

ALVOPETRO ENERGY LTD.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
As at and Three Months Ended March 31, 2023**



ALVOPETRO ENERGY LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, thousands of United States dollars)

	Note	March 31, 2023	December 31, 2022
ASSETS			
Current			
Cash and cash equivalents		24,623	19,784
Restricted cash		326	296
Trade and other receivables		7,500	7,154
Prepaid expenditures		815	393
Total current assets		33,264	27,627
Exploration and evaluation assets	3	17,521	16,114
Property, plant and equipment	4	43,916	42,460
Right-of-use assets	5	8,676	8,701
Deferred tax asset		2,261	3,525
Total assets		105,638	98,427
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		6,279	7,595
Dividend payable	7	5,104	4,357
Lease liabilities	5	896	855
Decommissioning liabilities	6	70	122
Total current liabilities		12,349	12,929
Lease liabilities	5	8,371	8,573
Decommissioning liabilities	6	550	517
Total liabilities		21,270	22,019
Shareholders' equity			
Share capital	7	42,980	42,933
Contributed surplus		51,560	51,361
Retained earnings		32,619	25,521
Accumulated other comprehensive loss		(42,791)	(43,407)
Total shareholders' equity		84,368	76,408
Total liabilities and shareholders' equity		105,638	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 March 31,	
		2023	2022
Revenue			
Natural gas, oil and condensate sales	8	18,160	13,972
Royalties		(582)	(979)
Net natural gas, oil and condensate revenue		17,578	12,993
Other income	9	427	141
		18,005	13,134
Expenses			
Production	9	988	853
General and administrative	9	1,222	1,208
Depletion and depreciation	4,5	2,144	1,819
Finance expenses	9	403	650
Share-based compensation		283	250
Exploration and evaluation		82	-
Risk management loss		-	90
Foreign exchange gain		(1,374)	(5,009)
		3,748	(139)
Income before taxes		14,257	13,273
Income tax expense			
Current		725	139
Deferred		1,330	2,019
Total		2,055	2,158
Net income		12,202	11,115
Exchange gain on translation of foreign operations		616	3,951
Comprehensive income		12,818	15,066
Net income per share			
	7		
Basic		0.34	0.33
Diluted		0.33	0.30

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	47	(35)	-	-	12
Share-based compensation		-	234	-	-	234
Net income		-	-	12,202	-	12,202
Other comprehensive income		-	-	-	616	616
Dividends declared	7	-	-	(5,104)	-	(5,104)
Balance, March 31, 2023		42,980	51,560	32,619	(42,791)	84,368
Balance, December 31, 2021		39,481	51,580	6,486	(46,523)	51,024
Issue of common shares	7	43	(10)	-	-	33
Share-based compensation		-	168	-	-	168
Net income		-	-	11,115	-	11,115
Other comprehensive income		-	-	-	3,951	3,951
Dividends declared	7	-	-	(2,716)	-	(2,716)
Balance, March 31, 2022		39,524	51,738	14,885	(42,572)	63,575

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)

		Three Months Ended March 31,	
	Note	2023	2022
Operating Activities			
Net income		12,202	11,115
Adjustments:			
Depletion and depreciation	4,5	2,144	1,819
Finance expenses	9	403	650
Share-based compensation		283	250
Foreign exchange		(1,362)	(4,981)
Unrealized risk management loss		-	34
Deferred tax		1,330	2,019
Settlement of decommissioning liabilities	6	(28)	(2)
Funds flow from operations		14,972	10,904
Changes in non-cash working capital	12	(1,116)	(2,571)
		13,856	8,333
Financing Activities			
Dividends paid	7	(4,357)	(2,034)
Credit Facility repayments		-	(1,500)
Interest on Credit Facility		-	(143)
Issue of common shares	7	12	33
Lease liabilities payments	5	(568)	(461)
Changes in non-cash working capital	12	(116)	(24)
		(5,029)	(4,129)
Investing Activities			
Expenditures on exploration and evaluation assets	3	(1,281)	(2,305)
Expenditures on property, plant and equipment	4	(2,010)	(1,495)
Change in restricted cash		(17)	(23)
Changes in non-cash working capital	12	(865)	197
		(4,173)	(3,626)
Change in cash and cash equivalents		4,654	578
Effect of foreign exchange on cash balances		185	693
Cash and cash equivalents, beginning of period		19,784	11,469
Cash and cash equivalents, end of period		24,623	12,740
Cash and cash equivalents consist of:			
Cash		4,054	8,715
Cash equivalents		20,569	4,025
Supplemental information:			
Cash income taxes paid		581	151
Cash interest income received		241	17

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, 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 March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and March 31, 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 May 10, 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	
	March 31, 2023	December 31, 2022
Balance, beginning of period	16,114	3,713
Capital expenditures	1,281	18,545
Capitalized share-based compensation	6	66
Change in decommissioning liabilities	-	90
Transfer to PP&E (Note 4)	(292)	(155)
Asset dispositions & other transfers	(21)	(4)
Impairment	-	(6,338)
Foreign currency translation	433	197
Balance, end of period	17,521	16,114

The majority of expenditures for the three months ended March 31, 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 March 31, 2023.

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

As at and for the three months ended March 31, 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	
	March 31, 2023	December 31, 2022
Cost, beginning of period	57,144	47,766
Capital expenditures	2,010	6,250
Capitalized share-based compensation	25	40
Transfer from E&E assets (Note 3)	292	155
Other transfers	-	(5)
Change in decommissioning liabilities	-	(106)
Foreign currency translation	1,488	3,044
Cost, end of period	60,959	57,144
Accumulated depletion, depreciation and impairment, beginning of period	(14,684)	(7,986)
Depletion and depreciation	(1,854)	(5,961)
Foreign currency translation	(505)	(737)
Accumulated depletion, depreciation and impairment, end of period	(17,043)	(14,684)
Net book value, end of period	43,916	42,460

During the three months ended March 31, 2023 capital activities focused on stimulation of the 197(1) well on our Murucututu field as well as testing of the Unit-C well and Caburé facilities expansion.

There were no indications of impairment or impairment reversal on any properties as at and for the three months ended March 31, 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	
	March 31, 2023	December 31, 2022
Net book value, beginning of period	8,701	7,153
Additions	14	1,930
Depreciation	(290)	(1,042)
Foreign currency translation	251	660
Net book value, end of period	8,676	8,701
<i>Net Book Value by Asset Class</i>		
Natural gas facility	8,460	8,477
Office space	131	138
Surface land access	85	86
Total net book value	8,676	8,701

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

As at and for the three months ended March 31, 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	
	March 31, 2023	December 31, 2022
Lease liabilities, beginning of period	9,428	7,979
Additions	14	1,930
Finance expense	388	1,525
Lease payments	(568)	(2,027)
Foreign currency translation	5	21
Lease liabilities, end of period	9,267	9,428
Current	896	855
Non-current	8,371	8,573
Total	9,267	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	
	March 31, 2023	December 31, 2022
Balance, beginning of period	639	568
Liabilities incurred	-	84
Revisions to obligations	-	(100)
Obligations settled - cash	(28)	(6)
Obligations settled - non cash	(21)	-
Accretion	15	51
Foreign currency translation	15	42
Balance, end of period	620	639
Current	70	122
Non-current	550	517
Total	620	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 months ended March 31, 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	146,176	47
Balance as at March 31, 2023	36,457,755	42,980

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 three months ended March 31, 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	(187,780)	1.62
Balance as at March 31, 2023	1,377,216	4.61
Percentage of common shares outstanding	3.8%	

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

As at and for the three months ended March 31, 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 March 31, 2023				Options Exercisable at March 31, 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	122,222	1.29	0.7	122,222	1.29	0.7	
CAD\$2.00 - \$2.99	425,328	2.41	2.8	200,002	2.34	2.1	
CAD\$4.00 - \$4.99	279,666	4.84	3.6	67,668	4.84	3.6	
CAD\$6.00 - \$6.99	550,000	6.94	4.7	-	-	-	
CAD\$0.96 - \$6.99	1,377,216	4.61	3.5	389,892	2.45	1.9	

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	Weighted Average Remaining Contractual Life (Years)
Balance as at December 31, 2021	563,165	2.9
Granted	166,123	4.7
Balance as at December 31, 2022	729,288	3.3
Granted	3,793	4.6
Balance at March 31, 2023	733,081	3.3
Percentage of common shares outstanding	2.0%	

d) 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 March 31,	
	2023	2022
Weighted average basic	36,322,948	33,907,455
Dilutive securities		
Stock options	414,596	495,755
Warrants ⁽¹⁾	-	1,661,864
RSUs & DSUs	732,407	563,165
Weighted average diluted	37,469,951	36,628,239

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

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

As at and for the three months ended March 31, 2023 and 2022

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

Dividends declared and paid were as follows:

Period Declared	Dividend per share (\$)	Three Months Ended March 31, 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	-	April 14, 2023
Total		5,104	4,357	

Period Declared	Dividend per share (\$)	Three Months Ended March 31, 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	-	April 14, 2022
Total		2,716	2,034	

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.

NOTE 8 – REVENUE FROM CONTRACTS WITH CUSTOMERS

	Three Months Ended March 31,	
	2023	2022
Natural gas	17,147	12,939
Condensate	983	950
Oil	30	83
Total	18,160	13,972

Payment terms are on or before the 25th 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, 2023 the 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	
	March 31, 2023	December 31, 2022
Natural gas	7,164	6,935
Condensate	64	18
Oil	19	-
Total	7,247	6,953

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

As at and for the three months ended March 31, 2023 and 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 9 – NATURE OF OTHER INCOME AND EXPENSES****a) Other Income**

	Three Months Ended	
	March 31,	
	2023	2022
Interest income	289	14
Tax recoveries from operations	144	114
Water disposal income & other	(6)	13
Total other income	427	141

b) Production Expenses

	Three Months Ended	
	March 31,	
	2023	2022
Personnel	68	46
Facility and pipeline	402	465
Other fixed	399	293
Variable	62	49
Workover	57	-
Total production expenses	988	853

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

	Three Months Ended	
	March 31,	
	2023	2022
Personnel	859	831
Travel	37	26
Office and IT costs	62	50
Professional fees	171	160
General corporate	421	397
Gross G&A expenses	1,550	1,464
Capitalized to E&E (Note 3)	(59)	(116)
Capitalized to PP&E (Note 4)	(269)	(140)
Net G&A expenses	1,222	1,208

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, 2023 and 2022

*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,	
	2023	2022
Lease interest (Note 5)	388	337
Accretion of decommissioning liabilities (Note 6)	15	13
Amortization of deferred financing costs	-	157
Interest on Credit Facility	-	143
Total finance expenses	403	650

NOTE 10 – CAPITAL MANAGEMENT

The Company's capital consists of the following:

	As at	
	March 31, 2023	December 31, 2022
Cash and cash equivalents	24,623	19,784
Working capital deficit, excluding cash and cash equivalents	(3,708)	(5,086)
Working capital	20,915	14,698
Lease liabilities – non-current	(8,371)	(8,573)
Shareholders' equity	84,368	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	
	March 31,	
	2023	2022
Increase (decrease) to natural gas revenues from:		
5% Appreciation of BRL to USD	902	681
10% Appreciation of BRL to USD	1,905	1,438
5% Depreciation of BRL to USD	(817)	(616)
10% Depreciation of BRL to USD	(1,559)	(1,176)

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

As at and for the three months ended March 31, 2023 and 2022

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

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			
	March 31, 2023		December 31, 2022	
	CAD\$ (000's)	BRL (000's)	CAD\$ (000's)	BRL (000's)
Cash and cash equivalents	516	35,918	386	27,582
Restricted cash – current	-	1,655	-	1,546
Trade and other receivables	91	37,426	45	36,921
Accounts payable and accrued liabilities	(766)	(26,727)	(1,695)	(31,333)
Net exposure in foreign currency	(159)	48,272	(1,264)	34,716
Net exposure in USD (\$000s)	(117)	9,502	(933)	6,654

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 \$1.1 million for the three months ended March 31, 2023 (March 31, 2022 – \$3.7 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	
	March 31, 2023	2022
Change in:		
Trade and other receivables	(153)	(2,266)
Prepaid expenditures	(406)	15
Accounts payable and accrued liabilities	(1,538)	(147)
	(2,097)	(2,398)
Changes relating to:		
Operating activities	(1,116)	(2,571)
Financing activities	(116)	(24)
Investing activities	(865)	197
	(2,097)	(2,398)