

# Alvopetro Announces October Production and Third Quarter 2020 Results

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CALGARY, Nov. 12, 2020 - [Alvopetro Energy Ltd.](#) (TSXV: ALV) (OTCQX: ALVOF) announces October production, third quarter results and an operational update including our first quarter of natural gas sales from our Caburé Project under our long-term Gas Sales Agreement ("GSA") with Bahiagás. Commercial deliveries commenced on July 5<sup>th</sup> and we averaged daily natural gas sales of 10.1 mmcfpd (286 10<sup>3</sup>m<sup>3</sup>/d) in the third quarter with associated natural gas liquids sales from condensate of 79 bopd for overall sales volumes in the quarter of 1,764 boepd. Sales rose further in October with natural gas sales, based on field estimates, of 10.8 mmcfpd and condensate sales of 84 bopd for an overall daily average in October of 1,892 boepd.

Corey Ruttan, President and CEO, commented, "On July 5<sup>th</sup> Alvopetro became the first independent operator in Brazil to process natural gas to the national sales specification and sell it into the distribution network. We posted record levels of production and cash flows, generating over \$3.6 million in funds flow from operations in the third quarter. We expect production from our Caburé field to continue at these levels through the end of 2021 and are now focused on building off this early success and unlocking the natural gas potential in the rest of our portfolio and throughout the state of Bahia."

## Operational Update and Outlook

In the fourth quarter we plan to undertake a production test at our 183-1 well, part of our Gomo project, to evaluate the long-term deliverability of this well, at total budgeted costs of \$0.2 million. Future capital plans for our Gomo project, including an 8-kilometre flowline to connect the 183-1 well to our Caburé transfer pipeline, will be dependent on results from this production test. We have commenced civil construction for our 183-B1 and 182-C1 natural gas exploration prospects in the fourth quarter, with plans to drill these wells in the first half of 2020. We expect total capital expenditures of \$7.4 million on these wells, with additional spending dependent on the drilling results.

## Financial and Operating Highlights &#8211; Third Quarter of 2020 (All \$ amounts refer to US\$)

- On July 5, 2020, we commenced natural gas deliveries to Bahiagás under our GSA, with average daily natural gas sales in the quarter of 10.1 mmcfpd (286 10<sup>3</sup>m<sup>3</sup>/d). Natural gas liquids sales from condensate averaged 79 bopd, and overall sales volumes totaled 1,764 boepd in the quarter.
- We had an average realized natural gas sales price of \$5.37/mcf.
- We generated natural gas and condensate revenues of \$5.3 million, with an operating netback of \$25.99 per boe and funds flow from operations of \$3.6 million (\$0.04 per basic share and \$0.03 per diluted share).
- We reported net income of \$6.5 million in the quarter, compared to a net loss of \$2.3 million in the same period in 2019 and a net loss of \$1.2 million in the second quarter of 2020. Net income was positively impacted by a deferred income tax recovery of \$4.9 million for recognition of a previously unrecognized deferred tax asset.
- As all Caburé development was completed by the end of the second quarter, capital expenditures reduced to \$0.1 million, compared to \$3.6 million in the same period in 2019 and \$1.6 million in the second quarter of 2020.
- As at September 30, 2020, we had a net working capital surplus of \$2.2 million, including \$3.2 million in cash and cash equivalents. A total of \$15.3 million was outstanding under our credit facility, bringing the Company's net debt to \$13.1 million at the end of the quarter.

## Summary of Q3 2020 Financial and Operating Results

The following table provides a summary of Alvopetro's financial and operating results for the three and nine months ended September 30, 2020 and September 30, 2019. The consolidated financial statements with the

Management's Discussion and Analysis ("MD&A") are available on our website at [www.alvopetro.com](http://www.alvopetro.com) and will be available on the System for Electronic Document Analysis and Retrieval (SEDAR) website at [www.sedar.com](http://www.sedar.com).

## SELECTED QUARTERLY RESULTS

	As at and Three Months Ended September 30,		As at and Nine Months Ended September 30,	
	2020	2019	2020	2019
Financial				
(\$000s, except where noted)				
Natural gas, oil and condensate sales	5,320	77	5,421	175
Net income (loss)	6,483	(2,321)	2,952	(3,925)
Per share &#8211; basic (\$)	0.07	(0.02)	0.03	(0.04)
Per share &#8211; diluted (\$) <sup>(1)</sup>	0.06	(0.02)	0.03	(0.04)
Funds flow from operations <sup>(2)</sup>	3,610	(779)	1,964	(2,115)
Per share &#8211; basic (\$)	0.04	(0.01)	0.02	(0.02)
Per share &#8211; diluted (\$) <sup>(1)</sup>	0.03	(0.01)	0.02	(0.02)
Capital expenditures <sup>(3)</sup>	107	3,648	3,362	5,672
Total assets	75,746	61,995	75,746	61,995
Cash and cash equivalents	3,167	1,386	3,167	1,386
Net working capital surplus (deficit) <sup>(2)</sup>	2,233	(3,364)	2,233	(3,364)
Net debt <sup>(2)</sup>	13,103	3,364	13,103	3,364
Weighted average shares outstanding (000s)				
Basic	98,453	96,593	98,399	96,612
Diluted <sup>(1)</sup>	105,315	96,593	105,080	96,612
Operations				
Natural gas, crude oil and natural gas liquids sales:				
Natural gas (mcfpd)	10,105	-	3,393	-
NGLs &#8211; condensate (bopd)	79	7	29	3
Oil (bopd)	-	7	6	8
Total (boepd)	1,764	14	601	11
Average realized prices:				
Natural gas (\$/mcf)	5.37	-	5.37	-

NGL &#8211; condensate (\$/bbl)	44.75	73.63	46.16	69.80
Oil (\$/bbl)	-	51.05	36.81	52.66
Total (\$/boe)	32.79	61.60	32.94	57.32
Operating netback (\$/boe) <sup>(2)</sup>				
Realized sales price	32.79	61.60	32.94	57.32
Royalties	(2.81)	(8.80)	(2.85)	(7.86)
Production expenses	(3.99)	(53.60)	(4.42)	(73.70)
Operating netback	25.99	(0.80)	25.67	(24.24)

#### Notes:

- (1) In determining the weighted average number of diluted common shares outstanding for the three and nine months ended September 30, 2019, all stock options, warrants and restricted share units (RSUs) have been excluded because the effect would be anti-dilutive.
- (2) Non-GAAP measure - see "Non-GAAP Measures" section within this press release.
- (3) Includes non-cash capital expenditures of \$nil and \$0.4 million for the three and nine months ended September 30, 2020 (September 30, 2019 - \$0.6 million for the three and nine months ended).

#### Upcoming Virtual Presentations

Alvopetro is pleased to present at a number of upcoming virtual events:

Virtual Non-Deal Roadshows - Alvopetro will be hosting live virtual non-deal roadshows with Renmark Financial Communications on Tuesday November 17, 2020 at 12:00 pm MT (2:00 pm ET) and on Monday November 30, 2020 at 10:00 am MT (12:00 pm ET). Interested parties can register in advance and join the meetings live at the links below. To ensure smooth connectivity, please access the links using the latest version of Google Chrome.

November 17, 2020: <https://talk-deck.com/info/live-register/?205!ut9dx30v1dy>

November 30, 2020: <https://talk-deck.com/info/live-register/?204!ut9dx30v1dy>

The Investor Summit - Alvopetro will be presenting at The Investor Summit on Wednesday November 18, 2020 at 1:00 pm MST (3:00 pm ET). The Investor Summit is an exclusive, independent conference dedicated to connecting smallcap and microcap companies with qualified investors. It will take place virtually, featuring 80 issuers, over 500 institutional and retail investors, 1x1 meetings, and a unique platform for evening entertainment and networking. To request complimentary investor registration: please visit [www.investorsummitgroup.com](http://www.investorsummitgroup.com). Please contact Brittney Blocker ([brittney@investorsummitgroup.com](mailto:brittney@investorsummitgroup.com)) with any questions.

#### Annual Stock Option Grants

In connection with our share-based compensation program, Alvopetro's stock option plan provides for annual rolling grants to officers, directors and certain employees. The Board of Directors has approved a grant of stock options to purchase 960,000 common shares under Alvopetro's stock option plan, of which 810,000 are being granted to directors and officers. Each stock option will be granted on November 24, 2020 and will have an exercise price based on the volume weighted average trading price of Alvopetro's shares on the TSX Venture Exchange for the five (5) consecutive trading days up to and including November 23, 2020. All stock options granted expire five (5) years from the date of grant.

#### Corporate Presentation

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

#### Social Media

Follow Alvopetro on our social media channels at the following links:

Twitter - <https://twitter.com/AlvopetroEnergy>

Instagram - <https://www.instagram.com/alvopetro/>

LinkedIn - <https://www.linkedin.com/company/alvopetro-energy-ltd>

[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 our 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.

Abbreviations:

10<sup>3</sup>m<sup>3</sup> = thousands of cubic metres

10<sup>3</sup>m<sup>3</sup>/d = thousands of cubic metres per day

BRL = Brazilian Real

boepd = barrels of oil equivalent ("boe") per day

bopd = barrels of oil and/or natural gas liquids (condensate) per day

m<sup>3</sup>/d = cubic metre per day

mmbtu = million British Thermal Units

mmcf = million cubic feet

mmcfpd = 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.

**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, net debt 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 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 includes current assets less current liabilities and is used to evaluate the Company's financial resources. Net debt is computed as the carrying amount of the Company's credit facility decreased by net working capital surplus or increased by net working capital deficit and is used by management to assess the Company's overall debt position and borrowing capacity. Operating netback is determined by dividing natural gas, oil and condensate sales (after sales taxes) less royalties, transportation and production expenses by sales volumes. Management considers operating netback important as it is a measure of profitability per barrel of oil equivalent sold and reflects the economic quality of production. Funds flow from operations, funds flow per share, net working capital, net debt 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. 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](http://www.sedar.com).

**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 gas sales and gas deliveries 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 impact of the COVID-19 pandemic, 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 human, mechanical, 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](http://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.

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