

ALVOPETRO ENERGY LTD.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
As at and Three and Six Months Ended June 30, 2023**



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

(Unaudited, thousands of United States dollars)

	Note	June 30, 2023	December 31, 2022
ASSETS			
Current			
Cash and cash equivalents		25,598	19,784
Restricted cash		354	296
Trade and other receivables		5,993	7,154
Prepaid expenditures		856	393
Total current assets		32,801	27,627
Exploration and evaluation assets	3	18,277	16,114
Property, plant and equipment	4	53,359	42,460
Right-of-use assets	5	8,852	8,701
Deferred tax asset		1,182	3,525
Total assets		114,471	98,427
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		8,621	7,595
Dividend payable	7	5,109	4,357
Lease liabilities	5	919	855
Decommissioning liabilities	6	68	122
Total current liabilities		14,717	12,929
Lease liabilities	5	8,157	8,573
Decommissioning liabilities	6	597	517
Total liabilities		23,471	22,019
Shareholders' equity			
Share capital	7	43,036	42,933
Contributed surplus		51,784	51,361
Retained earnings		37,362	25,521
Accumulated other comprehensive loss		(41,182)	(43,407)
Total shareholders' equity		91,000	76,408
Total liabilities and shareholders' equity		114,471	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)

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	2023	2022	2023	2022
Revenue					
Natural gas, oil and condensate sales	8	13,914	15,787	32,074	29,759
Royalties		(354)	(1,148)	(936)	(2,127)
Net natural gas, oil and condensate revenue		13,560	14,639	31,138	27,632
Other income	9	477	185	904	326
		14,037	14,824	32,042	27,958
Expenses					
Production	9	1,048	907	2,036	1,760
General and administrative	9	1,286	1,094	2,508	2,302
Depletion and depreciation	4,5	1,711	1,279	3,855	3,098
Finance expenses	9	389	595	792	1,245
Share-based compensation		281	184	564	434
Exploration & evaluation expenditures		-	-	82	-
Risk management losses		-	2	-	92
Foreign exchange (gains) losses		(2,331)	2,967	(3,705)	(2,042)
Total expenses		2,384	7,028	6,132	6,889
Income before taxes		11,653	7,796	25,910	21,069
Income taxes					
Current		628	333	1,353	472
Deferred		1,173	832	2,503	2,851
Total		1,801	1,165	3,856	3,323
Net income		9,852	6,631	22,054	17,746
Exchange gain (loss) on translation of foreign operations		1,609	(2,587)	2,225	1,364
Comprehensive income		11,461	4,044	24,279	19,110
Net income per share					
	7				
Basic		0.27	0.20	0.60	0.52
Diluted		0.26	0.18	0.59	0.49

The accompanying notes are an integral part of 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	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	103	(45)	-	-	58
Share-based compensation		-	468	-	-	468
Net income		-	-	22,054	-	22,054
Other comprehensive income		-	-	-	2,225	2,225
Dividends declared	7	-	-	(10,213)	-	(10,213)
Balance, June 30, 2023		43,036	51,784	37,362	(41,182)	91,000
Balance, December 31, 2021		39,481	51,580	6,486	(46,523)	51,024
Issue of common shares	7	118	(48)	-	-	70
Share-based compensation		-	332	-	-	332
Net income		-	-	17,746	-	17,746
Other comprehensive income		-	-	-	1,364	1,364
Dividends declared	7	-	-	(5,444)	-	(5,444)
Balance, June 30, 2022		39,599	51,864	18,788	(45,159)	65,092

The accompanying notes are an integral part of 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 June 30,		Six Months Ended June 30,	
		2023	2022	2023	2022
Operating Activities					
Net income		9,852	6,631	22,054	17,746
Adjustments:					
Depletion and depreciation	4,5	1,711	1,279	3,855	3,098
Finance expenses	9	389	595	792	1,245
Share-based compensation		281	184	564	434
Foreign exchange		(2,328)	2,941	(3,690)	(2,040)
Unrealized risk management gains		-	(27)	-	7
Deferred tax		1,173	832	2,503	2,851
Settlement of decommissioning liabilities	6	(31)	(1)	(59)	(3)
Funds flow from operations		11,047	12,434	26,019	23,338
Changes in non-cash working capital	12	2,426	563	1,310	(2,008)
		13,473	12,997	27,329	21,330
Financing Activities					
Dividends paid	7	(5,104)	(2,716)	(9,461)	(4,750)
Credit Facility repayments		-	(2,500)	-	(4,000)
Interest on Credit Facility		-	(102)	-	(245)
Issue of common shares	7	46	37	58	70
Lease liabilities payments	5	(569)	(464)	(1,137)	(925)
Changes in non-cash working capital	12	86	193	(30)	169
		(5,541)	(5,552)	(10,570)	(9,681)
Investing Activities					
Expenditures on exploration and evaluation assets	3	(882)	(5,478)	(2,163)	(7,783)
Expenditures on property, plant and equipment	4	(7,639)	(860)	(9,649)	(2,355)
Change in restricted cash		-	(25)	(17)	(48)
Changes in non-cash working capital	12	1,257	509	392	706
		(7,264)	(5,854)	(11,437)	(9,480)
Change in cash and cash equivalents		668	1,591	5,322	2,169
Effect of foreign exchange on cash balances		307	(659)	492	34
Cash and cash equivalents, beginning of period		24,623	12,740	19,784	11,469
Cash and cash equivalents, end of period		25,598	13,672	25,598	13,672
Cash and cash equivalents consist of:					
Cash		1,583	9,257	1,583	9,257
Cash equivalents		24,015	4,415	24,015	4,415
Supplemental information:					
Cash income taxes paid		679	182	1,260	333
Cash interest income received		369	66	610	83

The accompanying notes are an integral part of 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, 2023 and 2022

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

NOTE 1 – NATURE OF OPERATIONS

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 PREPARATION

Basis of Measurement and Statement of Compliance

The interim condensed consolidated financial statements as at June 30, 2023 and December 31, 2022 and for the three and six months ended June 30, 2023 and June 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 August 9, 2023.

Use of Judgments, Estimates and Assumptions

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 ASSETS

	As at	
	June 30, 2023	December 31, 2022
Balance, beginning of period	16,114	3,713
Capital expenditures	2,163	18,545
Capitalized share-based compensation	7	66
Change in decommissioning liabilities	-	90
Transfer to PP&E (Note 4)	(1,295)	(155)
Asset dispositions & other transfers	(21)	(4)
Impairment	-	(6,338)
Foreign currency translation	1,309	197
Balance, end of period	18,277	16,114

The majority of expenditures for the six months ended June 30, 2023 relate to equipment inventory purchases as well as costs for testing the 182-C2 well. As the Company continues to evaluate the commercial viability and technical feasibility of this and the 183-B1 well, there are no indications of impairment as of June 30, 2023.

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

As at and for the three and six months ended June 30, 2023 and 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**

	As at	
	June 30, 2023	December 31, 2022
Cost, beginning of period	57,144	47,766
Capital expenditures	9,649	6,250
Capitalized share-based compensation	55	40
Transfer from E&E assets (Note 3)	1,295	155
Other transfers	-	(5)
Change in decommissioning liabilities	26	(106)
Foreign currency translation	4,735	3,044
Cost, end of period	72,904	57,144
Accumulated depletion, depreciation and impairment, beginning of period	(14,684)	(7,986)
Depletion and depreciation	(3,272)	(5,961)
Foreign currency translation	(1,589)	(737)
Accumulated depletion, depreciation and impairment, end of period	(19,545)	(14,684)
Net book value, end of period	53,359	42,460

During the six months ended June 30, 2023 capital activities focused on drilling the BL-06 well on our Bom Lugar oil field, which was spud on April 30, 2023, as well as stimulation of the 197(1) well on our Murucututu natural gas field.

There were no indications of impairment or impairment reversal on any properties as at and for the three and six months ended June 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	
	June 30, 2023	December 31, 2022
Net book value, beginning of period	8,701	7,153
Additions	16	1,930
Depreciation	(583)	(1,042)
Foreign currency translation	718	660
Net book value, end of period	8,852	8,701
<i>Net Book Value by Asset Class</i>		
Natural gas facility	8,659	8,477
Office space	109	138
Surface land access	84	86
Total net book value	8,852	8,701

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

As at and for the three and six months ended June 30, 2023 and 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, 2023	December 31, 2022
Lease liabilities, beginning of period	9,428	7,979
Additions	16	1,930
Finance expense	762	1,525
Lease payments	(1,137)	(2,027)
Foreign currency translation	7	21
Lease liabilities, end of period	9,076	9,428
Current	919	855
Non-current	8,157	8,573
Total	9,076	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	
	June 30, 2023	December 31, 2022
Balance, beginning of period	639	568
Liabilities incurred	26	84
Revisions to obligations	-	(100)
Obligations settled - cash	(59)	(6)
Obligations settled - non cash	(21)	-
Accretion	30	51
Foreign currency translation	50	42
Balance, end of period	665	639
Current	68	122
Non-current	597	517
Total	665	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 six months ended June 30, 2023 and 2022

*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	180,196	103
Balance as at June 30, 2023	36,491,775	43,036

During the three months ended March 31, 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 six months ended June 30, 2023.

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	(224,446)	1.75
Options forfeited	(9,000)	6.96
Balance as at June 30, 2023	1,331,550	4.66
Percentage of common shares outstanding	3.6%	

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

As at and for the three and six months ended June 30, 2023 and 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, 2023				Options Exercisable at June 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	102,222	1.29	0.4	102,222	1.29	0.4
CAD\$2.00 - \$2.99	413,329	2.40	2.5	200,002	2.34	1.9
CAD\$4.00 - \$4.99	279,666	4.84	3.4	67,668	4.84	3.4
CAD\$6.00 - \$6.99	536,333	6.95	4.4	-	-	-
CAD\$1.00 - \$6.99	1,331,550	4.66	3.3	369,892	2.51	1.7

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	7,159
Balance at June 30, 2023	736,447
Percentage of common shares outstanding	2.0%
Weighted average remaining contractual life (years)	3.0

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

*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. The following reconciles the number of shares used in the basic and diluted net earnings per share calculations:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Weighted average basic	36,696,814	33,973,288	36,627,041	33,940,554
Dilutive securities				
Stock options	558,119	431,559	529,817	383,941
Warrants ⁽¹⁾	-	1,668,253	-	1,538,041
RSUs & DSUs	500,416	563,429	499,643	563,298
Weighted average diluted	37,755,349	36,636,529	37,656,501	36,425,834

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

f) Dividends

Dividends declared and paid were as follows:

Period Declared	Dividend per share (\$)	Six Months Ended		Date Paid
		June 30, 2023		
		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	-	July 14, 2023
Total		10,213	9,461	

Period Declared	Dividend per share (\$)	Six Months Ended		Date Paid
		June 30, 2022		
		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	-	July 15, 2022
Total		5,444	4,750	

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 six months ended June 30, 2023 and 2022

*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		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Natural gas	13,186	14,674	30,333	27,613
Condensate	700	1,072	1,683	2,022
Oil	28	41	58	124
Total	13,914	15,787	32,074	29,759

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 six months ended June 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	
	June 30, 2023	December 31, 2022
Natural gas	5,605	6,935
Condensate	-	18
Oil	-	-
Total	5,605	6,953

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Interest income	370	69	659	83
Tax recoveries from operations	107	81	251	195
Water disposal income & other	-	35	(6)	48
Total	477	185	904	326

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

As at and for the three and six months ended June 30, 2023 and 2022

*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		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Personnel	70	51	138	97
Facility and pipeline	409	474	811	939
Other fixed	420	320	819	613
Variable	124	62	186	111
Workover	25	-	82	-
Total	1,048	907	2,036	1,760

c) General and Administrative ("G&A") Expenses

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Personnel	881	884	1,740	1,715
Travel	38	67	75	93
Office and IT	88	53	150	103
Professional fees	247	166	418	326
General corporate	409	354	830	751
Gross G&A expenses	1,663	1,524	3,213	2,988
Capitalized to E&E	(29)	(240)	(88)	(356)
Capitalized to PP&E	(348)	(190)	(617)	(330)
Net G&A expenses	1,286	1,094	2,508	2,302

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Lease interest (Note 5)	374	320	762	657
Accretion of decommissioning liabilities (Note 6)	15	14	30	27
Amortization of deferred financing costs	-	159	-	316
Interest on Credit Facility	-	102	-	245
Total finance expenses	389	595	792	1,245

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

As at and for the three and six months ended June 30, 2023 and 2022

*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	
	June 30, 2023	December 31, 2022
Cash and cash equivalents	25,598	19,784
Working capital deficit, excluding cash and cash equivalents	(7,514)	(5,086)
Working capital	18,084	14,698
Lease liabilities – non-current	(8,157)	(8,573)
Shareholders' equity	91,000	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 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, 2023	2022	June 30, 2023	2022
Increase (decrease) to natural gas revenues from:				
5% Appreciation of BRL to USD	694	772	1,596	1,453
10% Appreciation of BRL to USD	1,465	1,630	3,370	3,068
5% Depreciation of BRL to USD	(628)	(699)	(1,444)	(1,315)
10% Depreciation of BRL to USD	(1,199)	(1,334)	(2,757)	(2,510)

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			
	June 30, 2023		December 31, 2022	
	CAD\$ (000's)	BRL (000's)	CAD\$ (000's)	BRL (000's)
Cash and cash equivalents	199	24,204	386	27,582
Restricted cash – current	-	1,708	-	1,546
Trade and other receivables	61	28,211	45	36,921
Accounts payable and accrued liabilities	(963)	(35,665)	(1,695)	(31,333)
Net exposure in foreign currency	(703)	18,458	(1,264)	34,716
Net exposure in USD (\$000s)	(531)	3,830	(933)	6,654

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

As at and for the three and six months ended June 30, 2023 and 2022

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 \$2.9 million for the six months ended June 30, 2023 (June 30, 2022 – \$1.6 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		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Change in:				
Trade and other receivables	1,857	324	1,704	(1,942)
Prepaid expenditures	(4)	197	(410)	212
Accounts payable, accrued liabilities and dividends payable	1,916	744	378	597
	3,769	1,265	1,672	(1,133)
Changes relating to:				
Operating activities	2,426	563	1,310	(2,008)
Financing activities	86	193	(30)	169
Investing activities	1,257	509	392	706
	3,769	1,265	1,672	(1,133)