

Alvopetro Announces Gas Sales Agreement Amendment Doubling Firm Volumes, Operational Update and First Quarter 2020 Financial Results

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CALGARY, May 14, 2020 - [Alvopetro Energy Ltd.](#) (TSX-V:ALV; OTCQX: ALVOF) announces an amendment to our Gas Sales Agreement with Bahiagás, an operational update and our first quarter 2020 financial and operating results.

Gas Sales Agreement Amendment (100% Alvopetro)

Our natural gas produced from our Caburé natural gas field will be sold under our long-term gas sales agreement ("GSA") with Bahiagás, the local distribution company for the state of Bahia. Bahiagás has agreed to commence the prepayment of firm gas deliveries effective May 1, 2020 at a rate of 120,000 m3/d. Alvopetro has agreed to provide a 15% discount off the current contract price (price determination from February 2020 of BRL\$1.02/m3 less 15%) for any prepaid natural gas during May and June 2020, after which normal pricing conditions will apply. Alvopetro will repay the prepayments through a portion of natural gas deliveries during the second half of 2020. Total prepaid revenue for the months of May and June are expected to total BRL\$6.4 million (\$1.0 million).

As part of our original agreement, Bahiagás agreed to extend their distribution network by 15 kilometres and construct a new receiving station (City Gate) at the Facility site. Construction of these projects is continuing, and Bahiagás expects to complete their projects in June 2020. As part of the amendment, upon the start of supply, Bahiagás has also agreed to double the firm gas deliveries under our contract to 300,000 m3/d (10.6 mmcfpd) and reduce any potential supply failure penalties through 2020. Based on the recent decline in global commodity prices we expect to realize GSA floor pricing from August through December 2020 (US\$5.21/mmbtu, subject to exchange rate variations and US CPI). At this floor price and 300,000 m3/d of firm gas sales, we expect gross revenues in 2020 to total BRL\$59 million (\$11.3 million). Incorporating recent cost savings including a 25% reduction in overhead, this is expected to result in EBITDA of approximately \$7.5 million during the second quarter of 2020.

Corey Ruttan, President and CEO, commented, "This is a very positive amendment at an uncertain time globally. It allows us to secure early revenues, double our firm deliveries following full start-up, while having the security of a price floor embedded in our gas sales contract. Considering that most producers are facing sharp declines in commodity price realizations and operational shut ins, relative to our peers, we are very well positioned. Our team has worked persistently to deliver this precedent setting amendment and we are one step closer to realizing the benefits of all this hard work."

Caburé Midstream Project (100% Alvopetro)

Our Caburé Midstream Project includes an 11-kilometre Transfer Pipeline and a Gas Treatment Facility ("Facility"). Construction of the Transfer Pipeline and Facility has been completed and commissioning activities commenced on April 21, 2020, with firm gas being delivered from the Caburé Unit to the Facility. During the most recent commissioning we have been delivering up to 280,000 m3/d and will continue to increase rates during the final commissioning steps which are expected to be completed over the next week.

Caburé Unit Development (49.1% Alvopetro)

Natural gas for Alvopetro's midstream project commenced upon commissioning from our Caburé natural gas field (Alvopetro's 49.1% working interest). The field has a total of seven wells, with six of these wells tied into recently expanded production facilities to deliver Alvopetro's share of natural gas. The Unit has a planned gross production plateau rate of 450,000 m3/d (15.9 mmcfpd). Depending on our partner's delivery nominations, we have the ability to produce up to 450,000 m3/d against Alvopetro's reserves from the Caburé Unit.

Financial and Operating Highlights – First Quarter of 2020

- We reported a net loss of \$2.4 million in the quarter which included the recognition of an impairment of \$1.4 million on the Bom Lugar field due to the market impact from the COVID-19 pandemic which has resulted in declines in future crude oil prices.
- In the first quarter of 2020, we completed all remaining construction for our Caburé midstream development, including expenditures of \$1.0 million including \$0.5 million for our 11-kilometre transfer pipeline and \$0.4 million in costs for a treatment facility. Additional capital expenditures in the quarter included \$0.2 million in final costs for the 183(1) street, capitalized G&A of \$0.2 million and capitalized finance expenses of \$0.2 million.
- Our sales volumes averaged 11 bbls/d in the quarter comprised of 5 bbls/d of natural gas liquids (condensate) sales from the Caburé unit and 6 bbls/d of oil from the Mãe-da-lua field. Despite a declining Brent price in the quarter, we realized an operating netback of \$8.87/bbl as the majority of our sales were made in January when Brent prices were higher.
- Our net working capital surplus of \$0.3 million as of March 31, 2020, includes cash and cash equivalents of \$6.2 million. We drew an additional \$8.0 million on our credit facility in the quarter, bringing the total balance outstanding to \$13.1 million as of March 31, 2020.

Summary of Q1 2020 Financial and Operating Results

The following table provides a summary of Alvopetro's financial and operating results for the three months ended March 31, 2020, and March 31, 2019. 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.

SELECTED QUARTERLY RESULTS

| | As at and Three Months Ended March 31, | |
|--|---|---------|
| | 2020 | 2019 |
| Financial | | |
| (\$000s, except where noted) | | |
| Oil and condensate sales | 61 | 68 |
| Net loss | (2,363) | (763) |
| Per share – basic and diluted (\$) ⁽¹⁾ | (0.02) | (0.01) |
| Funds flow from operations ⁽²⁾ | (673) | (637) |
| Per share – basic and diluted (\$) ⁽¹⁾ | (0.01) | (0.01) |
| Capital expenditures ⁽³⁾ | 1,610 | 1,249 |
| Total assets | 65,969 | 64,366 |
| Cash and cash equivalents | 6,221 | 4,868 |
| Net working capital surplus ⁽²⁾ | 303 | 2,193 |
| Credit facility – amount outstanding | 13,086 | - |
| Common shares outstanding, end of year (000s) | | |
| Basic | 98,433 | 96,593 |
| Diluted ⁽¹⁾ | 114,254 | 107,450 |
| Operations | | |
| Operating netback (\$/bbl) ⁽²⁾ | | |
| Brent benchmark price | 50.96 | 63.83 |
| Premium (discount) | 9.14 | (10.87) |
| Sales price | 60.10 | 52.96 |
| Transportation expenses | - | - |
| Realized sales price | 60.10 | 52.96 |
| Royalties and production taxes | (7.88) | (7.01) |
| Production expenses | (43.35) | (73.21) |
| Operating netback | 8.87 | (27.26) |
| Average daily crude oil and natural gas liquids sales (bbls/d) ¹¹ | | 14 |

Notes:

- (1) Consists of outstanding common shares, stock options, and warrants of the Company.
 - (2) Non-GAAP measure - see "Non-GAAP Measures" section within this news release.
 - (3) Includes non-cash capital expenditures of \$0.05 million (March 31, 2019 - \$nil) for the three months ended March 31, 2020.
- Alberta Blanket Order 51-518

Alvopetro announces that it is relying on the exemptions provided in Alberta Blanket Order 51-518 Re Temporary Exemptions from Certain Requirements to File or Send Securityholder Materials of the Alberta Securities Commission (the "Alberta Order") and similar exemptions provided by members of the Canadian Securities Administrators in each of the provinces and territories of Canada to delay the filings of its executive compensation disclosure for the year-ended December 31, 2019 and to delay the requirements to send copies of its annual or interim financial statements and MD&A to investors within specified time periods. As Alvopetro has delayed its annual general meeting as a result of the COVID-19 Pandemic, it plans to rely on the Alberta Order. All required disclosure and documents will be provided in advance of December 31, 2020.

Corporate Presentation

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

[Alvopetro Energy Ltd.](#)'s vision is to become a leading independent upstream and midstream operator in Brazil. Our strategy is to unlock the on-shore natural gas potential in the state of Bahia in Brazil, building off the development of our Caburé natural gas field and the construction of strategic midstream infrastructure.

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.

All amounts contained in this new release are in United States dollars, unless otherwise stated and all tabular amounts are in thousands of United States dollars, except as otherwise noted.

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, operating netback and earnings before interest, tax, depreciation, and amortization ("EBITDA"). 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 excluding 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 less current liabilities and is used to evaluate the Company's financial resources. Operating netback is determined by dividing oil and condensate sales less royalties and production taxes, transportation and production expenses by sales volumes. Management considers operating netback important as it is a measure of profitability per barrel sold and reflects the economic quality of production. EBITDA is used to measure the Company's operating performance and the cash available for reinvestment and distribution to stakeholders. Its most comparable GAAP measure is the Company's net loss and is reconciled to such by adding back depletion and depreciation, impairment, interest and taxes, as presented on the Company's Statement of Operations and Comprehensive Loss. Funds flow from operations, funds flow per share, net working capital surplus, operating netback and EBITDA 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. For more information with respect to financial measures which have not been defined by GAAP, including reconciliations to the closest comparable GAAP measure, see the "Non-GAAP Measures" section of the Company's MD&A which may be accessed through the

SEDAR website at www.sedar.com.

Abbreviations:

| | |
|--------|--|
| BRL\$ | = Brazilian Real |
| bbls/d | = barrels of oil and/or natural gas liquids (condensate) per day |
| m3/d | = cubic metre per day |
| MMbtu | = million British Thermal Units |
| MMcf | = million cubic feet |
| MMcf/d | = million cubic feet 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 news 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 the plans relating to the Company's operational activities, and the expected timing of commencement of gas sales under Alvopetro's long-term gas sales agreement. The forward-looking statements are based on certain key expectations and assumptions made by Alvopetro, including but not limited to the timing of regulatory licenses and approvals, the success of future drilling, completion, recompletion and development activities, the outlook for commodity markets and ability to access capital markets, the performance of producing wells and reservoirs, well development and operating performance, general economic and business conditions, weather and access to drilling locations, the availability and cost of labour and services, environmental regulation, including regulation relating to hydraulic fracturing and stimulation, the ability to monetize hydrocarbons discovered, the regulatory and legal environment and other risks associated with oil and gas operations. 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.

SOURCE [Alvopetro Energy Ltd.](http://www.alvopetro.com)

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