

CALGARY, May 16, 2017 /CNW/ - [Alvopetro Energy Ltd.](#) (TSX-V:ALV) is pleased to announce an operational update and our first quarter financial and operating results.

Operational Update

In the first quarter of 2017 we completed drilling and testing our 198(A1) well, located on Block 198 in the Recôncavo basin in the State of Bahia, Brazil. The well was drilled to a total measured depth of 1,480 metres. Based on open-hole logs, the well encountered 31 metres of potential net natural gas pay in the Main Caruaçu Member, with an average 46% water saturation, and average porosity of 11.4%, using an 8% porosity cut-off. The well also encountered 26 metres of potential net hydrocarbon pay in a series of thinner up-hole Pojuca sands, with an average 51% water saturation, and average porosity of 14.3%, using an 8% porosity cut-off.

We tested two zones in the 198(A1) well in the quarter. During the 48-hour test of the first zone, the well flowed natural gas, on an unstimulated basis, at an average rate of 15,000 m³/d (534 Mcf/d or 89 boepd). During the 72-hour test of the second zone, the well flowed natural gas, on an unstimulated basis, at an average rate of 76,000 m³/d (2.7 MMcf/d or 447 boepd). The pressure transient analysis from the first zone forecasts potential post-stimulation rates with near well bore damage removed (expected to be achieved using a near well bore acid wash) indicating deliverability of 0.8 MMcf/d (139 boepd) after three months of continuous production and 0.7 MMcf/d (116 boepd) after one year of continuous production. Pressure transient analysis from the second zone forecasts deliverability of 2.1 MMcf/d (343 boepd) after three months of continuous production and 1.8 MMcf/d (303 boepd) after one year of continuous production. The first zone tested natural gas below the previously interpreted gas water contact but is in communication with the water contact. As such, we would likely put the well on production initially from just the second (upper) zone.

The 198(A1) well was drilled as a step-out well to our 197(2) natural gas discovery on our Caburé field and satisfies our work commitment on the block, subject to the approval by the National Agency of Petroleum, Natural Gas and Biofuels of Brazil ("ANP"). We have submitted a declaration of commerciality for the 198(A1) discovery, which will commence the Development and Production Phase for this discovery, subject to ANP approval, with the remaining portion of the block relinquished. We continue to work diligently on finalizing the unitization agreement for the 197(2) and 198(A1) gas discoveries with the adjacent resource owner and expect to secure a natural gas sales contract concurrently with a finalized unitization agreement. Upon execution of these agreements, we expect to commence commercial development of the field.

We achieved significant cost savings on drilling and testing the 198(A1) well compared to past experience. These cost savings enhance the attractiveness of our broader inventory of opportunities. Our next well to be drilled, the 177(A1) well on Block 177, is a shallow oil prospect targeting the Agua Grande and Sergi Formations with expected drilling costs of \$0.8 million. We expect to commence drilling in the third quarter of 2017, subject to the receipt of environmental permits.

Financial and Operating Highlights & Q1 2017

- Capital expenditures of \$2.8 million in the first quarter included \$2.4 million for drilling and testing the 198(A1) well and capitalized G&A of \$0.3 million. Of our total capital expenditures on the 198(A1) well, \$0.4 million were satisfied through a sale of equipment inventory, reducing our overall cash expenditures on capital projects in the quarter to \$2.4 million.
- In the first quarter of 2017, our average daily production decreased to 39 bopd, a 26% reduction from the fourth quarter of 2016, primarily due to natural declines on the 182(B1) well and production from the Bom Lugar field being offline due to a workover in January and a pump failure in March. This well is currently offline awaiting a pump repair which is expected to be completed in the second quarter of 2017.
- We reported a net loss of \$0.9 million in the first quarter, primarily attributable to negative funds flow from operations of \$0.8 million which included \$0.1 million of E&E expenditures on relinquished blocks.
- Our cash, restricted cash and working capital resources total \$13.5 million.

Summary of Q1 2017 Financial and Operating Results

The following table provides a summary of Alvopetro's financial and operating results for the three months ended March 31, 2017 and March 31, 2016. The consolidated financial statements with the Management's Discussion and Analysis ("MD&A") are available on our website at www.alvopetro.com and will be available on the System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.

SUMMARY OF Q1 2017 RESULTS

Three months ended
March 31,

2017 2016

Financial

(\$000s, except where noted)

Oil sales	171	153
Funds flow from operations ⁽¹⁾	(797)	(1,225)
Per share – basic and diluted (\$) ⁽²⁾	(0.01)	(0.01)
Net loss	(893)	(4,515)
Per share – basic and diluted (\$) ⁽²⁾	(0.01)	(0.05)
Capital expenditures ⁽³⁾	2,769	3,066
Total assets	77,003	83,722
Debt	-	-
Net working capital surplus ^{(1) (4)}	13,504	25,125

Common shares outstanding, end of year (000s)

Basic	85,167	85,167
Diluted ⁽²⁾	91,762	91,288

Operations

Operating netback (\$/bbl) ⁽¹⁾

Brent benchmark price	54.67	35.08
Discount	(5.32)	(6.23)
Sales price	49.35	28.85
Transportation expenses	(2.60)	(1.89)
Realized sales price	46.75	26.96
Royalties and production taxes	(4.91)	(3.39)
Production expenses	(62.05)	(67.70)
Operating netback	(20.21)	(44.13)
Average daily crude oil production (bopd)	39	58

Notes:

(1) Non-GAAP measure. See "Non-GAAP Measures" section within this news release.

(2) Consists of outstanding common shares and stock options of the Company.

(3) Includes non-cash capital expenditures of \$0.4 million (March 31, 2016 - \$nil).

(4) Includes current restricted cash of \$0.1 million (March 31, 2016 - \$nil).

Alvopetro's Annual General Meeting is scheduled to be held on Wednesday June 28, 2017 at 9:00 a.m. at the Eighth Avenue Place Conference Centre, Suite 410 (Fourth Floor), 525 - 8th Avenue S.W. Calgary, Alberta, Canada. All shareholders are invited to attend.

Updated Corporate Presentation

Alvopetro's updated corporate presentation is available at: <http://www.alvopetro.com/corporate-presentation>.

Alvopetro Energy Ltd.'s vision is to be the premier independent exploration and production company in Brazil, maximizing shareholder value by applying innovation to underexploited opportunities. Our strategy is to focus on three core opportunities including lower risk development drilling on our mature fields, shallow conventional exploration, and the development of the significant hydrocarbon potential present in our deep Gomo tight-gas resource play. Our efforts in the near-term are concentrated on building a natural gas business by finalizing a unitization agreement and securing a gas sales contract.

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

Testing and Well Results. Data obtained from the 198(A1) well identified in this press release, including hydrocarbon shows, open-hole logging, net pay, porosities, and preliminary testing data should be considered to be preliminary until detailed pressure transient analysis and interpretation has been completed. Hydrocarbon shows can be seen during the drilling of a well in numerous circumstances and do not necessarily indicate a commercial discovery or the presence of commercial hydrocarbons in a well. There is no representation by Alvopetro that the data relating to the 198(A1) well contained in this press release is necessarily indicative of long-term performance or ultimate recovery. The reader is cautioned not to unduly rely on such data as such data may not be indicative of future performance of the well or of expected production or operational results for Alvopetro in the future.

Abbreviations:

m3 = cubic metre

m3/d = cubic metre per day

Mcfpd = thousand cubic feet per day

MMcf = million cubic feet

MMcfpd = million cubic feet per day

bopd = barrels of oil per day

boepd = barrels of oil equivalent per day

BOE Disclosure. The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet per barrel (6mcf/bbl) of natural gas to barrels of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this press release are derived from converting gas to oil in the ratio mix of six thousand cubic feet of gas to one barrel of oil.

Forward-Looking Statements and Cautionary Language. This news release contains "forward-looking information" within the meaning of applicable securities laws. The use of any of the words "will", "expect", "intend" and other similar words or expressions are intended to identify forward-looking information. More particularly and without limitation, this news release contains forward-looking information concerning potential hydrocarbons and potential production of hydrocarbons in our 197(2) and 198(A1) wells, exploration and development prospects of Alvopetro and the expected timing of certain of Alvopetro's testing and operational activities. The forward-looking statements are based on certain key expectations and assumptions made by Alvopetro, including but not limited to expectations and assumptions concerning testing results on our 197(2) well and 198(A1) well, the timing of regulatory licenses and approvals, completion of unitization with an adjacent Block owner, securing gas sales agreements, availability of capital, the success of future drilling and development activities, prevailing commodity prices and economic conditions, the availability of labour and services, the ability to transport and market our production, timing of completion of infrastructure and transportation projects, weather and access to drilling locations. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Although Alvopetro believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because Alvopetro can give no assurance that it will prove to be correct. Readers are cautioned

that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the operations or financial results of Alvopetro are included in our annual information form which may be accessed through the SEDAR website at www.sedar.com. The forward-looking information contained in this news release is made as of the date hereof and Alvopetro undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Non-GAAP Measures. This news release contains financial terms that are not considered measures under International Financial Reporting Standards ("IFRS"), such as funds flow from operations, funds flow per share, net working capital surplus and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities. Net working capital surplus includes current assets (including current restricted cash and assets held for sale) less current liabilities (excluding the current portion of decommissioning obligations) and is used to evaluate the Company's financial resources. Operating netback is determined by dividing oil sales less royalties and production taxes, transportation and production expenses by sales volume of produced oil. Management considers operating netback important as it is a measure of profitability per barrel sold and reflects the economic quality of production. Funds flow from operations, funds flow per share, net working capital surplus and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with IFRS.

SOURCE [Alvopetro Energy Ltd.](#)

Contact

Corey C. Ruttan, President, Chief Executive Officer and Director, Alison Howard, Chief Financial Officer, Phone: 587.794.4224, Email: info@alvopetro.com, www.alvopetro.com, TSX-V: ALV