

# **ALVOPETRO ENERGY LTD.**

## **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**As at and Three and Six Months Ended  
June 30, 2022 and 2021**

**ALVOPETRO ENERGY LTD.**
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited, thousands of United States dollars)

	Note	June 30, 2022	Restated (Note 14) December 31, 2021	Restated (Note 14) January 1, 2021
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents		13,672	11,469	5,159
Restricted cash		232	175	125
Trade and other receivables		6,348	4,203	2,802
Prepaid expenditures		1,209	1,341	273
Assets held for sale		-	-	128
<b>Total current assets</b>		<b>21,461</b>	<b>17,188</b>	<b>8,487</b>
Exploration and evaluation assets	3	11,452	3,713	25,764
Property, plant and equipment	4	41,737	39,780	22,890
Right-of-use assets	5	7,196	7,153	8,092
Deferred tax asset		3,247	5,305	7,789
Other assets		177	491	1,128
<b>Non-current assets</b>		<b>63,809</b>	<b>56,442</b>	<b>65,663</b>
<b>Total assets</b>		<b>85,270</b>	<b>73,630</b>	<b>74,150</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		6,455	5,480	2,390
Dividend payable	8	2,728	2,034	-
Lease liabilities	5	572	516	483
Decommissioning liabilities	6	65	61	63
Other liabilities		-	-	12
<b>Total current liabilities</b>		<b>9,820</b>	<b>8,091</b>	<b>2,948</b>
Lease liabilities	5	7,216	7,463	7,827
Credit facility	7	2,545	6,545	15,423
Decommissioning liabilities	6	597	507	1,080
<b>Total liabilities</b>		<b>20,178</b>	<b>22,606</b>	<b>27,278</b>
<b>Shareholders' equity</b>				
Share capital	8	39,599	39,481	156,755
Contributed surplus		51,864	51,580	2,821
Retained earnings (deficit)		18,788	6,486	(63,676)
Accumulated other comprehensive loss		(45,159)	(46,523)	(49,028)
<b>Total shareholders' equity</b>		<b>65,092</b>	<b>51,024</b>	<b>46,872</b>
<b>Total liabilities and shareholders' equity</b>		<b>85,270</b>	<b>73,630</b>	<b>74,150</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**ALVOPETRO ENERGY LTD.**
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(Unaudited, thousands of United States dollars, except per share amounts)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2022	Restated (Note 14) 2021	2022	Restated (Note 14) 2021
<b>Revenue</b>					
Natural gas, oil and condensate sales	9	15,787	8,182	29,759	15,121
Royalties		(1,148)	(607)	(2,127)	(1,252)
Net oil and condensate revenue		14,639	7,575	27,632	13,869
Other income	10	185	7	326	15
Total revenue and other income		14,824	7,582	27,958	13,884
<b>Expenses</b>					
Production	10	907	791	1,760	1,501
General and administrative	10	1,094	1,036	2,302	1,887
Depletion and depreciation	4,5	1,279	1,870	3,098	3,331
Finance expenses	10	595	833	1,245	1,827
Share-based compensation		184	92	434	181
Risk management losses	12	2	166	92	108
Foreign exchange losses (gains)		2,967	(2,811)	(2,042)	(746)
Gain on disposition of assets		-	(13)	-	(16)
Total expenses		7,028	1,964	6,889	8,073
<b>Income before taxes</b>		7,796	5,618	21,069	5,811
<b>Income taxes</b>					
Current		333	295	472	295
Deferred		832	1,539	2,851	2,679
Total		1,165	1,834	3,323	2,974
<b>Net income</b>		6,631	3,784	17,746	2,837
<b>Exchange (loss) gain on translation of foreign operations</b>		(2,587)	4,856	1,364	3,501
<b>Comprehensive income</b>		4,044	8,640	19,110	6,338
<b>Net income per share</b>					
	8				
Basic		0.20	0.11	0.52	0.09
Diluted		0.18	0.11	0.49	0.08

See accompanying notes to these interim condensed consolidated financial statements.

**ALVOPETRO ENERGY LTD.**
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Unaudited, thousands of United States dollars)

		Common Shares	Contributed Surplus	Restated (Note 14) Retained Earnings (Deficit)	Restated (Note 14) Accumulated Other Comprehensive Loss	Total
	Note					
<b>Balance, December 31, 2021</b>		<b>39,481</b>	<b>51,580</b>	<b>6,486</b>	<b>(46,523)</b>	<b>51,024</b>
Issue of common shares	8	118	(48)	-	-	70
Share-based compensation		-	332	-	-	332
Net income		-	-	17,746	-	17,746
Other comprehensive income		-	-	-	1,364	1,364
Dividends declared	8	-	-	(5,444)	-	(5,444)
<b>Balance, June 30, 2022</b>		<b>39,599</b>	<b>51,864</b>	<b>18,788</b>	<b>(45,159)</b>	<b>65,092</b>
Balance, December 31, 2020		156,755	2,821	(63,676)	(49,028)	46,872
Issue of common shares	8	86	(49)	-	-	37
Share-based compensation		-	202	-	-	202
Net income - restated	14	-	-	2,837	-	2,837
Other comprehensive income - restated	14	-	-	-	3,501	3,501
Balance, June 30, 2021 – restated	14	156,841	2,974	(60,839)	(45,527)	53,449

See accompanying notes to these interim condensed consolidated financial statements.

**ALVOPETRO ENERGY LTD.**
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited, thousands of United States dollars)

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	2022	Restated (Note 14) 2021	2022	Restated (Note 14) 2021
<b>Operating Activities</b>					
Net income		6,631	3,784	17,746	2,837
Adjustments:					
Depletion and depreciation	4,5	1,279	1,870	3,098	3,331
Finance expenses	10	595	833	1,245	1,827
Share-based compensation		184	92	434	181
Gain on disposition of assets		-	(13)	-	(16)
Foreign exchange		2,941	(2,773)	(2,040)	(706)
Unrealized risk management (gains) losses	12	(27)	141	7	97
Deferred tax		832	1,539	2,851	2,679
Settlement of decommissioning liabilities	6	(1)	(2)	(3)	(3)
Funds flow from operations		12,434	5,471	23,338	10,227
Changes in non-cash working capital	13	563	194	(2,008)	(258)
		12,997	5,665	21,330	9,969
<b>Financing Activities</b>					
Credit Facility repayments	7	(2,500)	(5,500)	(4,000)	(8,000)
Dividends paid	8	(2,716)	-	(4,750)	-
Interest on Credit Facility	10	(102)	(286)	(245)	(640)
Issue of common shares, net of share issuance costs		37	7	70	37
Lease liabilities payments	5	(464)	(457)	(925)	(931)
Changes in non-cash working capital	13	193	133	169	127
		(5,552)	(6,103)	(9,681)	(9,407)
<b>Investing Activities</b>					
Expenditures on exploration and evaluation assets	3	(5,478)	(303)	(7,783)	(1,039)
Expenditures on property, plant and equipment	4	(860)	(615)	(2,355)	(743)
Proceeds on dispositions		-	16	-	141
Change in restricted cash		(25)	(10)	(48)	(19)
Changes in non-cash working capital	13	509	28	706	12
		(5,854)	(884)	(9,480)	(1,648)
<b>Change in cash and cash equivalents</b>		1,591	(1,322)	2,169	(1,086)
<b>Effect of foreign exchange on cash balances</b>		(659)	588	34	176
<b>Cash and cash equivalents, beginning of period</b>		12,740	4,983	11,469	5,159
<b>Cash and cash equivalents, end of period</b>		13,672	4,249	13,672	4,249
Cash and cash equivalents consist of:					
Cash		9,257	940	9,257	940
Cash equivalents		4,415	3,309	4,415	3,309
Supplemental information:					
Cash income taxes paid		182	-	333	-
Cash interest income received		66	1	83	3

See accompanying notes to these interim condensed consolidated financial statements.

## ALVOPETRO ENERGY LTD.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted*

#### NOTE 1 – CORPORATE INFORMATION AND BASIS OF PRESENTATION

Alvopetro Energy Ltd. (“Alvopetro” or “the Company”) is engaged in the exploration for, and the acquisition, development and production of, hydrocarbons in Brazil. Alvopetro is incorporated under the Business Corporations Act (Alberta) and is a publicly traded company listed on the TSX Venture Exchange (TSX: ALV.V) and is also traded on the OTCQX® Best Market in the United States (OTCQX: ALVOF).

#### NOTE 2 – BASIS OF PRESENTATION

The interim condensed consolidated financial statements as at June 30, 2022, December 31, 2021 and January 1, 2021, and for the three and six months ended June 30, 2022 and June 30, 2021 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the presentation of interim financial statements, including International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the restated audited consolidated financial statements as at and for the year ended December 31, 2021. These statements do not contain all disclosures required for full annual financial statements and should be read in conjunction with the restated audited consolidated financial statements as at and for the year ended December 31, 2021.

These interim condensed consolidated financial statements were authorized for issuance by the Company’s Board of Directors on August 11, 2022.

#### Use of Estimates, Judgments and Assumptions and Estimation Uncertainty

The timely preparation of the interim condensed consolidated interim financial statements requires management to make estimates, judgments and assumptions that may affect the reported amounts of assets and liabilities, disclosures of contingencies and the reported amounts of expenses during the period. Details on these estimates, judgments and assumptions are included in the restated audited consolidated financial statements as at and for the year ended December 31, 2021.

#### NOTE 3 – EXPLORATION AND EVALUATION (“E&E”) ASSETS

	As at	Restated (Note 14)
	June 30, 2022	December 31, 2021
Balance, beginning of period	3,713	25,764
Capital expenditures	7,783	1,528
Capitalized share-based compensation	28	22
Change in decommissioning liabilities	35	2
Transfer to PP&E (Note 4)	(12)	(23,427)
Asset dispositions & other transfers	-	1
Foreign currency translation	(95)	(177)
Balance, end of period	11,452	3,713

The majority of expenditures for the six months ended June 30, 2022 relate to drilling the 182-C1 well which was spud on March 2, 2022 and the 183-B1 well which was spud on June 5, 2022 and completed in July 2022.

**ALVOPETRO ENERGY LTD.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 4 – PROPERTY, PLANT AND EQUIPMENT (“PP&E”)**

	<b>As at</b>	
	<b>June 30, 2022</b>	Restated (Note 14) December 31, 2021
Cost, beginning of period	47,766	25,174
Capital expenditures	2,355	2,985
Capitalized share-based compensation	22	44
Transfer from E&E assets (Note 3)	12	23,427
Other transfers	-	(255)
Change in decommissioning liabilities	-	(603)
Asset disposition	-	(56)
Foreign currency translation	2,864	(2,950)
Cost, end of period	<b>53,019</b>	47,766
Accumulated depletion, depreciation and impairment, beginning of period	<b>(7,986)</b>	(2,284)
Depletion and depreciation for the period	<b>(2,628)</b>	(6,736)
Asset disposition	-	36
Foreign currency translation	<b>(668)</b>	998
Accumulated depletion, depreciation and impairment, end of period	<b>(11,282)</b>	(7,986)
Net book value, end of period	<b>41,737</b>	39,780

There were no indicators of impairment or impairment reversal as at and for the six months ended June 30, 2022.

**NOTE 5 – RIGHT-OF-USE (“ROU”) ASSETS AND LEASE LIABILITIES**

The Company’s contracts that contain leases or lease components include equipment for processing natural gas and access to land for midstream development in Brazil as well as office space in both Canada and Brazil. The net book value of the Company’s ROU assets is as follows:

	<b>As at</b>	
	<b>June 30, 2022</b>	December 31, 2021
Net book value, beginning of period	7,153	8,092
Additions	73	190
Depreciation of ROU assets	<b>(470)</b>	(971)
Foreign currency translation	440	(158)
Net book value, end of period	<b>7,196</b>	7,153

**ALVOPETRO ENERGY LTD.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted*

The Company's lease liabilities are as follows:

	As at	
	June 30, 2022	December 31, 2021
Lease liabilities, beginning of period	7,979	8,310
Additions	73	190
Finance expense	657	1,355
Lease payments	(925)	(1,856)
Foreign currency translation	4	(20)
<b>Lease liabilities, end of period</b>	<b>7,788</b>	<b>7,979</b>
Current	572	516
Non-current	7,216	7,463
<b>Total</b>	<b>7,788</b>	<b>7,979</b>

**NOTE 6 – DECOMMISSIONING LIABILITIES**

The decommissioning liabilities were estimated based on the net ownership interest of wells, facilities and pipelines, management's estimates of costs to abandon and reclaim those wells and infrastructure, and the potential future timing of the costs to be incurred.

	As at	
	June 30, 2022	December 31, 2021
Balance, beginning of period	568	1,143
Liabilities incurred	35	19
Revisions to obligations	-	(620)
Obligations settled	(3)	(6)
Accretion	27	82
Foreign currency translation	35	(50)
<b>Balance, end of period</b>	<b>662</b>	<b>568</b>
Current	65	61
Non-current	597	507
<b>Total</b>	<b>662</b>	<b>568</b>

**NOTE 7 – CREDIT FACILITY**

The Credit Facility is subject to monthly interest payments at 9.5% per annum.

	As at	
	June 30, 2022	December 31, 2021
Balance at beginning of period	6,545	15,423
Repayments	(4,000)	(9,000)
Accrued interest due upon repayment	-	122
<b>Balance at end of period</b>	<b>2,545</b>	<b>6,545</b>

The Credit Facility contains certain customary financial and non-financial covenants, standard representations and warranties, and events of default. Financial covenants include a minimum debt service ratio of 1.30:1 and a maximum leverage ratio of 2.25:1. Alvo Petro was in compliance with all terms of the Credit Facility as at June 30, 2022 and December 31, 2021.

**ALVOPETRO ENERGY LTD.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 8 – SHARE CAPITAL****a) Issued and Outstanding Common Shares**

	Number of Shares	Amount (\$000s)
Balance as at December 31, 2020	33,153,800	156,755
Share buy-back and associated adjustments	(421,699)	(1,119)
Exercise of stock options	1,046,528	861
Exercise of warrants	125,000	225
Stated capital reduction	-	(117,180)
Share issue costs and restructuring costs	-	(61)
Balance as at December 31, 2021	<b>33,903,629</b>	<b>39,481</b>
Exercise of stock options	<b>198,882</b>	<b>118</b>
<b>Balance as at June 30, 2022</b>	<b>34,102,511</b>	<b>39,599</b>

**b) Warrants to Purchase Common Shares**

Warrants outstanding as follows are exercisable into an equal number of common shares:

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance as at December 31, 2020	2,810,956	1.80
Exercised	(125,000)	1.80
<b>Balance as at December 31, 2021 and June 30, 2022</b>	<b>2,685,956</b>	<b>1.80</b>

All warrants outstanding as of June 30, 2022 expire on September 20, 2022.

**c) Options to Purchase Common Shares**

Alvopetro has share-based compensation plans whereby the Company may grant stock options to its directors, officers, employees and consultants as part of the Company's long-term incentive plan to align compensation with shareholders' interests. The options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price (CAD\$)
Balance as at December 31, 2020	2,250,588	1.41
Granted	338,000	4.73
Exercise of options for common shares	(1,046,528)	0.93
Adjustment for net settlement of options	(94,552)	0.86
Adjustment for cash settlement of options	(2,400)	0.63
Balance as of December 31, 2021	1,445,108	2.58
Granted	14,000	6.15
Exercise of options for common shares	(198,882)	1.72
Adjustment for net settlement of options	(46,229)	1.78
<b>Balance as at June 30, 2022</b>	<b>1,213,997</b>	<b>2.79</b>

**ALVOPETRO ENERGY LTD.**
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted*

Options Outstanding at June 30, 2022				Options Exercisable at June 30, 2022		
Exercise Price	Number of Options	Weighted Average Exercise Price (CAD\$)	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Exercise Price (CAD\$)	Weighted Average Remaining Contractual Life (Years)
CAD\$0.60 - \$0.99	130,000	0.96	0.9	130,000	0.96	0.9
CAD\$1.00 - \$1.99	138,888	1.29	1.4	138,888	1.29	1.4
CAD\$2.00 - \$2.99	613,109	2.39	3.3	180,005	2.33	2.8
CAD\$4.00 - \$4.99	318,000	4.84	4.4	-	-	-
CAD\$6.00 - \$6.15	14,000	6.15	5.0	-	-	-
<b>CAD\$0.60 - \$6.15</b>	<b>1,213,997</b>	<b>2.79</b>	<b>3.1</b>	<b>448,893</b>	<b>1.61</b>	<b>1.8</b>

**d) Restricted Share Units and Deferred Share Units**

Alvopetro has share-based compensation plans whereby the Company may grant restricted share units (“RSUs”), deferred share units (“DSUs”) and performance share units (“PSUs”) to purchase common shares of the Company.

	Number of RSUs & DSUs	Weighted Average Remaining Contractual Life (Years)
Balance as at December 31, 2020	300,000	3.1
Granted	263,165	4.3
Balance as at December 31, 2021	563,165	3.6
Granted	4,000	5.0
<b>Balance as at June 30, 2022</b>	<b>567,165</b>	<b>3.6</b>

**e) Share-Based Compensation**

The fair value of the DSUs and RSUs is estimated based on the share price on the grant date. The fair value of the stock options is estimated on the grant date using the Black-Scholes option pricing model. Weighted average assumptions and resultant fair values for stock options granted are as follows:

	Three months ended		Six months ended	
	June 30, 2022	2021	June 30, 2022	2021
Risk free interest rate (%)	2.58	0.71	2.58	0.71
Expected term (years)	4.0	4.0	4.0	4.0
Expected volatility (%)	45.0	45.0	45.0	45.0
Expected annual dividend per share (\$)	0.32	-	0.32	-
Forfeiture rate (%)	5.0	5.0	5.0	5.0
Weighted average fair value (CAD\$)	1.39	0.91	1.39	0.91

Share-based compensation that was directly related to exploration and evaluation assets and property, plant and equipment has been capitalized with the remainder recognized as share-based compensation expense on the consolidated statements of operations and comprehensive income.

**ALVOPETRO ENERGY LTD.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***f) Net Income Per Share**

Net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the applicable period as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Weighted average basic	33,973,288	33,264,693	33,940,554	33,250,010
Dilutive securities				
Stock options	431,559	182,954	383,941	111,717
Warrants <sup>(1)</sup>	1,668,253	587,921	1,538,041	411,412
RSUs & DSUs	563,429	303,663	563,298	301,842
Weighted average diluted	36,636,529	34,339,231	36,425,834	34,074,981

(1) Exercise price of warrants with USD-denominated exercise price translated to CAD at the period-end rate.

**g) Dividends**

Dividends declared and paid in the six months ended June 30, 2022 were as follows:

Period Declared	Dividend per share (\$)	Six Months Ended June 30, 2022		Date Paid
		Total Declared	Total Paid	
Three months ended December 31, 2021	0.06	-	2,034	January 14, 2022
Three months ended March 31, 2022	0.08	2,715	2,716	April 14, 2022
Three months ended June 30, 2022	0.08	2,729	-	July 15, 2022
<b>Total</b>		<b>5,444</b>	<b>4,750</b>	

The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors.

**NOTE 9 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Natural gas	14,674	7,447	27,613	13,820
Condensate	1,072	709	2,022	1,275
Oil	41	26	124	26
Total	15,787	8,182	29,759	15,121

Payment terms are on or before the 25<sup>th</sup> day of the month following satisfaction of the performance obligation and payments for condensate are often made in advance of shipment. For the six months ended June 30, 2022 the natural gas sales revenue has been collected within the timing expected. There is no indication of potential collection issues with Bahiagás, the local distribution company in the state of Bahia in Brazil and sole customer of the Company's natural gas production. Amounts receivable from contracts with customers by commodity are as follows:

**ALVOPETRO ENERGY LTD.**
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted*

	As at	
	June 30, 2022	December 31, 2021
Natural gas	5,974	3,883
Condensate	-	-
Oil	16	-
<b>Total</b>	<b>5,990</b>	<b>3,883</b>

**NOTE 10 – NATURE OF OTHER INCOME AND EXPENSES**
**a) Other Income**

	Three months Ended		Six months ended	
	June 30, 2022	2021	June 30, 2022	2021
Tax recoveries from operations	81	-	195	-
Third party water disposal income	29	3	43	10
Interest income & other	75	4	88	5
<b>Total</b>	<b>185</b>	<b>7</b>	<b>326</b>	<b>15</b>

**b) Production Expenses**

	Three months ended		Six months ended	
	June 30, 2022	2021	June 30, 2022	2021
Personnel	51	69	97	129
Facility and pipeline	474	424	939	796
Other fixed	320	233	613	458
Variable	62	49	111	83
Workover	-	16	-	35
<b>Total</b>	<b>907</b>	<b>791</b>	<b>1,760</b>	<b>1,501</b>

**c) General and Administrative (“G&A”) Expenses**

	Three months ended		Six months ended	
	June 30, 2022	2021	June 30, 2022	2021
Personnel	884	753	1,715	1,270
Travel	67	6	93	7
Office and IT	53	39	103	71
Professional fees	166	207	326	376
General corporate	354	256	751	492
<b>Gross G&amp;A expenses</b>	<b>1,524</b>	<b>1,261</b>	<b>2,988</b>	<b>2,216</b>
Capitalized to E&E	(240)	(111)	(356)	(153)
Capitalized to PP&E	(190)	(114)	(330)	(176)
<b>Net G&amp;A expenses</b>	<b>1,094</b>	<b>1,036</b>	<b>2,302</b>	<b>1,887</b>

**ALVOPETRO ENERGY LTD.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted*

General corporate expenses include public company costs, corporate insurance, directors' fees and other miscellaneous expenses. G&A expenses directly attributable to exploration and development projects, primarily being personnel costs, are capitalized.

**d) Finance Expenses**

Finance expenses by nature are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Lease interest (Note 5)	320	330	657	686
Accretion of decommissioning liabilities (Note 6)	14	22	27	42
Amortization of deferred financing costs	159	160	316	318
Interest on Credit Facility (Note 7)	102	321	245	781
<b>Total finance expenses</b>	<b>595</b>	<b>833</b>	<b>1,245</b>	<b>1,827</b>

**NOTE 11– CAPITAL MANAGEMENT**

	As at	
	June 30, 2022	December 31, 2021
Cash and cash equivalents	13,672	11,469
Non-cash working capital deficit	(2,031)	(2,372)
Credit Facility	(2,545)	(6,545)
<b>Working capital net of debt (net debt)</b>	<b>9,096</b>	<b>2,552</b>
Lease liabilities – non-current	(7,216)	(7,463)
<b>Shareholders' equity</b>	<b>65,092</b>	<b>51,024</b>

Alvopetro has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital and dividend programs to the extent the capital expenditures are not committed.

**NOTE 12 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT***Foreign Currency Risk*

Alvopetro's long-term gas sales agreement ("GSA") is exposed to fluctuations in the USD to the BRL as the natural gas price, although benchmarked to USD, is set semi-annually in BRL (based on historical foreign exchange rates) and billed monthly in the set BRL price until the next price redetermination. The following table denotes the overall impact on natural gas revenues of a 5% and 10% appreciation and depreciation of the BRL relative to the USD:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Increase (decrease) to natural gas revenues from:				
5% Appreciation of BRL to USD	772	392	1,453	727
10% Appreciation of BRL to USD	1,630	827	3,068	1,536
5% Depreciation of BRL to USD	(699)	(355)	(1,315)	(658)
10% Depreciation of BRL to USD	(1,334)	(677)	(2,510)	(1,256)

To reduce exposure to foreign exchange volatility with respect to the BRL, the Company has entered into BRL/USD forward exchange rate contracts during the six months ended June 30, 2022. As of June 30, 2022, the Company had a total of BRL0.5

**ALVOPETRO ENERGY LTD.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted*

million forward exchange contracts with settlements scheduled for July 2022. The Company recognizes the fair value of these contracts in the statement of financial position, included with trade and other receivables or other liabilities, with changes in fair value recognized as an unrealized gain or loss included in earnings. Realized gains or losses are recognized in the period the contracts are settled.

The fair value of the risk management contracts outstanding as at June 30, 2022 was an asset of \$0.01 million (December 31, 2021 – \$nil).

The realized and unrealized losses recognized are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Realized (losses)	(29)	(25)	(85)	(11)
Unrealized gains (losses)	27	(141)	(7)	(97)
Total (losses)	(2)	(166)	(92)	(108)

The following financial instruments are denominated in currencies other than the USD:

	As at			
	June 30, 2022		December 31, 2021	
	CAD (000's)	BRL (000's)	CAD (000's)	BRL (000's)
Cash and cash equivalents	307	23,127	514	20,093
Restricted cash – current	-	1,216	-	977
Trade and other receivables	37	32,970	68	22,948
Risk management contracts	-	27	-	-
Accounts payable and accrued liabilities	(744)	(29,237)	(1,744)	(22,170)
Net exposure in foreign currency	(400)	28,103	(1,162)	21,848
Net exposure in USD (\$000s)	(310)	5,365	(917)	3,915

In addition, a portion of the Company's receivable from its Brazilian subsidiary is considered to be an investment that is not permanent in nature. As a result, the Company recorded a foreign exchange gain of \$1.6 million for the six months ended June 30, 2022 (June 30, 2021 – \$0.3 million gain) related to the change in the BRL to USD exchange rate on this intercompany balance.

*Fair Value of Financial Instruments*

Given the short term to maturity of the Company's current financial assets and liabilities the carrying values approximate their fair values. The Credit Facility is a level two fair value instrument and considering the recent renegotiation on terms approximating current market rates, the carrying value approximates its fair value.

**ALVOPETRO ENERGY LTD.**
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted*
**NOTE 13 – CHANGES IN NON-CASH WORKING CAPITAL**

	Three months ended		Six months ended	
	June 30, 2022	2021	June 30, 2022	2021
Change in:				
Trade and other receivables	324	168	(1,942)	(301)
Prepaid expenditures	197	160	212	(109)
Accounts payable, accrued liabilities and dividends payable	744	27	597	291
	1,265	355	(1,133)	(119)
Changes relating to:				
Operating activities	563	194	(2,008)	(258)
Financing activities	193	133	169	127
Investing activities	509	28	706	12
	1,265	355	(1,133)	(119)

**NOTE 14 – RESTATEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

In August 2022 the Company determined that there was an error in prior periods with respect to the application of IAS 21 – *The Effects of Changes in Foreign Exchange Rates* on accounting for the purchase price adjustment associated with the original acquisition of the Company’s Brazilian assets in the year-ended December 31, 2012 and the functional currency associated with such amounts. IAS 21 requires that fair value adjustments relating to acquisitions be carried in the functional currency of the subsidiary acquired, being BRL in the case of the 2012 acquisition. The Company had incorrectly carried such amounts in USD since the time of the acquisition. Given the devaluation of the BRL to USD since 2012, the adjustments as set out below were required to bring the accounting records in compliance with IAS 21 for the periods as indicated.

The restatement is not as a result of any change to the Company’s operations or the Company’s business and there is no impact on the overall cash position, the net cash flows from operating, investment or financing activities on the statement of cash flows for any of the periods affected. The restated audited financial statements for the years ended December 31, 2021 and 2020 were filed by the Company on August 11, 2022 and the comparative periods included within these unaudited interim condensed consolidated financial statements as at December 31, 2021 and January 1, 2021 and for the three and six months ended June 30, 2021 have been restated to reflect these adjustments as follows:

	As at					
	December 31, 2021			January 1, 2021		
	Previously Reported	Adjustment	Restated	December 31, 2020 (Previously Reported)	Adjustment	January 1, 2021 (Restated)
E&E Assets	3,713	-	3,713	32,262	(6,498)	25,764
PP&E	48,748	(8,968)	39,780	25,843	(2,953)	22,890
Deferred tax asset	3,938	1,367	5,305	4,576	3,213	7,789
Retained Earnings (Deficit) <sup>(1)</sup>	9	6,477	6,486	(71,172)	7,496	(63,676)
Accumulated Other Comprehensive Loss <sup>(1)</sup>	(32,445)	(14,078)	(46,523)	(35,294)	(13,734)	(49,028)

**ALVOPETRO ENERGY LTD.**
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and six months ended June 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted*

	June 30, 2021					
	For the Three Months Ended			For the Six Months Ended		
	Previously Reported	Adjustment	Restated	Previously Reported	Adjustment	Restated
<b><i>Impact on Consolidated Statements of Operations and Comprehensive Income<sup>(2)</sup></i></b>						
Depletion and depreciation expense	(2,092)	222	<b>(1,870)</b>	(3,766)	435	<b>(3,331)</b>
Deferred tax expense	(1,464)	(75)	<b>(1,539)</b>	(2,532)	(147)	<b>(2,679)</b>
Net income	3,637	147	<b>3,784</b>	2,549	288	<b>2,837</b>
Exchange gain on translation of foreign operations	4,341	515	<b>4,856</b>	3,354	147	<b>3,501</b>
Comprehensive income	7,978	662	<b>8,640</b>	5,903	435	<b>6,338</b>
Net income per share amounts:						
Basic	0.11	-	<b>0.11</b>	0.08	0.01	<b>0.09</b>
Diluted	0.11	-	<b>0.11</b>	0.07	0.01	<b>0.08</b>
<b><i>Impact on Consolidated Statements of Cash Flows<sup>(3)</sup></i></b>						
Operating Activities:						
Net income	3,637	147	<b>3,784</b>	2,549	288	<b>2,837</b>
Adjustments for non-cash items:						
Depletion and depreciation	2,092	(222)	<b>1,870</b>	3,766	(435)	<b>3,331</b>
Deferred tax	1,464	75	<b>1,539</b>	2,532	147	<b>2,679</b>
Funds flow from operations	5,471	-	<b>5,471</b>	10,227	-	<b>10,227</b>
Cash flow from operating activities	5,665	-	<b>5,665</b>	9,969	-	<b>9,969</b>

- (1) Adjustments to retained earnings (deficit) and accumulated other comprehensive loss include both the impact in the year ended December 31, 2021 as well as the impact of adjustments on opening balances as at January 1, 2021 to reflect lower historical impairment expense and depletion expense and adjustments to deferred tax as a result of reductions in the carrying values of E&E and PP&E.
- (2) The adjustments to reduce the carrying value of PP&E resulted in lower depletion and depreciation expense in 2021 and an associated increase to deferred tax expense. The adjustments to the exchange gain on translation of foreign operations, included in other comprehensive income in the Consolidated Statement of Operations and Comprehensive Income are due to the effect of foreign exchange on the translation of foreign operations as the E&E and PP&E carrying values are now reflected in local currency (BRL) and adjusted at each period end date for presentation purposes.
- (3) There are adjustments to the individual line items within Operating Activities in the Consolidated Statements of Cash Flows. However, as reflected in the table above, there is no overall impact in funds flow from operations or cash flow from operating activities following the adjustments. Furthermore, there is no impact to any line items in Financing Activities or Investing Activities from any adjustments.