

ALVOPETRO ENERGY LTD.

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

**As at and Three and Nine Months Ended
September 30, 2023 and 2022**

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

(Unaudited, thousands of United States dollars)

	Note	September 30, 2023	December 31, 2022
ASSETS			
Current			
Cash and cash equivalents		22,779	19,784
Restricted cash		122	296
Trade and other receivables		3,833	7,154
Prepaid expenditures		620	393
Total current assets		27,354	27,627
Exploration and evaluation assets	3	18,982	16,114
Property, plant and equipment	4	59,556	42,460
Right-of-use assets	5	8,238	8,701
Deferred tax asset		1,078	3,525
Non-current assets		87,854	70,800
Total assets		115,208	98,427
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		9,451	7,595
Dividend payable	7	5,122	4,357
Lease liabilities	5	933	855
Decommissioning liabilities	6	65	122
Other liabilities	8	391	-
Total current liabilities		15,962	12,929
Lease liabilities	5	7,942	8,573
Decommissioning liabilities	6	594	517
Total liabilities		24,498	22,019
Shareholders' equity			
Share capital	7	43,440	42,933
Contributed surplus		51,968	51,361
Retained earnings		38,059	25,521
Accumulated other comprehensive loss		(42,757)	(43,407)
Total shareholders' equity		90,710	76,408
Total liabilities and shareholders' equity		115,208	98,427

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 September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Revenue					
Natural gas, oil and condensate sales	8	12,313	16,672	44,387	46,431
Royalties		(318)	(1,318)	(1,254)	(3,445)
Net natural gas, oil and condensate revenue		11,995	15,354	43,133	42,986
Other income	9	471	240	1,375	566
		12,466	15,594	44,508	43,552
Expenses					
Production	9	1,017	812	3,053	2,572
General and administrative	9	1,298	1,135	3,806	3,437
Depletion and depreciation	4,5	1,621	1,771	5,476	4,869
Finance expenses	9	386	628	1,178	1,873
Share-based compensation		249	158	813	592
Exploration & evaluation expenditures		-	-	82	-
Risk management losses		-	-	-	92
Foreign exchange losses (gains)		1,471	688	(2,234)	(1,354)
Total expenses		6,042	5,192	12,174	12,081
Income before taxes		6,424	10,402	32,334	31,471
Income taxes					
Current		512	221	1,865	693
Deferred		93	1,386	2,596	4,237
Total		605	1,607	4,461	4,930
Net income		5,819	8,795	27,873	26,541
Exchange (loss) gain on translation of foreign operations		(1,575)	(683)	650	681
Comprehensive income		4,244	8,112	28,523	27,222
Net income per share					
	7				
Basic		0.16	0.26	0.75	0.78
Diluted		0.15	0.24	0.74	0.72

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	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total
	Note					
Balance, December 31, 2022		42,933	51,361	25,521	(43,407)	76,408
Issue of common shares	7	150	(76)	-	-	74
Share restructuring	7	357	-	-	-	357
Share-based compensation		-	683	-	-	683
Net income		-	-	27,873	-	27,873
Other comprehensive income		-	-	-	650	650
Dividends declared	7	-	-	(15,335)	-	(15,335)
Balance, September 30, 2023		43,440	51,968	38,059	(42,757)	90,710
Balance, December 31, 2021		39,481	51,580	6,486	(46,523)	51,024
Issue of common shares	7	3,355	(867)	-	-	2,488
Share-based compensation		-	471	-	-	471
Net income		-	-	26,541	-	26,541
Other comprehensive income		-	-	-	681	681
Dividends declared		-	-	(8,340)	-	(8,340)
Balance, September 30, 2022		42,836	51,184	24,687	(45,842)	72,865

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)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Operating Activities					
Net income		5,819	8,795	27,873	26,541
Adjustments:					
Depletion and depreciation	4,5	1,621	1,771	5,476	4,869
Finance expenses	9	386	628	1,178	1,873
Share-based compensation		249	158	813	592
Foreign exchange		1,451	619	(2,239)	(1,421)
Unrealized risk management gains		-	(7)	-	-
Deferred tax		93	1,386	2,596	4,237
Settlement of decommissioning liabilities	6	(1)	(2)	(60)	(5)
Funds flow from operations		9,618	13,348	35,637	36,686
Changes in non-cash working capital	12	2,851	490	4,161	(1,518)
		12,469	13,838	39,798	35,168
Financing Activities					
Dividends paid	7	(5,109)	(2,728)	(14,570)	(7,478)
Credit Facility repayments		-	(2,545)	-	(6,545)
Interest on Credit Facility		-	(61)	-	(306)
Issue of common shares	7	16	2,418	74	2,488
Share reorganization	7	357	-	357	-
Lease liabilities payments	5	(533)	(535)	(1,670)	(1,460)
Changes in non-cash working capital	12	37	103	7	272
		(5,232)	(3,348)	(15,802)	(13,029)
Investing Activities					
Expenditures on exploration and evaluation assets	3	(2,286)	(5,920)	(4,449)	(13,703)
Expenditures on property, plant and equipment	4	(8,417)	(2,793)	(18,066)	(5,148)
Change in restricted cash		226	(30)	209	(78)
Changes in non-cash working capital	12	772	2,282	1,164	2,988
		(9,705)	(6,461)	(21,142)	(15,941)
Change in cash and cash equivalents		(2,468)	4,029	2,854	6,198
Effect of foreign exchange on cash balances		(351)	(321)	141	(287)
Cash and cash equivalents, beginning of period		25,598	13,672	19,784	11,469
Cash and cash equivalents, end of period		22,779	17,380	22,779	17,380
Cash and cash equivalents consist of:					
Cash		1,355	9,501	1,355	9,501
Cash equivalents		21,424	7,879	21,424	7,879
Supplemental information:					
Cash income taxes paid		894	276	2,154	609
Cash interest income received		384	28	994	111

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 nine months ended September 30, 2023

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).

The Company’s head office and records are located at 1920, 215 9th Avenue S.W., Calgary, Alberta, Canada, T2P 1K3.

NOTE 2 – BASIS OF PRESENTATION

The interim condensed consolidated financial statements as at September 30, 2023 and December 31, 2022 and for the three and nine months ended September 30, 2023 and September 30, 2022 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 audited consolidated financial statements as at and for the year ended December 31, 2022. These statements do not contain all disclosures required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2022.

The interim condensed consolidated financial statements are presented in U.S dollars (“USD”) which is the parent Company’s functional currency.

These interim condensed consolidated financial statements were authorized for issuance by the Company’s Board of Directors on November 8, 2023.

Use of Estimates, Judgments and Assumptions and Estimation Uncertainty

The timely preparation of the interim condensed consolidated 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 audited consolidated financial statements as at and for the year ended December 31, 2022.

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

	As at	
	September 30, 2023	December 31, 2022
Balance, beginning of period	16,114	3,713
Capital expenditures	4,449	18,545
Capitalized share-based compensation	8	66
Change in decommissioning liabilities	-	90
Transfer to PP&E (Note 4)	(2,187)	(155)
Asset dispositions & other transfers	(21)	(4)
Impairment	-	(6,338)
Foreign currency translation	619	197
Balance, end of period	18,982	16,114

The majority of expenditures for the nine months ended September 30, 2023 relate to equipment purchases, with \$2.2 million transferred to PP&E for development projects. In 2023 the Company also incurred costs related to testing the 182-C2 well on the 182 exploration block. As management continues to evaluate the commercial viability and technical feasibility of this and the 183-B1 well, there are no indications of impairment as at September 30, 2023.

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

As at and for the three and nine months ended September 30, 2023

*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”)**

	As at	
	September 30, 2023	December 31, 2022
Cost, beginning of period	57,144	47,766
Capital expenditures	18,066	6,250
Capitalized share-based compensation	97	40
Transfer from E&E assets (Note 3)	2,187	155
Other transfers	-	(5)
Change in decommissioning liabilities	33	(106)
Foreign currency translation	2,043	3,044
Cost, end of period	79,570	57,144
Accumulated depletion, depreciation and impairment, beginning of period	(14,684)	(7,986)
Depletion and depreciation	(4,596)	(5,961)
Foreign currency translation	(734)	(737)
Accumulated depletion, depreciation and impairment, end of period	(20,014)	(14,684)
Net book value, end of period	59,556	42,460

There were no indications of impairment or impairment reversal on any properties as at and for the three and nine months ended September 30, 2023.

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:

	As at	
	September 30, 2023	December 31, 2022
Net book value, beginning of period	8,701	7,153
Additions	14	1,930
Depreciation	(880)	(1,042)
Foreign currency translation	403	660
Net book value, end of period	8,238	8,701

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

As at and for the three and nine months ended September 30, 2023

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	
	September 30, 2023	December 31, 2022
Lease liabilities, beginning of period	9,428	7,979
Additions	14	1,930
Finance expense	1,135	1,525
Lease payments	(1,670)	(2,027)
Foreign currency translation	(32)	21
Lease liabilities, end of period	8,875	9,428
Current	933	855
Non-current	7,942	8,573
Total	8,875	9,428

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	
	September 30, 2023	December 31, 2022
Balance, beginning of period	639	568
Liabilities incurred	33	84
Revisions to obligations	-	(100)
Obligations settled - cash	(60)	(6)
Obligations settled - non cash	(21)	-
Accretion	43	51
Foreign currency translation	25	42
Balance, end of period	659	639
Current	65	122
Non-current	594	517
Total	659	639

Non-cash obligations settled represent tangible equipment transferred from E&E assets.

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

As at and for the three and nine months ended September 30, 2023

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 7 – SHARE CAPITAL****a) Issued and Outstanding Common Shares**

	Number of Shares	Amount (\$000s)
Balance as at December 31, 2021	33,903,629	39,481
Exercise of stock options	326,334	217
Exercise of warrants	2,081,616	3,235
Balance as at December 31, 2022	36,311,579	42,933
Exercise of stock options	275,863	150
Share Restructuring	-	357
Balance as at September 30, 2023	36,587,442	43,440

During 2023 Alvo Petro received approval from the TSX Venture Exchange (“TSXV”) for a normal course issuer bid (the “NCIB”). The terms of the NCIB allow Alvo Petro to repurchase up to 2,876,414 common shares from January 6, 2023 to the earlier of January 5, 2024, or when the NCIB is completed or terminated by Alvo Petro. The TSXV has also permitted Alvo Petro to participate in an automatic share purchase plan (the “ASPP”) which allows for the purchase of common shares under the NCIB when the Company may not normally be permitted to purchase common shares due to regulatory restrictions or customary self-imposed blackout periods. Any shares purchased under the ASPP are included in the number of common shares available for repurchase under the NCIB and all shares repurchased under the NCIB (whether through the ASPP or not) will be cancelled. No repurchases occurred under the NCIB during the nine months ended September 30, 2023.

In 2021 Alvo Petro completed a 2,100:1 share consolidation immediately followed by a 1:700 split (the “Share Restructuring”), resulting in an effective 3:1 share consolidation. Pursuant to the Share Restructuring, shareholders who held less than 2,100 shares immediately prior to the Share Restructuring (the “Non-Continuing Shareholders”) were entitled to cash consideration upon surrender of their shares. Under the court approved transaction, Non-Continuing Shareholders had two years from the date of the Share Restructuring to provide the documentation required to receive the cash payment. At the time of the Share Restructuring, Alvo Petro deposited a total of \$1.1 million with a depository for payments to be made to Non-Continuing Shareholders. In September 2023, following the two-year anniversary date of the Share Restructuring, a total of \$0.4 million of the initial deposit remained unclaimed and was returned to Alvo Petro.

b) Options to Purchase Common Shares

Alvo Petro has a share-based compensation plan 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, 2021	1,445,108	2.58
Granted	550,000	6.94
Exercise of options	(430,112)	2.07
Balance as at December 31, 2022	1,564,996	4.25
Exercise of options	(343,446)	1.88
Options forfeited	(9,000)	6.96
Balance as at September 30, 2023	1,212,550	4.91
Percentage of common shares outstanding	3.3%	

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

As at and for the three and nine months ended September 30, 2023

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

Options Outstanding at September 30, 2023				Options Exercisable at September 30, 2023			
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\$1.00 - \$1.99	35,555	1.29	0.15	35,555	1.29	0.15	
CAD\$2.00 - \$2.99	379,996	2.41	2.35	166,669	2.36	1.69	
CAD\$4.00 - \$4.99	260,666	4.84	3.14	48,668	4.84	3.14	
CAD\$6.00 - \$6.99	536,333	6.95	4.18	-	-	-	
CAD\$1.00 - \$6.99	1,212,550	4.91	3.27	250,892	2.69	1.75	

c) Restricted Share Units and Deferred Share Units

Alvopetro has a share-based compensation plan 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
Balance as at December 31, 2021	563,165
Granted	166,123
Balance as at December 31, 2022	729,288
Granted	10,272
Balance at September 30, 2023	739,560
Percentage of common shares outstanding	2.0%
Weighted average remaining contractual life (years)	2.8

d) 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. There have been no stock options granted to date in 2023. Weighted average assumptions and resultant fair values for stock options granted in 2022 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Risk free interest rate (%)	-	-	-	2.58
Expected term (years)	-	-	-	4.0
Expected volatility (%)	-	-	-	45.0
Expected annual dividend per share (\$)	-	-	-	0.32
Forfeiture rate (%)	-	-	-	5.0
Weighted average fair value (CAD\$)	-	-	-	1.39

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 nine months ended September 30, 2023

Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted
e) 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		Nine Months Ended	
	2023	September 30, 2022	2023	September 30, 2022
Weighted average basic	37,137,795	34,433,913	37,086,138	34,106,814
Dilutive securities				
Stock options	565,595	431,438	499,449	474,275
Warrants ⁽¹⁾	-	1,505,918	-	1,547,435
RSUs & DSUs	164,489	567,426	162,866	564,601
Weighted average diluted	37,867,879	36,938,695	37,748,453	36,693,125

(1) Exercise price of warrants with USD-denominated exercise price translated to CAD at the period-end rate. All outstanding warrants were exercised in 2022.

f) Dividends

Dividends declared and paid were as follows:

Period Declared	Dividend per share (\$)	Nine Months Ended September 30, 2023		Date Paid
		Total Declared	Total Paid	
Three months ended December 31, 2022	0.12	-	4,357	January 13, 2023
Three months ended March 31, 2023	0.14	5,104	5,104	April 14, 2023
Three months ended June 30, 2023	0.14	5,109	5,109	July 14, 2023
Three months ended September 30, 2023	0.14	5,122	-	October 13, 2023
Total		15,335	14,570	

Period Declared	Dividend per share (\$)	Nine Months Ended September 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	2,716	2,716	April 14, 2022
Three months ended June 30, 2022	0.08	2,728	2,728	July 15, 2022
Three months ended September 30, 2022	0.08	2,896	-	October 14, 2022
Total		8,340	7,478	

The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors and there is no certainty that dividends will be paid at the intended rate or at any rate in the future.

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

As at and for the three and nine months ended September 30, 2023

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 8 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Natural gas	11,628	15,565	41,961	43,178
Condensate	666	1,093	2,349	3,115
Oil	19	14	77	138
Total	12,313	16,672	44,387	46,431

Payment terms for natural gas and oil sales are on or before the 25th day of the month following satisfaction of the performance obligation. Payments for condensate are often made in advance of shipment. For the nine months ended September 30, 2023 natural gas sales revenue has been collected within the timing expected and 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:

	As at	
	September 30, 2023	December 31, 2022
Natural gas	3,526	6,935
Condensate	25	18
Total	3,551	6,953

Under the terms of the Company's long-term gas sales agreement ("GSA"), Bahiagás must prepay for gas volumes when demand is below 80% of the contracted firm volumes, which occurred in September 2023. As a result, Alvo Petro received \$0.4 million in prepayments which was in addition to the actual sales volumes delivered to Bahiagás during that month. In accordance with the Company's revenue recognition accounting policy, revenue is only recognized when control of the product has transferred to the buyer and accordingly any take-or-pay amounts received are recognized as unearned revenue until the natural gas volumes are delivered. In the third quarter of 2023, Alvo Petro recorded this \$0.4 million as unearned revenue, included with other current liabilities in the Statement of Financial Position.

NOTE 9 – NATURE OF OTHER INCOME AND EXPENSES**a) Other Income**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Interest income	360	86	1,019	169
Tax recoveries from operations	98	120	349	315
Water disposal income and other	13	34	7	82
Total	471	240	1,375	566

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

As at and for the three and nine months ended September 30, 2023

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Personnel	95	49	233	146
Facility and pipeline	387	395	1,198	1,334
Other fixed	446	305	1,265	918
Variable	89	63	275	174
Workover	-	-	82	-
Total	1,017	812	3,053	2,572

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Personnel	968	831	2,708	2,546
Travel	56	23	131	116
Office and IT	67	54	217	157
Professional fees	203	207	621	533
General corporate	392	381	1,222	1,132
Gross G&A expenses	1,686	1,496	4,899	4,484
Capitalized to E&E	(13)	(228)	(101)	(584)
Capitalized to PP&E	(375)	(133)	(992)	(463)
Net G&A expenses	1,298	1,135	3,806	3,437

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Lease interest (Note 5)	373	373	1,135	1,030
Accretion of decommissioning liabilities (Note 6)	13	14	43	41
Amortization of deferred financing costs	-	180	-	496
Interest on Credit Facility	-	61	-	306
Total finance expenses	386	628	1,178	1,873

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

As at and for the three and nine months ended September 30, 2023

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 10 – CAPITAL MANAGEMENT**

The Company's capital consists of the following:

	As at	
	September 30, 2023	December 31, 2022
Cash and cash equivalents	22,779	19,784
Working capital deficit, excluding cash and cash equivalents	(11,387)	(5,086)
Working capital	11,392	14,698
Lease liabilities – non-current	(7,942)	(8,573)
Shareholders' equity	90,710	76,408

Alvopetro has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its dividend and capital programs to the extent the capital expenditures are not committed. There are no external restrictions on how the Company manages its capital.

NOTE 11 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT*Foreign Currency Risk*

Alvopetro's 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Increase (decrease) to natural gas revenues from:				
5% Appreciation of BRL to USD	612	819	2,208	2,272
10% Appreciation of BRL to USD	1,292	1,729	4,662	4,797
5% Depreciation of BRL to USD	(554)	(741)	(1,998)	(2,056)
10% Depreciation of BRL to USD	(1,057)	(1,415)	(3,815)	(3,925)

Management closely monitors foreign exchange rates and will determine the currency and location of cash held based on funding needs and opportunities to optimize on foreign currency and local interest rates. The following financial instruments are denominated in currencies other than the USD:

	As at			
	September 30, 2023		December 31, 2022	
	CAD\$ (000's)	BRL (000's)	CAD\$ (000's)	BRL (000's)
Cash and cash equivalents	710	23,926	386	27,582
Restricted cash – current	-	613	-	1,546
Trade and other receivables	74	18,588	45	36,921
Accounts payable and accrued liabilities	(1,309)	(39,531)	(1,695)	(31,333)
Other liabilities	-	(1,956)	-	-
Net exposure in foreign currency	(525)	1,640	(1,264)	34,716
Net exposure in USD (\$000s)	(388)	328	(933)	6,654

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

As at and for the three and nine months ended September 30, 2023

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

In addition, 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 \$1.8 million for the nine months ended September 30, 2023 (September 30, 2022 – \$1.1 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.

NOTE 12 – CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended		Nine Months Ended	
	2023	2022	2023	2022
Change in:				
Trade and other receivables	1,990	(477)	3,694	(2,419)
Prepaid expenditures	212	904	(198)	1,116
Accounts payable, accrued liabilities and dividends payable	1,067	2,448	1,445	3,045
Other liabilities	391	-	391	-
	3,660	2,875	5,332	1,742
Changes relating to:				
Operating activities	2,851	490	4,161	(1,518)
Financing activities	37	103	7	272
Investing activities	772	2,282	1,164	2,988
	3,660	2,875	5,332	1,742