

ALVOPETRO ENERGY LTD.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
As at and Three and Six Months Ended June 30, 2024**



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

(Unaudited, thousands of United States dollars)

	Note	June 30, 2024	December 31, 2023
ASSETS			
Current			
Cash and cash equivalents		19,681	18,326
Restricted cash		65	72
Trade and other receivables		4,937	6,859
Prepaid expenditures		617	738
Total current assets		25,300	25,995
Exploration and evaluation assets	3	12,296	13,785
Property, plant and equipment	4	55,350	59,812
Right-of-use assets	5	6,750	8,240
Deferred tax asset		1,587	1,993
Non-current assets		75,983	83,830
Total assets		101,283	109,825
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		6,108	6,662
Dividend payable	7	3,296	5,127
Lease liabilities	5	1,019	959
Decommissioning liabilities	6	185	130
Total current liabilities		10,608	12,878
Lease liabilities	5	7,296	7,722
Decommissioning liabilities	6	926	1,017
Total liabilities		18,830	21,617
Shareholders' equity			
Share capital	7	43,462	43,461
Contributed surplus		52,808	52,235
Retained earnings		33,878	33,570
Accumulated other comprehensive loss		(47,695)	(41,058)
Total shareholders' equity		82,453	88,208
Total liabilities and shareholders' equity		101,283	109,825

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 (LOSS) INCOME**

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

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2024	2023	2024	2023
Revenue					
Natural gas, oil and condensate sales	8	10,672	13,914	22,424	32,074
Royalties		(287)	(354)	(599)	(936)
Net natural gas, oil and condensate revenue		10,385	13,560	21,825	31,138
Other income	9	444	477	842	904
		10,829	14,037	22,667	32,042
Expenses					
Production	9	850	1,048	2,051	2,036
General and administrative	9	1,570	1,286	2,993	2,508
Depletion and depreciation	4,5	1,701	1,711	3,548	3,855
Impairment	3	-	-	91	-
Finance expenses	9	371	389	754	792
Share-based compensation	7	315	281	602	564
Exploration & evaluation expenditures		-	-	96	82
Foreign exchange losses (gains)		3,204	(2,331)	4,374	(3,705)
Total expenses		8,011	2,384	14,509	6,132
Income before taxes		2,818	11,653	8,158	25,910
Income tax expense (recovery)					
Current		493	628	1,103	1,353
Deferred		(25)	1,173	155	2,503
Total		468	1,801	1,258	3,856
Net income		2,350	9,852	6,900	22,054
Exchange (loss) gain on translation of foreign operations		(5,175)	1,609	(6,637)	2,225
Comprehensive (loss) income		(2,825)	11,461	263	24,279
Net income per share					
	7				
Basic		0.06	0.27	0.19	0.60
Diluted		0.06	0.26	0.18	0.59

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, 2023		43,461	52,235	33,570	(41,058)	88,208
Issue of common shares		1	(1)	-	-	-
Share-based compensation		-	574	-	-	574
Net income		-	-	6,900	-	6,900
Other comprehensive loss		-	-	-	(6,637)	(6,637)
Dividends declared	7	-	-	(6,592)	-	(6,592)
Balance, June 30, 2024		43,462	52,808	33,878	(47,695)	82,453
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

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,	
		2024	2023	2024	2023
Operating Activities					
Net income		2,350	9,852	6,900	22,054
Adjustments:					
Depletion and depreciation	4,5	1,701	1,711	3,548	3,855
Impairment	3	-	-	91	-
Finance expenses	9	371	389	754	792
Share-based compensation	7	315	281	602	564
Foreign exchange		3,198	(2,328)	4,373	(3,690)
Deferred tax		(25)	1,173	155	2,503
Settlement of decommissioning liabilities	6	-	(31)	-	(59)
Funds flow from operations		7,910	11,047	16,423	26,019
Changes in non-cash working capital	12	950	2,426	650	1,310
		8,860	13,473	17,073	27,329
Financing Activities					
Dividends paid	7	(3,296)	(5,104)	(8,423)	(9,461)
Issue of common shares	7	-	46	-	58
Lease liabilities payments	5	(566)	(569)	(1,134)	(1,137)
Changes in non-cash working capital	12	(8)	86	(35)	(30)
		(3,870)	(5,541)	(9,592)	(10,570)
Investing Activities					
Expenditures on exploration and evaluation assets	3	(437)	(882)	(577)	(2,163)
Expenditures on property, plant and equipment	4	(3,000)	(7,639)	(5,299)	(9,649)
Proceeds on disposition	3	204	-	204	-
Change in restricted cash		-	-	(3)	(17)
Changes in non-cash working capital	12	1,199	1,257	560	392
		(2,034)	(7,264)	(5,115)	(11,437)
Change in cash and cash equivalents		2,956	668	2,366	5,322
Effect of foreign exchange on cash balances		(725)	307	(1,011)	492
Cash and cash equivalents, beginning of period		17,450	24,623	18,326	19,784
Cash and cash equivalents, end of period		19,681	25,598	19,681	25,598
Cash and cash equivalents consist of:					
Cash		1,547	1,583	1,547	1,583
Cash equivalents		18,134	24,015	18,134	24,015
Supplemental information:					
Cash income taxes paid		241	679	1,349	1,260
Cash interest income received		352	369	639	610

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, 2024 and 2023

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, 2024 and December 31, 2023 and for the three and six months ended June 30, 2024 and June 30, 2023 have been prepared in accordance with IFRS Accounting 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, 2023, with the exception of amendments to IAS 1, *Presentation of Financial Statements*, which had no effect as at and for the six months ended June 30, 2024. 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, 2023.

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 7, 2024.

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, 2023.

Redetermination

As reported in the audited consolidated financial statements as at and for the year ended December 31, 2023, the redetermination of Alvopetro’s working interest in the unitized area, which includes Alvopetro’s Caburé natural gas field (the “Unit”), commenced in the fourth quarter of 2023. As at December 31, 2023 Alvopetro’s working interest in the Unit was 49.1%, with Alvopetro’s partner in the Unit (“the Partner”) holding the remaining 50.9%. An independent third party expert (the “Expert”) was engaged to evaluate the parties’ proposals regarding their interpretation of the working interests. On April 4, 2024, the parties received the Expert decision which found in favour of Alvopetro, assigning a 56.2% working interest to Alvopetro. Pursuant to the provisions of the Unit Operating Agreement (“UOA”) and all related agreements, where an Expert is engaged to evaluate a redetermination, the decision of the Expert is binding however Alvopetro received a notice of dispute from the Partner with respect to the Expert’s final decision, seeking to stay the redetermination procedure. As a result, Alvopetro filed an emergency arbitration request before the International Court of Arbitration of the International Chamber of Commerce (“ICC”) seeking an injunction to make the Expert decision effective on June 1, 2024 (the “Effective Date”) pursuant to the provisions of the UOA. In May 2024, Alvopetro received the final order (the “Order”) of the emergency arbitrator wherein the arbitrator found in favour of Alvopetro with respect to the binding nature of the Expert’s decision. In compliance with the Order, the redetermined working interests became effective on June 1, 2024 with Alvopetro’s increased working interest of 56.2% resulting in the following impact on these interim condensed consolidated financial statements as at and for the six months ended June 30, 2024:

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

As at and for the three and six months ended June 30, 2024 and 2023

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- a \$1.1 million increase in PP&E related to Alvo Petro's revised working interest applicable to the historical unit development costs, with a corresponding liability due to the Partner;
- additional \$0.1 million of production costs and general and administrative expenses, related to historical unit costs which, under the UOA, are to be charged based on working interest;
- a \$0.1 million increase in Alvo Petro's asset retirement obligations, as the Company is now responsible for 56.2% of the Unit's estimated decommissioning costs; and
- depletion expense calculated based on revised reserves at the redetermined working interest and production volumes in the period which may be impacted by increased production entitlements from the Unit.

The Order is a provisional and contingent decision until reviewed by an arbitral tribunal pursuant to the Rules of Arbitration (the "Rules") of the ICC as provided for under the terms of the UOA.

NOTE 3 – EXPLORATION AND EVALUATION ASSETS

	As at	
	June 30, 2024	December 31, 2023
Balance, beginning of period	13,785	16,114
Capital expenditures	577	6,091
Capitalized share-based compensation	4	8
Change in decommissioning liabilities	-	191
Transfer (to) PP&E (Note 4)	(88)	(3,025)
Asset dispositions & other transfers	(7)	(22)
Impairment	(91)	(6,748)
Transfer to assets held for sale	(211)	-
Foreign currency translation	(1,673)	1,176
Balance, end of period	12,296	13,785

Equipment inventory which was sold for \$0.2 million during the second quarter was transferred to assets held for sale during the three months ended March 31, 2024. Prior to transfer the equipment was written down to its estimated fair value, resulting in impairment of \$0.1 million.

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

As at and for the three and six months ended June 30, 2024 and 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**

	As at	
	June 30, 2024	December 31, 2023
Cost, beginning of period	86,766	57,144
Capital expenditures	5,299	21,358
Capitalized share-based compensation	70	131
Transfer from E&E assets (Note 3)	88	3,025
Change in decommissioning liabilities	71	338
Foreign currency translation	(10,968)	4,770
Cost, end of period	81,326	86,766
Accumulated depletion, depreciation and impairment, beginning of period	(26,954)	(14,684)
Depletion and depreciation	(2,964)	(6,491)
Impairment	-	(4,238)
Foreign currency translation	3,942	(1,541)
Accumulated depletion, depreciation and impairment, end of period	(25,976)	(26,954)
Net book value, end of period	55,350	59,812

Capital expenditures for the six months ended June 30, 2024 include \$1.1 million relating to Alvo Petro's share of historical Unit expenditures adjusted to the redetermined working interest of 56.2% compared to the initial working interest of 49.1% (see Note 2).

There were no indications of impairment or impairment reversal on any properties as at and for the six months ended June 30, 2024.

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, 2024	December 31, 2023
Net book value, beginning of period	8,240	8,701
Additions	75	26
Depreciation	(584)	(1,177)
Foreign currency translation	(981)	690
Net book value, end of period	6,750	8,240

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

As at and for the three and six months ended June 30, 2024 and 2023

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

Net Book Value by Asset Class		
Natural gas facility	6,600	8,094
Office space	94	71
Surface land access	56	75
Total net book value	6,750	8,240

The Company's lease liabilities are as follows:

	As at	
	June 30,	December
	2024	31, 2023
Lease liabilities, beginning of period	8,681	9,428
Additions	75	26
Finance expense	704	1,495
Lease payments	(1,134)	(2,274)
Foreign currency translation	(11)	6
Lease liabilities, end of period	8,315	8,681
Current	1,019	959
Non-current	7,296	7,722
Total	8,315	8,681

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,	December
	2024	31, 2023
Balance, beginning of period	1,147	639
Liabilities incurred	-	33
Revisions to obligations (Note 2)	71	496
Obligations settled - cash	-	(62)
Obligations settled - non cash	-	(21)
Accretion	50	58
Foreign currency translation	(157)	4
Balance, end of period	1,111	1,147
Current	185	130
Non-current	926	1,017
Total	1,111	1,147

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

As at and for the three and six months ended June 30, 2024 and 2023

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

Revisions in the period represent the incremental provision related to the increase in the Company's working interest in the Caburé natural gas field (see Note 2). Non-cash obligations settled in 2023 represent tangible equipment transferred from E&E assets.

NOTE 7 – SHARE CAPITAL**a) Issued and Outstanding Common Shares**

	Number of Shares	Amount (\$000s)
Balance as at December 31, 2022	36,311,579	42,933
Exercise of stock options	310,961	175
Share Restructuring	-	357
Repurchase and cancellation of shares	(4,600)	(4)
Balance as at December 31, 2023	36,617,940	43,461
Exercise of stock options	2,104	1
Balance as at June 30, 2024	36,620,044	43,462

b) Options to Purchase Common Shares

Alvopetro 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, 2022	1,564,996	4.25
Granted	638,000	8.01
Exercised	(384,556)	1.83
Forfeited	(17,000)	7.21
Balance as at December 31, 2023	1,801,440	6.07
Granted	100,000	4.43
Exercised	(6,666)	2.97
Forfeited	(52,000)	7.53
Balance as at June 30, 2024	1,842,774	5.95
Percentage of common shares outstanding	5.0%	

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

As at and for the three and six months ended June 30, 2024 and 2023

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, 2024				Options Exercisable at June 30, 2024		
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\$2.25 - \$3.99	367,775	2.40	1.6	267,775	2.40	1.1
CAD\$4.00 - \$5.99	360,666	4.73	3.1	154,670	4.84	2.6
CAD\$6.00 - \$7.99	508,333	6.95	3.4	99,335	6.92	1.4
CAD\$8.00 - \$8.01	606,000	8.01	4.4	-	-	-
CAD\$2.25 - \$8.01	1,842,774	5.95	3.3	521,780	3.98	1.6

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, 2022	729,288
Granted	152,253
Balance as at December 31, 2023	881,541
Granted	56,337
Balance at June 30, 2024	937,878
Percentage of common shares outstanding	2.6%
Weighted average remaining contractual life (years)	3.3

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 were no stock options granted in the three and six months ended June 30, 2023. Weighted average assumptions and resultant fair values for stock options granted in 2024 were as follows:

	Three Months Ended		Six Months Ended	
	2024	June 30, 2023	2024	June 30, 2023
Risk free interest rate (%)	3.5	-	3.5	-
Expected term (years)	4.0	-	4.0	-
Expected volatility (%)	30.0	-	30.0	-
Expected annual dividend per share (CAD\$)	0.49	-	0.49	-
Forfeiture rate (%)	7.5	-	7.5	-
Weighted average fair value (CAD\$)	0.40	-	0.40	-

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, 2024 and 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. 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,	
	2024	2023	2024	2023
Weighted average basic	37,285,616	36,696,814	37,282,318	36,627,041
Dilutive securities				
Stock options	88,163	558,119	139,619	529,817
RSUs & DSUs	226,631	500,416	225,051	499,643
Weighted average diluted	37,600,410	37,755,349	37,646,988	37,656,501

f) Dividends

Dividends declared and paid were as follows:

Period Declared	Dividend per share (\$)	Six Months Ended		Date Paid
		Total Declared	Total Paid	
Three months ended December 31, 2023	0.14	-	5,127	January 15, 2024
Three months ended March 31, 2024	0.09	3,296	3,296	April 15, 2024
Three months ended June 30, 2024	0.09	3,296	-	July 15, 2024
Total		6,592	8,423	

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

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, 2024 and 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		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Natural gas	9,949	13,186	21,009	30,333
Condensate	642	700	1,264	1,683
Oil	81	28	151	58
Total	10,672	13,914	22,424	32,074

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, 2024 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, 2024	December 31, 2023
Natural gas	3,808	6,486
Condensate	-	13
Total	3,808	6,499

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Interest income	359	370	621	659
Tax recoveries from operations	94	107	236	251
Water disposal income & other	(9)	-	(15)	(6)
Total	444	477	842	904

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

As at and for the three and six months ended June 30, 2024 and 2023

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Personnel	178	70	311	138
Facility and pipeline	426	409	871	811
Other fixed	62	420	474	819
Variable	140	124	268	186
Workover	44	25	127	82
Total	850	1,048	2,051	2,036

Other fixed costs includes tax credits associated with historical production costs recognized in the three months ended June 30, 2024.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Personnel	895	881	1,805	1,740
Travel	38	38	70	75
Office and IT	72	88	141	150
Professional fees	250	247	452	418
General corporate	553	409	1,056	830
Gross G&A expenses	1,808	1,663	3,524	3,213
Capitalized to E&E	(16)	(29)	(16)	(88)
Capitalized to PP&E	(222)	(348)	(515)	(617)
Net G&A expenses	1,570	1,286	2,993	2,508

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.

c) Finance Expenses

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Lease interest (Note 5)	346	374	704	762
Accretion of decommissioning liabilities (Note 6)	25	15	50	30
Total finance expenses	371	389	754	792

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

As at and for the three and six months ended June 30, 2024 and 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	
	June 30, 2024	December 31, 2023
Cash and cash equivalents	19,681	18,326
Working capital deficit, excluding cash and cash equivalents	(4,989)	(5,209)
Working capital ⁽¹⁾	14,692	13,117
Lease liabilities – non-current	(7,296)	(7,722)
Shareholders' equity	82,453	88,208

(1) Working capital is calculated as total current assets less total current liabilities.

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 gas sales agreement 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Increase (decrease) to natural gas revenues from:				
5% Appreciation of BRL to USD	562	694	1,180	1,596
10% Appreciation of BRL to USD	1,186	1,465	2,492	3,370
5% Depreciation of BRL to USD	(508)	(628)	(1,068)	(1,444)
10% Depreciation of BRL to USD	(970)	(1,199)	(2,039)	(2,757)

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:

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

As at and for the three and six months ended June 30, 2024 and 2023

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

	As at			
	June 30, 2024		December 31, 2023	
	CAD\$ (000's)	BRL (000's)	CAD\$ (000's)	BRL (000's)
Cash and cash equivalents	426	28,818	197	28,095
Restricted cash – current	-	363	-	350
Trade and other receivables	43	27,059	93	32,598
Accounts payable and accrued liabilities	(1,037)	(25,579)	(948)	(25,686)
Net exposure in foreign currency	(568)	30,661	(658)	35,357
Net exposure in USD (\$000s)	(415)	5,516	(498)	7,303

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 Brazilian subsidiary recorded a foreign exchange loss of \$3.2 million recognized in the Company's net income for the six months ended June 30, 2024 (June 30, 2023 – \$2.9 million gain) related to the change in the BRL to USD exchange rate on this intercompany balance. An additional foreign exchange loss of \$1.2 million from the Brazilian subsidiary is recognized in net income for the six months ended June 30, 2024 (June 30, 2023 - \$0.8 million gain) relating to the USD denominated lease liability on the natural gas facility.

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,	
	2024	2023	2024	2023
Change in:				
Trade and other receivables	158	1,857	1,165	1,704
Prepaid expenditures	90	(4)	46	(410)
Accounts payable and accrued liabilities	1,893	1,916	(36)	378
	2,141	3,769	1,175	1,672
Changes relating to:				
Operating activities	950	2,426	650	1,310
Financing activities	(8)	86	(35)	(30)
Investing activities	1,199	1,257	560	392
	2,141	3,769	1,175	1,672