

# Alvopetro Announces Operational Update and Third Quarter 2019 Financial and Operating Results

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CALGARY, Nov. 12, 2019 - [Alvopetro Energy Ltd.](#) (TSX-V: ALV; OTCQX: ALVOF) ("Alvopetro") announces an operational update and our third quarter financial and operating results.

## Operational Update

### Caburé Unit Development (49.1% Alvopetro)

The Caburé Unit development plan includes construction of high-pressure facilities, tie-in of all wells, and drilling up to five new wells. The first two wells were drilled in the third quarter and the third well has just reached total depth. The first well (183(1)) was an exploration commitment well drilled 100% by our partner on Block 212, targeting the edge of the Unit's main reservoir and a secondary target in the Pojuca Formation. The well was drilled to a depth of 1,549 metres measured depth ("MD") and encountered the edge of the pool. Based on our Partner's petrophysical analysis, the well encountered 15 metres of potential net pay in the Caruacu Member of the Maracangalha Formation, with average porosity of 14.1% and average water saturation of 35%. Following a successful completion and test, the well will be included in the Unit. The second well (7-CARN-1D-BA) was drilled to 1,739 metres MD. The well was drilled directionally from the IME-3 surface location and intersected the top of the Caruacu Member 490 metres southwest from the IME-3 penetration. The well encountered 101 metres of net pay MD (81 metres depth) in the Caruacu Member with average porosity of 13.6% and average water saturation of 37%. The third development well (7-CBE-1D-BA) was drilled to a depth of 1,759 metres MD. Open-hole logs and petrophysical analysis will be undertaken in the coming days; however preliminary results are in line with the Company's expectations. Remaining field development, including inter-well flowlines, the high-pressure facilities expansion, including connection to Alvopetro's Midstream Project, is expected to be completed in January 2020. A fourth development well may be drilled on the west side of the main fault depending on future production results from the existing offsetting well.

### Caburé Midstream Project (100% Alvopetro)

Our Caburé Midstream Project includes construction of an 11-kilometre Transfer Pipeline and a Gas Treatment Facility. The pipe for the Transfer Pipeline has now been welded and 82% has been installed and buried. The Transfer Pipeline is expected to be completed in December 2019. The Gas Treatment Facility is being constructed by Enerflex Ltd. ("Enerflex"). Alvopetro and Enerflex are constructing and will own and operate the Gas Treatment Facility. All of the processing skids are on location and construction has commenced field work for the installation of the processing skids. The Gas Treatment Facility is expected to be completed in the first quarter of 2020.

Our natural gas is being sold under our long-term gas sales agreement with Bahiagás, the local distribution company for the state of Bahia. As part of this agreement, Bahiagás agreed to extend their distribution network by 15 kilometres and construct a receiving station (City Gate) at the Facility site. Bahiagás has begun construction along the pipeline right of way and has commenced civil construction at the City Gate. Bahiagás expects to complete their projects near the end of the first quarter of 2020, at which time Alvopetro plans to start natural gas deliveries from the Caburé field.

### Gomo Tight Gas Resource (100% Alvopetro)

The service rig to complete the stimulation of our 183(1) well is on location and we expect to complete the stimulation in the coming days. This will be followed by another 72-hour production test and longer-term build up and pressure transient analysis. The well is then expected to be tied into our Transfer Pipeline via an 8-kilometre pipeline extension.

## Financial and Operating Highlights – Third Quarter of 2019

- On September 20, 2019, the Company entered into a \$15 million Credit Agreement (the "Credit Facility"), subject to the completion of certain legal and regulatory requirements, including the registration of the security and other funding conditions, all of which were met on October 8, 2019. Proceeds will be used for the development of our Caburé natural gas project (including construction of the transfer pipeline, site construction of the gas processing facility, and Alvopetro's share of unit development costs), initial capital associated with our Go project (including the stimulation of our 183(1) well), payments associated with our 57(A1) well drilled in the third quarter for ongoing general corporate purposes. In connection with the financing, we issued a total of 8,432,868 share purchase warrants on October 8, 2019. Each warrant entitles the holder to acquire one common share at an exercise price of \$1.50.
- Activities in the third quarter were focused on our Caburé midstream project, including construction of the 11-kilometer transfer pipeline and site construction at the gas processing facility, and drilling the 57(A1) well in satisfaction of the commitment on Block 57. Total capital expenditures of \$3.6 million included \$1.2 million for the 57(A1) well, \$1.3 million for Caburé midstream projects, \$0.8 million in Caburé unit development costs and capitalized G&A of \$0.2 million.
- Our sales volumes averaged 14 bopd in the quarter including 6 bopd in condensate sales from the Caburé unit and 8 bopd from the Mãe-da-lua field.
- We reported a net loss of \$2.3 million in the quarter, primarily due to an impairment charge on Block 57 of \$1.5 million and a negative funds flow from operations of \$0.8 million.
- Our cash and cash equivalents totaled \$1.4 million as of September 30, 2019.

### Summary of Q3 2019 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, 2019 and September 30, 2018. 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 Data 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,	
	2019	2018	2019	2018
<b>Financial</b>				
(\$000s, except where noted)				
Oil and condensate sales	77	125	175	457
Net loss	(2,321)	(878)	(3,925)	(2,895)
Per share &ndash; basic and diluted (\$) <sup>(1)</sup>	(0.02)	(0.01)	(0.04)	(0.03)
Funds flow from operations <sup>(2)</sup>	(779)	(759)	(2,115)	(2,445)
Per share &ndash; basic and diluted (\$) <sup>(1)</sup>	(0.01)	(0.01)	(0.02)	(0.03)
Capital expenditures <sup>(3)</sup>	3,648	1,889	5,672	4,095
Total assets	61,995	60,866	61,995	60,866
Cash and cash equivalents	1,386	1,690	1,386	1,690
Net working capital (deficit) surplus <sup>(2), (4)</sup>	(3,364)	4,391	(3,364)	4,391
Common shares outstanding, end of year (000s)				
Basic	96,593	85,167	96,593	85,167
Diluted <sup>(1)</sup>	107,438	93,008	107,438	93,008
<b>Operations</b>				
Operating netback (\$/bbl) <sup>(2)</sup>				
Brent benchmark price	62.00	75.85	64.72	72.64
Discount	(0.40)	(5.70)	(7.40)	(4.34)
Sales price	61.60	70.15	57.32	68.30
Transportation expenses	-	(1.68)	-	(1.79)
Realized sales price	61.60	68.47	57.32	66.51
Royalties and production taxes	(8.80)	(7.30)	(7.86)	(6.73)
Production expenses	(53.60)	(104.94)	(73.70)	(89.97)
Operating netback	(0.80)	(43.77)	(24.24)	(30.19)
Average daily crude oil and condensate sales (bopd) 14		19	11	25

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 \$0.6 million for the three and nine months ended September 30, 2019, respectively (2018 - \$1.5 million and \$2.1 million, respectively).
- (4) Includes Other Liabilities of \$2.8 million as of September 30, 2019 (reclassified as current liabilities in 2019).

London Stock Exchange Listing

Alvopetro recognizes that there may be an opportunity to attract greater shareholder interest and trading liquidity by pursuing an additional listing of its common shares on a United Kingdom stock exchange, in addition to the TSX Venture Exchange. A London listing may better position the Company among its international peer group and may generate increased interest and better access to capital. Our recently closed Credit Facility provides sufficient financial resources for us to reach our near-term objectives including first natural gas sales. A London listing may be beneficial in helping the Company realize our longer-term objectives. Alvopetro intends to explore this additional listing over the coming months, and if the Company elects to proceed, the timing of filing documents will likely be driven by the Company's 2019 year-end reserves and financial reporting.

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 910,000 common shares under Alvopetro's stock option plan, of which 660,000 are being granted to directors and officers. Each stock option will be granted on November 19, 2019 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 19, 2019. All stock options granted expire five (5) years from the date of grant.

Updated Corporate Presentation

Alvopetro's updated corporate presentation is available 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 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 (deficit) 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. Funds flow from operations, funds flow per share, net working capital (deficit) 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. 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).

**Testing and Well Results.** Data obtained from the Caburé unit development wells identified in this press release, including net pay and porosities, should be considered to be preliminary until testing, detailed analysis and interpretation has been completed. There is no representation by Alvopetro that the data relating to these wells 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.

**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 expected use of proceeds from the Credit Facility, plans relating to the Company's operational activities and 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. Email: [info@alvopetro.com](mailto:info@alvopetro.com), [www.alvopetro.com](http://www.alvopetro.com), TSX-V: ALV, OTCQX: ALVQF. Phone: 587-794-4224. 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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