madalena Convertible Debenture Issuance**

On July 13, 2016, the Company closed a private placement of CAD \$1.8 million 12% secured convertible debentures, with a June 30, 2019 maturity date. The debentures are convertible into common shares of the Company at a conversion price of CAD \$0.25 per common share any time after January 13, 2017. Interest on the debentures is payable semi-annually, in arrears, on December 31 and June 30. Under certain conditions, the Company may repay the outstanding indebtedness. Such repayments involve call premiums that reduce as the date to maturity approaches.

## SUMMARY FINANCIAL AND OPERATIONAL RESULTS

	Three months ended		Year ended	
	December 31		December 31	
	2016	2015	2016	2015
<b>Financial</b> – (\$000s, except per share amounts)				
Oil and gas revenue	<b>10,543</b>	17,902	<b>50,152</b>	81,725
Funds flow from (used in) continuing operations <sup>(1)</sup>	<b>(325)</b>	4,007	<b>5,494</b>	29,377
Per share - basic & diluted <sup>(1)</sup>	<b>(0.00)</b>	0.01	<b>0.01</b>	0.05
Net income (loss) from continuing operations	<b>(9,402)</b>	(12,510)	<b>(32,100)</b>	(6,164)
Per share - basic & diluted <sup>(1)</sup>	<b>(0.02)</b>	(0.02)	<b>(0.06)</b>	(0.01)
Capital expenditures	<b>331</b>	12,679	<b>6,339</b>	40,936
Working capital (deficiency)	<b>(4,413)</b>	462	<b>(4,413)</b>	462
Common shares outstanding - 000s	<b>543,780</b>	542,083	<b>543,780</b>	542,083
<b>Operating</b>				
<i>Average Daily Sales</i>				
Crude oil and Ngl's – Bbls/d	<b>1,947</b>	2,549	<b>2,072</b>	2,749
Natural gas – Mcf/d	<b>2,303</b>	3,363	<b>2,569</b>	3,887
Total - Boe /d	<b>2,330</b>	3,110	<b>2,500</b>	3,397
<i>Average Sales Prices</i>				
Crude oil and Ngl's - \$/Bbl	<b>53.59</b>	70.65	<b>60.09</b>	74.60
Natural gas - \$/Mcf	<b>4.47</b>	4.31	<b>4.87</b>	4.84
Total - \$/Boe	<b>49.18</b>	62.58	<b>54.81</b>	65.91
<i>Operating Netbacks</i> <sup>(2)</sup> - \$/Boe	<b>11.21</b>	23.08	<b>20.28</b>	28.40

(1) This table contains the term "funds flow from (used in) continuing operations", which is a non-GAAP measure and should not be considered an alternative to, or more meaningful than "cash flow from operating activities" as determined in accordance with International Financial Reporting Standards ("IFRS") as an indicator of the Company's performance. Funds flow from (used in) operations and funds flow from (used in) operations per share (basic and diluted) do not have any standardized meanings prescribed by IFRS and may not be comparable with the calculation of similar measures for other entities. Management uses funds flow from (used in) continuing operations to analyze operating performance and considers funds flow from (used in) continuing operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investment. The reconciliation between funds flow from (used in) continuing operations and cash flow from operating activities can be found in the MD&A. Funds flow from (used in) continuing operations per share is calculated using the basic and diluted weighted average number of shares for the period, consistent with the calculations of earnings (loss) per share.

(2) Operating netback is a non-GAAP measure calculated as the average per boe of the Company's oil and gas sales, less royalties and operating costs.

For the year ended December 31, 2016, the Company reported a net loss from continuing operations of \$32.1 million, had a working capital deficit of approximately \$4.4 million and significant future capital commitments to develop its properties. It is currently anticipated that forecasted cash flow from operating activities will not be sufficient to resolve the current working capital deficit and fund the anticipated capital commitments through 2017. As a result, for the year ended December 31, 2016, the Company continued to include a note of going concern uncertainty in the consolidated financial statements.

## Summary of 2016 Reserves

The reserve report ("GLJ Report") was prepared in accordance with the definitions, standards and procedures contained in NI 51-101 and the COGE Handbook by GLJ Petroleum Consultants. The GLJ Report contains several cautionary statements that are required by NI 51-101 and the reserves information presented is subject to the contents of the full reports.

### Year End 2016 Reserves Highlights:

- Argentina Proved plus Probable ("2P") reserves increased 8% from 9,134 MBoe to 9,899 MBoe, which include 2.3 Mboe (2015 – 0.9 Mboe) associated with the Company's undeveloped unconventional assets in the Vaca Muerta shale;
- Argentina 2P reserve replacement ratio was 108%; and
- 2P BTax NPV 10%, is \$121.9 million or \$0.22/share, including \$29.4 million (2015 - \$14.6 million) associated with the Company's undeveloped unconventional assets in the Vaca Muerta shale.

The following tables provide a summary of the Company's oil and gas working interest reserves before royalties and net present value of future net revenue at December 31, 2016 using forecast prices and costs.

### Reserves Summary

	Light & Medium Oil & NGL (Mbbbl)	Tight Oil (Mbbbl)	Conventional Gas (MMcf)	Shale Gas (MMcf)	BOE (MBOE)
Proved Developed Producing	2,319	-	2,657	-	2,762
Proved Developed Non-Producing	384	24	273	20	458
Proved Undeveloped	1,275	904	827	741	2,440
Total Proved	3,978	928	3,757	761	5,659
Total Probable	2,574	1,066	2,727	874	4,240
Total Proved + Probable	6,552	1,994	6,484	1,635	9,899

### Summary of Net Present Values of Future Net Revenue<sup>(1)</sup>

#### Forecasted Prices and Costs<sup>(2)</sup>

#### Before Income Taxes, Discounted at (%/year)

	As at December 31, 2016		
	0% \$000s	10% \$000s	15% \$000s
Proved Developed Producing	36,908	35,731	33,534
Proved Developed Non-Producing	13,988	9,836	8,401
Total Proved Developed	50,896	45,567	41,935
Proved Undeveloped	40,173	14,293	7,149
Total Proved	91,069	59,861	49,084
Probable	121,327	62,068	46,753
Total Proved + Probable	212,397	121,929	95,837

1) It should not be assumed that the present value of estimated future net cash flows shown above are representative of the fair market value of the reserves.

2) Based on GLJ's forecasted prices for Argentina as of January 1, 2017.

3) Tables may not add due to rounding.

As at December 31, 2016, Madalena held a 90% working interest ("WI") in CASE, which includes all of the tight oil and shale gas reserves disclosed above. In a news release dated January 11, 2017, the Company announced the closing of the sale of 55% of its working interest at CASE. As a result, the Company now holds a 35% WI in the CASE evaluation block.

The impact on the reserves and the net present values are as follows:

	Total reserves		NPV of Future Net Revenue Before Income Taxes Discounted at (10%/year)		Change \$000s
	December 31 2016 Mboe	January 11 2017 MBoe	December 31 2016 \$000s	January 11 2017 \$000s	
	Total Proved	5,659	5,013	59,861	
Probable	4,240	3,500	62,068	51,430	(10,638)
Total Proved & Probable	9,899	8,513	121,929	109,856	(12,073)

As a result of the sale of 55% of CASE, proved plus probable reserves associated with the Company's undeveloped unconventional reserves in the Vaca Muerta were reduced by 1.4 million boe with an associated reduction in 10% NPV before tax of \$12.1 million. Total consideration received by the Company was \$15.6 million (\$10 million of cash and \$5.6 million in carried costs).

#### **Health, Safety, Environment ("HSE") and Corporate Social Responsibility ("CSR")**

Madalena has a comprehensive HSE management plan for its employees and all contractors. In 2016 the Company continued to see major improvements in its key performance benchmarking indicators. For the 392,000+ person hours worked, there were no lost time incidents at any of the Company's facilities or operations. Also, in 2016 the Company recorded no reportable spills.

The Company takes pride in its CSR initiatives in Argentina. The Company is actively involved in supporting the communities in which it operates, through a number of initiatives including local employment programs, access to health care and improvement in the quality of services, education, water quality and technical assistance on sustainable agricultural production. In 2016 the Company fully implemented its community relations programs in both districts that it operates.

#### **About Madalena Energy**

Madalena is an independent, Canadian headquartered, Argentine focused upstream oil and gas company with operations in four provinces of Argentina where it is primarily focused on the delineation of unconventional oil and gas resources. The Company is implementing horizontal drilling and completions technology to develop both its conventional and resource plays.

Madalena trades on the TSX Venture Exchange under the symbol MVN and on the OTCQX under the symbol MDLNF.

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## Reader Advisories

### **Forward Looking Information**

The information in this news release contains certain forward-looking statements. These statements relate to future events or our future performance, in particular, but not limited to, with respect to the characteristics of the properties held by the Company, production levels, the strategic value and opportunities available to Madalena, operational and financial plans, and opportunities and the ability of Madalena to execute on such plans and opportunities and the Company's ability to meet its commitments and continue as a going concern or continue operating at all. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "approximate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. These statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, including: the impact of general economic conditions; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; fluctuations in commodity prices and foreign exchange and interest rates; stock market volatility and market valuations; volatility in market prices for oil and natural gas; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions, of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; geological, technical, drilling and processing problems and other difficulties in producing petroleum reserves; and obtaining required approvals of regulatory authorities. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits the Company will derive from them. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The forward-looking statements in this news release are expressly qualified in their entirety by this cautionary statement. Except as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements. Investors are encouraged to review and consider the additional risk factors set forth in the Company's Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Meaning of Boe**

The term "boe" or barrels of oil equivalent may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 Mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

### **Analogous Information**

Certain information in this news release may constitute "analogous information" as defined in National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), including, but not limited to, information relating to areas, assets, wells and/or operations that are in geographical proximity to or believed to be on-trend with lands held by Madalena. Such information has been obtained from public sources, government sources, regulatory agencies or other industry participants. Management of Madalena believes the information may be relevant to help define the reservoir characteristics within lands on which Madalena holds an interest and such information has been presented to help demonstrate the basis for Madalena's business plans and strategies. However, management cannot confirm whether such analogous information has been prepared in accordance with NI 51-101 and the Canadian Oil and Gas Evaluation Handbook and Madalena is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor. Madalena has no way of verifying the accuracy of such information. There is no certainty that the results of the analogous information or inferred thereby will be achieved by Madalena and such information should not be construed as an estimate of future production levels or the actual characteristics and quality Madalena's assets. Such information is also not an estimate of the reserves or resources attributable to lands held or to be held by Madalena and there is no certainty that such information will prove to be analogous in the future. The reader is cautioned that the data relied upon by Madalena may be in error and/or may not be analogous to such lands to be held by Madalena.

### **Notes to Disclosure of Reserves**

Volumes of reserves have been presented based on a company interest basis which includes Madalena's royalty interests without deducting royalties payable by the Company. Certain volumes are arithmetic sums of multiple estimates of Contingent and Prospective Resources, which statistical principles indicate may be misleading as to volumes that may actually be recovered. Readers should give attention to the estimates of individual classes of resources and appreciate the differing probabilities of recovery associated with each class as explained herein. The estimates of reserves and resources for individual properties may not reflect the same confidence level as estimates of reserves and resources for all properties, due to the effects of aggregation.

**Neither the TSX Venture Exchange nor its Regulation Service Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.**