

## Extractive Sector Transparency Measures Act Report

Reporting Year From: 1/1/2016 To: 12/31/2016  
Reporting Entity Name Madalena Energy Inc  
Reporting Entity ESTMA Identification Number E615230  
Subsidiary Reporting Entities (if necessary) N/A

**Attestation: Please check one of the the boxes below and provide the required information**

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.*

Attestation (through independent audit)

*In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest that I engaged an independent auditor to undertake an audit of the ESTMA report for the entity(ies) and reporting year listed above. Such an audit was conducted in accordance with the Technical Reporting Specifications issued by Natural Resources Canada for independent attestation of ESTMA reports.*

*The auditor expressed an unmodified opinion, dated 2017-05-26, on the ESTMA report for the entity(ies) and period listed above.  
The independent auditor's report is included in the ESTMA report and can be found at <http://www.madalenaenergy.com/investor.php?sc=33>*

Director or Officer of Reporting Entity Full Name:  
Position Title:

Thomas Love  
Vice President Finance & CFO

Date: 5/26/2017

## Extractive Sector Transparency Measures Act - Annual Report

Reporting Year  
Reporting Entity Name

From: 1/1/2016 To: 12/31/2016  
Madalena Energy Inc

Reporting Entity ESTMA Identification  
Number

E615230

Subsidiary Reporting Entities (if  
necessary)

N/A

CAD

### Payments by Payee

Country	Payee Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid to Payee	Notes
Argentina	AFIP-Administracion Federal de Ingresos Publicos-Federal government	3,250,000							3,250,000	
Argentina	AFIP-Administracion Federal de Ingresos Publicos-Provincial government	1,770,000							1,770,000	
Argentina	EDHIPSA S.A.		940,000						940,000	
Argentina	Ministerio de Economia y Hacienda		180,000						180,000	
Argentina	Provincia de Formosa		2,910,000	140,000	360,000				3,410,000	
Argentina	Provincial de Salta		250,000						250,000	
Argentina	Provincia del Neuquen Administracion Central		110,000						110,000	
Argentina	Regalias de crudo - Puesto Morales Rio Negro		3,130,000						3,130,000	
Argentina	Regalias de Gas - Rinconada Puesto Morales Sur		830,000						830,000	
Argentina	Rentas Generales de la Provincia de Rio Negro	490,000							490,000	
		5,510,000	8,350,000	140,000	360,000	-	-	-	14,360,000	

Notes:

Please find a summary of the currency conversion method and exchange rates used on page 6 of this report.

## Extractive Sector Transparency Measures Act - Annual Report

Reporting Year  
 Reporting Entity Name  
 Reporting Entity ESTMA Identification Number

From: 1/1/2016 To: 12/31/2016  
 Magdalena Energy Inc  
 E615230

Subsidiary Reporting Entities (if necessary)

N/A

CAD

### Payments by Project

Country	Project Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid by Project	Notes
Argentina	Corporate	3,250,000							3,250,000	
Argentina	Chivil	110,000	470,000	30,000					610,000	
Argentina	Coiron Amargo North	350,000							350,000	
Argentina	Curamhuele		110,000						110,000	
Argentina	Palmar Largo	90,000	390,000						480,000	
Argentina	Puesto Morales	1,210,000	5,070,000						6,280,000	
Argentina	Surubi	450,000	2,050,000	110,000	360,000				2,970,000	
Argentina	Vinalar	60,000	250,000						310,000	
		5,520,000	8,340,000	140,000	360,000	-	-	-	14,360,000	

Notes:

Please find a summary of the currency conversion method and exchange rates used on page 6 of this report.

**Madalena Energy Inc**  
**Report on Payments to Governments for the Year 2016**  
**December 31, 2016**

**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, 2016 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/investor.php?sc=33>

**Basis for Preparation - Report on Payments to Governments for the year 2016.**

**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, 2016, 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, 2016, 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, 2016, 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, 2016 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 2016

	Peso to USD	USD to CAD
Q1 2016	14.39	1.3724
Q2 2016	14.21	1.2882
Q3 2016	14.94	1.3046
Q4 2016	15.85	1.3344



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## INDEPENDENT AUDITORS' REPORT

To the Directors of Madalena Energy Inc. and the Minister of Natural Resources Canada

We have audited the accompanying Schedule of Payments by Payee totaling \$14,360,000 and the Schedule of Payments by Project totaling \$14,360,000 of Madalena Energy Inc. for the year ended December 31, 2016 and notes, comprising a summary of significant accounting policies (together "the schedules"). The schedules have been prepared by management in accordance with the financial reporting provisions in Section 2, 3, 4 and 9 of the Extractive Sector Transparency Measures Act, Section 2.3 of the Extractive Sector Transparency Measures Act – Technical Reporting Specifications and Sections 3.1 to 3.6 of the Extractive Sector Transparency Measures Act – Guidance (collectively, the "financial reporting framework").

### *Management's Responsibility for the Schedules*

Management is responsible for the preparation of the schedules in accordance with the financial reporting framework referred to above, and for such internal control as management determines is necessary to enable the preparation of the schedules that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these schedules based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of



accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the Schedule of Payments by Payee amounting to \$14,360,000 and the Schedule of Payments by Project amounting to \$14,360,000 of Madalena Energy Inc. for the year ended December 31, 2016 are prepared, in all material respects, in accordance with the financial reporting framework referred to above.

*Basis of Accounting*

Without modifying our opinion, we draw attention to management's report on payments to governments for the year 2016 accompanying the schedules, which describes the basis of accounting. The schedules are prepared to provide information to the Directors of Madalena Energy Inc. and the Minister of Natural Resources Canada to assist in meeting the requirements of the Extractive Sector Transparency Measures Act. As a result, the schedules may not be suitable for another purpose.

Our report is intended solely for the Directors of Madalena Energy Inc. and the Minister of Natural Resources Canada and should not be used by parties other than the Directors of Madalena Energy Inc. and the Minister of Natural Resources Canada.

*KPMG LLP*

Chartered Professional Accountants

May 26, 2017  
Calgary, Canada