

# Alvopetro Announces Operational Update and First Quarter Financial and Operating Results

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CALGARY, May 15, 2018 /CNW/ - [Alvopetro Energy Ltd.](#) (TSX-V:ALV) announces an operational update, our first quarter financial and operating results, and the annual grant of stock options to employees, directors and officers.

## Operational Update

Over the past month we have finalized the terms of the unitization agreement ("UOA") and the unit development plan for the Caburé natural gas field and have executed a long-term natural gas sales agreement ("GSA") for our share of the unit. Under the terms of the UOA, Imetame Energia Ltda., the adjacent resource owner, will act as initial operator. The parties have agreed on a development plan which will be implemented by Imetame in 2018 and 2019. Under the terms of the UOA, Alvopetro is responsible for its share of unit capital when we commence production or March 2020, whatever occurs first. The GSA with Bahiagás, the Bahia State natural gas distribution company, provides for the sale of 5.3 mmcfpd (150,000 m3/d) on an interruptible basis plus up to 12.4 mmcfpd (350,000 m3/d) on an interruptible basis, adjustable annually. The natural gas price to be paid under the GSA is set semi-annually using a trailing weighted average basket of benchmark prices. The calculated natural gas price under the GSA for the month of February 2018 price was \$6.54/mmbtu and will be adjusted next in August 2018.

This is a transformational time for Alvopetro and these agreements underscore the value in our Caburé natural gas field. These agreements provide the foundation for unlocking natural gas opportunities in Bahia State in Brazil. Our efforts will now be focused on the development of this strategic asset, including construction of a pipeline and a natural gas processing facility ("UPGN"). We have secured the land for the UPGN, completed all field survey and permitting work, and the application for construction has been submitted for regulatory approval. We anticipate approximately \$3.5 million in capital expenditures for the Caburé development later in 2018 and up to \$10.0 million in 2019.

## Upstream/Midstream Strategy

Alvopetro's strategy is to unlock the on-shore natural gas potential in the state of Bahia, building off the development of the Caburé natural gas field and the construction of strategic midstream infrastructure. We are creating an upstream/midstream corporate vehicle to provide sustainable returns to our shareholders. Our plan is to create a disciplined long-term return on capital where at least half of our net cashflows are distributed to stakeholders as dividends to our shareholders and/or as interest payments and debt repayments to infrastructure-related debtholders.

## Financial and Operating Highlights & First Quarter of 2018

- In February 2018, we completed testing three separate intervals of our 183(1) well. The 183(1) well was originally drilled in 2014 to a total depth of 3,550 metres. Capital expenditures of \$1.3 million in the first quarter included \$0.8 million for this well, capitalized G&A of \$0.3 million and Caburé permitting costs of \$0.1 million.
- We reported a net loss of \$0.9 million in the first quarter primarily due to negative funds flow from operations of \$0.9 million.
- Our production increased to 21 bopd in the first quarter, a 24% increase from the fourth quarter of 2017 as the 183(1) well was brought back online in March after a pump failure in November 2017.
- Our cash, restricted cash and working capital resources total \$6.6 million, including cash and cash equivalents of \$6.6 million.

## Summary of Q1 2018 Results

The following table provides a summary of Alvopetro's financial and operating results for the three months ended March 31, 2018 and March 31, 2017. 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 AND ANNUAL RESULTS

	Three months ended March 31,	
	2018	2017
Financial		
(\$000s, except where noted)		
Oil sales	116	171
Net loss	(889)	(893)
Per share &ndash; basic and diluted (\$) <sup>(1)</sup>	(0.01)	(0.01)
Funds flow from operations <sup>(2)</sup>	(842)	(797)
Per share &ndash; basic and diluted (\$) <sup>(1)</sup>	(0.01)	(0.01)
Capital expenditures <sup>(3)</sup>	1,276	2,769
Total assets	68,108	77,003
Debt	-	-
Net working capital surplus <sup>(2) (4)</sup>	6,628	13,504
Common shares outstanding, end of year (000s)		
Basic	85,167	85,167
Diluted <sup>(1)</sup>	91,706	91,762
Operations		
Operating netback (\$/bbl) <sup>(2)</sup>		
Brent benchmark price	67.18	54.67
Discount	(5.18)	(5.32)
Sales price	62.00	49.35
Transportation expenses	(2.14)	(2.60)
Realized sales price	59.86	46.75
Royalties and production taxes	(6.95)	(4.91)
Production expenses	(126.14)	(62.05)
Operating netback	(73.23)	(20.21)
Average daily crude oil production (bopd)	21	39

Notes:

- (1) Consists of outstanding common shares and stock options of the Company.
- (2) Non-GAAP measure. See "Non-GAAP Measures" section within this news release.
- (3) Includes non-cash capital expenditures of \$nil in the three months ended March 31, 2018 (March 31, 2017 - \$0.4 million).
- (4) Includes current restricted cash of \$0.1 million (March 31, 2017 - \$0.1 million) and assets held for sale of \$0.2 million (March 31, 2017 - \$nil).

Updated Corporate Presentation

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

Stock Option Grant

In connection with our stock based compensation program, Alvopetro's stock option plan provides for annual rolling grants to officers, directors and certain employees. The majority of these rolling grants are typically provided in December; however, in December 2017, the Company determined that the 2017 rolling grants would be deferred, pending successful finalization of the Caburé unitization agreement and the related gas sales agreement. As these milestones were met over the last month, the Board of Directors has approved a grant of stock options to purchase 1,242,250 common shares under Alvopetro's stock option plan, of which 902,250 are being granted to directors and officers. Each stock option will be granted on May 23, 2018 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 May 23, 2018. All stock options granted expire five (5) years from the date of grant.

[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.

Abbreviations:

- m<sup>3</sup> = cubic metre
- m<sup>3</sup>/d = cubic metre per day
- mmbtu = million British Thermal Units
- mmcf = million cubic feet
- mmcfpd = million cubic feet per day
- mmboe = million barrels of oil equivalent

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 anticipated outcomes of regulatory determinations, future results from operations, projected financial results and financing requirements, future capital and operating costs, future production rates, proposed exploration and development activities, sources and availability of capital, and capital spending levels. The forward-looking statements are based on certain key expectations and assumptions made by Alvopetro, including but not limited to regulatory requirements including the completion of the unitization of certain fields, securing gas sales agreements, 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](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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