

# **ALVOPETRO ENERGY LTD.**

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

**As at and Three Months Ended March 31, 2022**



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

(Unaudited, thousands of United States dollars)

	Note	March 31, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		12,740	11,469
Restricted cash		231	175
Trade and other receivables		7,424	4,203
Prepaid expenditures		1,535	1,341
<b>Total current assets</b>		<b>21,930</b>	<b>17,188</b>
Exploration and evaluation assets	3	6,679	3,713
Property, plant and equipment	4	53,727	48,748
Right-of-use assets	5	8,148	7,153
Deferred tax asset		2,995	3,938
Other assets		337	491
<b>Non-current assets</b>		<b>71,886</b>	<b>64,043</b>
<b>Total assets</b>		<b>93,816</b>	<b>81,231</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		6,264	5,480
Dividend payable	8	2,715	2,034
Lease liabilities	5	540	516
Decommissioning liabilities	6	72	61
Other liabilities		37	-
<b>Total current liabilities</b>		<b>9,628</b>	<b>8,091</b>
Lease liabilities	5	7,331	7,463
Credit facility	7	5,045	6,545
Decommissioning liabilities	6	635	507
<b>Total liabilities</b>		<b>22,639</b>	<b>22,606</b>
<b>Shareholders' equity</b>			
Share capital	8	39,524	39,481
Contributed surplus		51,738	51,580
Retained earnings		8,409	9
Accumulated other comprehensive loss		(28,494)	(32,445)
<b>Total shareholders' equity</b>		<b>71,177</b>	<b>58,625</b>
<b>Total liabilities and shareholders' equity</b>		<b>93,816</b>	<b>81,231</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 (LOSS)**

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

	Note	Three Months Ended March 31,	
		2022	2021
<b>Revenue</b>			
Natural gas, oil and condensate sales	9	13,972	6,939
Royalties		(979)	(645)
Net natural gas, oil and condensate revenue		12,993	6,294
Other income	10	141	8
<b>Total revenue and other income</b>		<b>13,134</b>	<b>6,302</b>
<b>Expenses</b>			
Production	10	853	710
General and administrative	10	1,208	851
Depletion and depreciation	4,5	1,819	1,674
Finance expenses	10	650	994
Share-based compensation		250	89
Risk management loss (gain)	12	90	(58)
Foreign exchange (gain) loss		(5,009)	2,065
Gain on disposition of assets		-	(3)
<b>Total (recoveries) expenses</b>		<b>(139)</b>	<b>6,322</b>
<b>Income (loss) before taxes</b>		<b>13,273</b>	<b>(20)</b>
<b>Income tax expense</b>			
Current		139	-
Deferred		2,019	1,068
<b>Total</b>		<b>2,158</b>	<b>1,068</b>
<b>Net income (loss)</b>		<b>11,115</b>	<b>(1,088)</b>
Exchange gain (loss) on translation of foreign operations		3,951	(987)
<b>Comprehensive income (loss)</b>		<b>15,066</b>	<b>(2,075)</b>
<b>Net income (loss) per share</b>			
	8		
Basic		0.33	(0.03)
Diluted		0.30	(0.03)

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**

(Thousands of United States dollars)

		Common Shares	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total
<b>Balance, December 31, 2021</b>	Note	<b>39,481</b>	<b>51,580</b>	<b>9</b>	<b>(32,445)</b>	<b>58,625</b>
Issue of common shares	8	<b>43</b>	<b>(8)</b>	-	-	<b>35</b>
Share-based compensation		-	<b>166</b>	-	-	<b>166</b>
Net income		-	-	<b>11,115</b>	-	<b>11,115</b>
Other comprehensive income		-	-	-	<b>3,951</b>	<b>3,951</b>
Dividends declared	8	-	-	<b>(2,715)</b>	-	<b>(2,715)</b>
<b>Balance, March 31, 2022</b>		<b>39,524</b>	<b>51,738</b>	<b>8,409</b>	<b>(28,494)</b>	<b>71,177</b>
Balance, December 31, 2020		156,755	2,821	(71,172)	(35,294)	53,110
Issue of common shares	8	67	(38)	-	-	29
Share-based compensation		-	96	-	-	96
Net loss		-	-	(1,088)	-	(1,088)
Other comprehensive loss		-	-	-	(987)	(987)
Balance, March 31, 2021		156,822	2,879	(72,260)	(36,281)	51,160

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 March 31,	
		2022	2021
<b>Operating Activities</b>			
Net income (loss)		11,115	(1,088)
Adjustments:			
Depletion and depreciation	4,5	1,819	1,674
Finance expenses	10	650	994
Share-based compensation		250	89
Gain on disposition of assets		-	(3)
Foreign exchange		(4,981)	2,067
Unrealized risk management loss (gain)	12	34	(44)
Deferred tax		2,019	1,068
Settlement of decommissioning liabilities	6	(2)	(1)
Funds flow from operations		10,904	4,756
Changes in non-cash working capital	13	(2,571)	(452)
		8,333	4,304
<b>Financing Activities</b>			
Credit Facility repayments	7	(1,500)	(2,500)
Dividends paid		(2,034)	-
Interest on Credit Facility	10	(143)	(354)
Proceeds on issue of common shares, net of share issuance costs	8	33	30
Lease liabilities payments	5	(461)	(474)
Changes in non-cash working capital	13	(24)	(6)
		(4,129)	(3,304)
<b>Investing Activities</b>			
Expenditures on exploration and evaluation assets	3	(2,305)	(736)
Expenditures on property, plant and equipment	4	(1,495)	(128)
Proceeds on dispositions		-	125
Change in restricted cash		(23)	(9)
Changes in non-cash working capital	13	197	(16)
		(3,626)	(764)
<b>Change in cash and cash equivalents</b>		<b>578</b>	<b>236</b>
<b>Effect of foreign exchange on cash balances</b>		<b>693</b>	<b>(412)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>11,469</b>	<b>5,159</b>
<b>Cash and cash equivalents, end of period</b>		<b>12,740</b>	<b>4,983</b>
Cash and cash equivalents consist of:			
Cash		8,715	2,457
Cash equivalents		4,025	2,526
Supplemental information:			
Cash income taxes paid		151	-
Cash interest income received		17	2

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 months ended March 31, 2022 and 2021

*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 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 March 31, 2022 and December 31, 2021 and for the three months ended March 31, 2022 and March 31, 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 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 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 May 12, 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 audited consolidated financial statements as at and for the year ended December 31, 2021.

#### NOTE 3 – EXPLORATION AND EVALUATION ASSETS

	As at	
	March 31, 2022	December 31, 2021
Balance, beginning of period	3,713	32,262
Capital expenditures	2,305	1,528
Capitalized share-based compensation	10	22
Change in decommissioning liabilities	24	2
Transfer to PP&E (Note 4)	(10)	(29,925)
Asset dispositions & other transfers	-	1
Foreign currency translation	637	(177)
Balance, end of period	6,679	3,713

The majority of expenditures for the three months ended March 31, 2022 relate to drilling the 182-C1 well which was spud on March 2, 2022 and completed drilling in April 2022.

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

As at and for the three months ended March 31, 2022 and 2021

*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	
	March 31, 2022	December 31, 2021
Cost, beginning of period	60,908	31,189
Capital expenditures	1,495	2,985
Capitalized share-based compensation	13	44
Other transfers	-	(255)
Transfer from (to) E&E assets (Note 3)	10	29,925
Change in decommissioning liabilities	-	(603)
Asset disposition	-	(56)
Foreign currency translation	7,032	(2,321)
<b>Cost, end of period</b>	<b>69,458</b>	<b>60,908</b>
Accumulated depletion, depreciation and impairment, beginning of period	(12,160)	(5,346)
Depletion and depreciation for the period	(1,576)	(7,635)
Asset disposition	-	36
Foreign currency translation	(1,995)	785
<b>Accumulated depletion, depreciation and impairment, end of period</b>	<b>(15,731)</b>	<b>(12,160)</b>
<b>Net book value, end of period</b>	<b>53,727</b>	<b>48,748</b>

There were no indicators of impairment or impairment reversal as at and for the three months ended March 31, 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:

	As at	
	March 31, 2022	December 31, 2021
Net book value, beginning of period	7,153	8,092
Additions	12	190
Depreciation of ROU assets	(243)	(971)
Foreign currency translation	1,226	(158)
<b>Net book value, end of period</b>	<b>8,148</b>	<b>7,153</b>

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

As at and for the three months ended March 31, 2022 and 2021

*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	
	March 31, 2022	December 31, 2021
Lease liabilities, beginning of period	7,979	8,310
Additions	12	190
Finance expense	337	1,355
Lease payments	(461)	(1,856)
Foreign currency translation	4	(20)
<b>Lease liabilities, end of period</b>	<b>7,871</b>	<b>7,979</b>
Current	540	516
Non-current	7,331	7,463
<b>Total</b>	<b>7,871</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	
	March 31, 2022	December 31, 2021
Balance, beginning of period	568	1,143
Liabilities incurred	24	19
Revisions to obligations	-	(620)
Obligations settled	(2)	(6)
Accretion	13	82
Foreign currency translation	104	(50)
<b>Balance, end of period</b>	<b>707</b>	<b>568</b>
Current	72	61
Non-current	635	507
<b>Total</b>	<b>707</b>	<b>568</b>

**NOTE 7 – CREDIT FACILITY**

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

	As at	
	March 31, 2022	December 31, 2021
Balance at beginning of period	6,545	15,423
Repayments	(1,500)	(9,000)
Accrued interest due upon repayment	-	122
<b>Balance at end of period</b>	<b>5,045</b>	<b>6,545</b>



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

As at and for the three months ended March 31, 2022 and 2021

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

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 March 31, 2022 and December 31, 2021.

**NOTE 8 – SHARE CAPITAL****a) Issued and Outstanding Common Shares**

	<b>Number of Shares</b>	<b>Amount (\$000s)</b>
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>39,115</b>	<b>43</b>
<b>Balance as at March 31, 2022</b>	<b>33,942,744</b>	<b>39,524</b>

**b) Warrants to Purchase Common Shares**

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

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

All warrants outstanding as of March 31, 2022 expire on September 20, 2022.

**c) Options to Purchase Common Shares**

Alvo Petro has a stock option 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:

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

As at and for the three months ended March 31, 2022 and 2021

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

	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
Exercise of options for common shares	(39,115)	1.78
Adjustment for net settlement of options	(7,408)	1.91
<b>Balance as at March 31, 2022</b>	<b>1,398,585</b>	<b>2.61</b>

Options Outstanding at March 31, 2022				Options Exercisable at March 31, 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	1.2	130,000	0.96	1.2
CAD\$1.00 - \$1.99	263,254	1.29	1.7	263,254	1.29	1.7
CAD\$2.00 - \$2.99	687,331	2.39	3.5	235,560	2.34	3.1
CAD\$4.00 - \$4.84	318,000	4.84	4.6	-	-	-
<b>CAD\$0.60 - \$4.84</b>	<b>1,398,585</b>	<b>2.61</b>	<b>3.2</b>	<b>628,814</b>	<b>1.61</b>	<b>2.1</b>

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

Alvopetro has an incentive share 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	Weighted Average Remaining Contractual Life (Years)
Balance as at December 31, 2020	300,000	3.6
Granted	263,165	4.5
<b>Balance as at December 31, 2021 &amp; March 31, 2022</b>	<b>563,165</b>	<b>3.0</b>

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

As at and for the three months ended March 31, 2022 and 2021

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

Net income (loss) per share is calculated by dividing net income (loss) 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 March 31,	
	2022	2021
Weighted average basic	33,907,455	33,242,104
Dilutive securities		
Stock options	495,755	-
Warrants <sup>(1)</sup>	1,661,864	-
RSUs & DSUs	563,165	-
<b>Weighted average diluted</b>	<b>36,628,239</b>	<b>33,242,104</b>

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

In determination of the weighted average number of diluted common shares outstanding for the three months ended March 31, 2021 all stock options and warrants were excluded because the effect would be anti-dilutive.

**f) Dividends Declared**

During the three months ended March 31, 2022, the Company declared a dividend payment of \$0.08 per common share, totaling \$2.7 million, to shareholders of record on March 31, 2022. The dividends were paid on April 14, 2022. 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 March 31,	
	2022	2021
Natural gas	12,939	6,373
Condensate	950	566
Oil	83	-
<b>Total</b>	<b>13,972</b>	<b>6,939</b>

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 three months ended March 31, 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:

	As at	
	March 31, 2022	December 31, 2021
Natural gas	6,877	3,883
Condensate	-	-
Oil	57	-
<b>Total</b>	<b>6,934</b>	<b>3,883</b>

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

As at and for the three months ended March 31, 2022 and 2021

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 10 – NATURE OF OTHER INCOME AND EXPENSES****a) Other Income**

	Three Months Ended March 31,	
	2022	2021
Tax recoveries from operations	114	-
Third party water disposal income	14	7
Interest income & other	13	1
<b>Total other income</b>	<b>141</b>	<b>8</b>

**b) Production Expenses**

	Three Months Ended March 31,	
	2022	2021
Personnel	46	60
Facility and pipeline	465	372
Other fixed	293	225
Variable	49	34
Workover	-	19
<b>Total production expenses</b>	<b>853</b>	<b>710</b>

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

	Three Months Ended March 31,	
	2022	2021
Personnel	831	517
Travel	26	1
Office and IT costs	50	32
Professional fees	160	169
General corporate	397	236
Gross G&A expenses	1,464	955
Capitalized to PP&E (Note 4)	(140)	(62)
Capitalized to E&E (Note 3)	(116)	(42)
<b>Net G&amp;A expenses</b>	<b>1,208</b>	<b>851</b>

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.

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

As at and for the three months ended March 31, 2022 and 2021

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

	Three Months Ended	
	March 31,	
	2022	2021
Lease interest (Note 5)	337	356
Accretion of decommissioning liabilities (Note 6)	13	20
Amortization of deferred financing costs	157	158
Interest on Credit Facility (Note 7)	143	460
<b>Total finance expenses</b>	<b>650</b>	<b>994</b>

**NOTE 11 – CAPITAL MANAGEMENT**

The Company's capital consists of the following:

	As at	
	March 31, 2022	December 31, 2021
Cash and cash equivalents	12,740	11,469
Non-cash working capital deficit	(438)	(2,372)
Credit Facility	(5,045)	(6,545)
<b>Working capital net of debt (net debt)</b>	<b>7,257</b>	<b>2,552</b>
Lease liabilities – non-current	(7,331)	(7,463)
<b>Shareholders' equity</b>	<b>71,177</b>	<b>58,625</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	
	March 31,	
	2022	2021
Increase (decrease) to natural gas revenues from:		
5% Appreciation of BRL to USD	681	335
10% Appreciation of BRL to USD	1,438	708
5% Depreciation of BRL to USD	(616)	(303)
10% Depreciation of BRL to USD	(1,176)	(579)

To manage exposure to foreign exchange volatility with respect to the BRL, the Company has entered into BRL/USD forward exchange rate contracts. As of March 31, 2022, the Company has a total of BRL1.6 million forward exchange contracts with settlements dates occurring until June 2022 at an average exchange rate of 5.33. 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

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

As at and for the three months ended March 31, 2022 and 2021

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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 March 31, 2022 was a liability of \$0.04 million (December 31, 2021 – \$nil).

The realized and unrealized losses recognized are as follows:

	Three Months Ended March 31,	
	2022	2021
Realized (losses) gains	(56)	14
Unrealized (losses) gains	(34)	44
Total (losses) gains	(90)	58

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

	As at			
	March 31, 2022		December 31, 2021	
	CAD (000's)	BRL (000's)	CAD (000's)	BRL (000's)
Cash and cash equivalents	183	19,071	514	20,093
Restricted cash – current	-	1,096	-	977
Trade and other receivables	150	34,425	68	22,948
Risk management contracts	-	(177)	-	-
Accounts payable and accrued liabilities	(548)	(26,684)	(1,744)	(22,170)
Net exposure in foreign currency	(215)	27,731	(1,162)	21,848
Net exposure in USD (\$000s)	(172)	5,853	(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 \$3.7 million for the three months ended March 31, 2022 (March 31, 2021 – \$1.7 million loss) 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 months ended March 31, 2022 and 2021

*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**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
<b>Change in:</b>	<b>2022</b>	<b>2021</b>
Trade and other receivables	<b>(2,266)</b>	(469)
Prepaid expenditures	<b>15</b>	(269)
Accounts payable, accrued liabilities and dividends payable	<b>(147)</b>	264
	<b>(2,398)</b>	(474)
Changes relating to:		
Operating activities	<b>(2,571)</b>	(452)
Financing activities	<b>(24)</b>	(6)
Investing activities	<b>197</b>	(16)
	<b>(2,398)</b>	(474)