

Alvopetro Announces Second Quarter Financial Results and Proves Hydrocarbon Potential in 197(1) Well

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CALGARY, ALBERTA--(Marketwired - Aug 20, 2014) - [Alvopetro Energy Ltd.](#) (TSX VENTURE:ALV) is pleased to announce our second quarter 2014 financial and operating results.

Since creating Alvopetro as a standalone company in the fourth quarter of 2013, we have made considerable progress, including successfully drilling our 197(1) well (previously called 1ALV5BA), commencing drilling of our second well (183(1)), reprocessing 3D seismic over our land base, recovering and analyzing over 78 meters of core, further developing our geological model resulting in the identification of additional opportunities and play types, and progressing civil works on a number of future locations.

Financial and Operating Highlights

- We commenced testing of our 197(1) well and proved hydrocarbon potential in the first of three intervals to be tested.
- On July 27, 2014, we commenced drilling our 183(1) well on Block 183 and are currently drilling the intermediate hole section.
- During the drilling of the 197(1) well we recovered over 78 meters of core and completed extensive core analysis, which is being integrated into our geological model.
- We are advancing civil works on a number of future locations, with at least 12 prospects identified.
- Our cash, restricted cash and working capital resources remain strong at \$79.7 million, with a working capital surplus of \$63.7 million (including \$54.7 million of cash and \$11.1 million of current restricted cash) as well as non-current restricted cash of \$16.0 million.

OPERATIONAL UPDATE

Our 197(1) well reached a total depth of 3,275 meters, and based on the results of mud-logging and open-hole logs, we filed a Notice of Discovery with the National Agency of Petroleum, Natural Gas and Biofuels (the "ANP"). We encountered 43 metres of potential net hydrocarbon pay over several separate intervals, with an average porosity of 9.5 percent, using an 8 percent porosity cut-off. Given the geological potential displayed on our mud-logging and open-hole logs, we determined to initially test the productivity of three intervals discovered in our 197(1) well, including the primary target and two secondary zones.

We have now perforated and completed the deepest sandstone interval, at 3,175 - 3,184 metres, which is representative of several analogous uphole zones in the same formation with hydrocarbon potential, based on our petrophysical analysis. We conducted a small mud acid clean-up and initiated a swab test of this zone. The well has been flowing low rates of natural gas on clean-up for the past 48 hours. We are mobilizing additional testing equipment to measure the gas flow rates and we will commence a 72 hour flow test. The well will then be shut in to measure reservoir pressure and obtain pressure build-up data to undertake a pressure transient analysis study. This information will be used to design and implement any future reservoir stimulations and to support subsequent field development planning.

"We are extremely pleased with the preliminary results of the first of three intervals to be tested in 197(1)," said Corey C. Ruttan, President and Chief Executive Officer. "This is a significant milestone, proving hydrocarbon deliverability on an unstimulated basis, at depth, in the core of our play fairway and it is a major step forward in proving the commercial viability of the Gomo resource opportunity. This lower zone was not penetrated in the offset well and adds considerable deep basin potential in addition to our originally defined resource opportunities."

After completing the pressure build-up test, the zone will be temporarily suspended with a retrievable bridge

plug and the completion will proceed up-hole to test the primary target, consisting of a continuous, thick, tight sand within the middle Gomo member, with a large mapped aerial extent.

The third interval to be tested is a conventional sandstone interval with 20 metres of potential net pay with greater than 8% porosity. Based on open-hole logs, this zone has petrophysical characteristics similar to our Bom Lugar-1 producing well which had an initial unstimulated production rate of over 500 bopd and has cumulatively produced over 285,000 barrels of oil.

Alvopetro will continue the evaluation of the 197(1) well and we have procured surface production equipment to facilitate our planned long-term production testing of all productive intervals in this well, pending customary approvals from the ANP. Through the drilling of our 197(1) well we obtained geological and reservoir information, identified secondary targets, optimized our operational practices, and advanced our reservoir access designs for our assets in the Recôncavo Basin.

On July 27, 2014, we commenced drilling our second well, 183(1), on Block 183 and are currently drilling the intermediate hole section. In addition to our 197(1) and 183(1) wells, we plan to drill up to three additional wells in 2014.

For the remainder of 2014, we remain focused on our three-pronged strategy of targeting our mature fields, pursuing shallow conventional exploration, and proving the commercial viability of the Gomo tight oil play in the Recôncavo Basin. Our financial resources, combined with our experienced team, position us to achieve our vision of applying developed basin innovation to underexploited opportunities.

Summary of Q2 2014 Financial and Operating Results

Alvopetro was established effective November 28, 2013 as a result of an agreement among [Petrominerales Ltd.](#) ("Petrominerales"), [Pacific Rubiales Energy Corp.](#) and [Alvopetro Energy Ltd.](#) (formerly 1774501 Alberta Ltd.) whereby the parties agreed to complete an arrangement (the "Arrangement") under section 193 of the *Business Corporations Act* (Alberta). The following table provides a summary of Alvopetro's financial and operating results for the three and six months ended June 30, 2014 and June 30, 2013. The consolidated interim 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 SEDAR website at www.sedar.com.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Financial				
(\$000s, except where noted)				
Oil sales	323	401	637	699
Funds flow from operations ⁽¹⁾	(1,893)	(1,415)	(4,909)	(2,149)
Per share - basic and diluted (\$) ⁽²⁾	(0.02)	(0.02)	(0.06)	(0.03)
Net loss	(1,304)	(1,644)	(5,325)	(2,565)
Net loss attributable to common shareholders	(1,304)	(1,273)	(5,325)	(2,003)
Per share - basic and diluted (\$) ⁽²⁾	(0.02)	(0.01)	(0.06)	(0.02)
Capital expenditures	5,216	547	12,587	800
Total assets	153,038	48,906	153,038	48,906
Debt	-	-	-	-
Net working capital surplus (deficit) ⁽¹⁾⁽³⁾	63,704	(377)	63,704	(377)
Common shares outstanding, end of year (000s)				
Basic ⁽²⁾	85,167	85,167	85,167	85,167
Diluted ⁽⁴⁾	88,234	85,167	88,234	85,167
Operations				
Operating netback (\$/bbl) ⁽¹⁾				
Brent benchmark price	109.74	102.52	108.82	107.51
Sales price	103.91	118.96	101.91	107.24
Transportation expenses	(4.83)	(6.53)	(4.16)	(3.07)
Realized sales price	99.08	112.43	97.75	104.17
Royalties and production taxes	(10.62)	(5.64)	(10.72)	(5.22)
Production expenses	(116.78)	(127.41)	(109.91)	(101.12)
Operating netback	(28.32)	(20.62)	(22.88)	(2.17)

Average daily crude oil production (bopd)	34	37	35	36
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Notes:

1. Non-GAAP measure. See "Non-GAAP Measures".
2. All Alvopetro common shares currently outstanding were issued in connection with the Arrangement and there were no shares of [Alvopetro Energy Ltd.](#) outstanding at June 30, 2013. However, for comparison purposes and for all per share computations, the December 31, 2013 common share balance is assumed for June 30, 2013.
3. Includes current restricted cash of \$11.1 million (June 30, 2013 - \$nil) but excludes non-current restricted cash of \$16.0 million (June 30, 2013 - \$nil).
4. Consists of outstanding common shares and stock options of the Company as at June 30, 2014.

Updated Corporate Presentation

Our 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 being the lowest cost operator and applying innovation to underexploited opportunities. Alvopetro aims to implement a large-scale, repeatable, low-risk, multi-well development program, utilizing advanced technology and completion techniques. Alvopetro's strong financial position, along with our experienced team of professionals, local operating capabilities and highly prospective land base, will enable us to efficiently develop our resource play opportunities.*

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 press release are in United States dollars, unless otherwise noted.

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", "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 financial results and operating results, reserves and potential hydrocarbons in our 197(1) well, 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 expectations and assumptions concerning testing results on the 197(1) well, the timing of regulatory licenses and approvals, 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.

Cautionary statements regarding the filing of a Notice of Discovery and Testing. Operators in Brazil are required to inform the ANP, through the filing of a Notice of Discovery, of potential hydrocarbon discoveries. These routine notifications to the ANP are not necessarily indicative of commercial hydrocarbons, potential production, recovery or reserves. Data obtained from the 197(1) well identified in this press release, including hydrocarbon shows, open-hole logging, net pay and porosities, should be

considered to be preliminary until testing, detailed 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 197(1) 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.

Non-GAAP Measures. *This press release contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), 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. Operating netback is determined by dividing oil sales less royalties and production taxes, transportation and operating 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, 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 GAAP.*

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