

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

**As at and Three and Nine Months Ended
September 30, 2022 and 2021**

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

(Unaudited, thousands of United States dollars)

		September 30, 2022	December 31, 2021
	Note		
ASSETS			
Current			
Cash and cash equivalents		17,380	11,469
Restricted cash		255	175
Trade and other receivables		6,615	4,203
Prepaid expenditures		295	1,341
Total current assets		24,545	17,188
Exploration and evaluation assets	3	17,000	3,713
Property, plant and equipment	4	41,883	39,780
Right-of-use assets	5	8,652	7,153
Deferred tax asset		2,482	5,305
Other assets		-	491
Non-current assets		70,017	56,442
Total assets		94,562	73,630
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		8,656	5,480
Dividend payable	8	2,896	2,034
Lease liabilities	5	705	516
Decommissioning liabilities	6	63	61
Total current liabilities		12,320	8,091
Lease liabilities	5	8,774	7,463
Credit facility	7	-	6,545
Decommissioning liabilities	6	603	507
Total liabilities		21,697	22,606
Shareholders' equity			
Share capital	8	42,836	39,481
Contributed surplus		51,184	51,580
Retained earnings		24,687	6,486
Accumulated other comprehensive loss		(45,842)	(46,523)
Total shareholders' equity		72,865	51,024
Total liabilities and shareholders' equity		94,562	73,630

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)

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note	2022	Restated (Note 14) 2021	2022	Restated (Note 14) 2021
Revenue					
Natural gas, oil and condensate sales	9	16,672	9,963	46,431	25,084
Royalties		(1,318)	(910)	(3,445)	(2,162)
Net natural gas, oil and condensate revenue		15,354	9,053	42,986	22,922
Other income	10	240	915	566	930
Total revenue and other income		15,594	9,968	43,552	23,852
Expenses					
Production	10	812	824	2,572	2,325
General and administrative	10	1,135	1,139	3,437	3,026
Depletion and depreciation	4,5	1,771	2,443	4,869	5,774
Finance expenses	10	628	686	1,873	2,513
Share-based compensation		158	120	592	301
Risk management (gains) losses	12	-	(115)	92	(7)
Foreign exchange losses (gains)		688	1,813	(1,354)	1,067
Gain on disposition of assets		-	(23)	-	(39)
Total expenses		5,192	6,887	12,081	14,960
Income before taxes		10,402	3,081	31,471	8,892
Income taxes					
Current		221	79	693	374
Deferred		1,386	3,022	4,237	5,701
Total		1,607	3,101	4,930	6,075
Net income (loss)		8,795	(20)	26,541	2,817
Exchange (loss) gain on translation of foreign operations		(683)	(1,004)	681	2,497
Comprehensive income (loss)		8,112	(1,024)	27,222	5,314
Net income (loss) per share					
Basic	8	0.26	(0.00)	0.78	0.09
Diluted		0.24	(0.00)	0.72	0.08

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Unaudited, thousands of United States dollars)

		Common Shares	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total
	Note					
Balance, December 31, 2021		39,481	51,580	6,486	(46,523)	51,024
Issue of common shares	8	3,355	(867)	-	-	2,488
Share-based compensation		-	471	-	-	471
Net income		-	-	26,541	-	26,541
Other comprehensive income		-	-	-	681	681
Dividends declared	8	-	-	(8,340)	-	(8,340)
Balance, September 30, 2022		42,836	51,184	24,687	(45,842)	72,865
Balance, December 31, 2020		156,755	2,821	(63,676)	(49,028)	46,872
Issue of common shares	8	874	(116)	-	-	758
Share issuance and restructuring costs		(61)	-	-	-	(61)
Share-based compensation		-	342	-	-	342
Net income - restated	14	-	-	2,817	-	2,817
Other comprehensive income - restated	14	-	-	-	2,497	2,497
Dividends declared		-	-	(2,023)	-	(2,023)
Share restructuring		(1,119)	-	-	-	(1,119)
Stated capital reduction		(117,180)	48,556	68,624	-	-
Balance, September 30, 2021 – restated	14	39,269	51,603	5,742	(46,531)	50,083

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, thousands of United States dollars)

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note	2022	Restated (Note 14) 2021	2022	Restated (Note 14) 2021
Operating Activities					
Net income (loss)		8,795	(20)	26,541	2,817
Adjustments:					
Depletion and depreciation	4,5	1,771	2,443	4,869	5,774
Finance expenses	10	628	686	1,873	2,513
Share-based compensation		158	120	592	301
Gain on disposition of assets		-	(23)	-	(39)
Foreign exchange		619	1,842	(1,421)	1,136
Unrealized risk management gains	12	(7)	(139)	-	(42)
Deferred tax		1,386	3,022	4,237	5,701
Settlement of decommissioning liabilities	6	(2)	(1)	(5)	(4)
Funds flow from operations		13,348	7,930	36,686	18,157
Changes in non-cash working capital	13	490	(696)	(1,518)	(954)
		13,838	7,234	35,168	17,203
Financing Activities					
Credit Facility repayments	7	(2,545)	(1,000)	(6,545)	(9,000)
Dividends paid	8	(2,728)	-	(7,478)	-
Interest on Credit Facility	10	(61)	(153)	(306)	(793)
Issue of common shares, net of share issuance costs		2,418	720	2,488	757
Shares repurchased		-	(1,180)	-	(1,180)
Lease liabilities payments	5	(535)	(451)	(1,460)	(1,382)
Changes in non-cash working capital	13	103	151	272	278
		(3,348)	(1,913)	(13,029)	(11,320)
Investing Activities					
Expenditures on exploration and evaluation assets	3	(5,920)	(197)	(13,703)	(1,236)
Expenditures on property, plant and equipment	4	(2,793)	(1,064)	(5,148)	(1,807)
Proceeds on dispositions		-	44	-	185
Change in restricted cash		(30)	(17)	(78)	(36)
Changes in non-cash working capital	13	2,282	112	2,988	124
		(6,461)	(1,122)	(15,941)	(2,770)
Change in cash and cash equivalents		4,029	4,199	6,198	3,113
Effect of foreign exchange on cash balances		(321)	(364)	(287)	(188)
Cash and cash equivalents, beginning of period		13,672	4,249	11,469	5,159
Cash and cash equivalents, end of period		17,380	8,084	17,380	8,084
Cash and cash equivalents consist of:					
Cash		9,501	3,019	9,501	3,019
Cash equivalents		7,879	5,065	7,879	5,065
Supplemental information:					
Cash income taxes paid		276	446	609	446
Cash interest income received		28	9	111	14

See accompanying notes to these interim condensed consolidated financial statements.

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

As at and for the three and nine months ended September 30, 2022

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

NOTE 1 – CORPORATE INFORMATION AND BASIS OF PRESENTATION

Alvopetro Energy Ltd. (“Alvopetro” or “the Company”) is engaged in the exploration for, and the acquisition, development and production of, hydrocarbons in Brazil. Alvopetro is incorporated under the Business Corporations Act (Alberta) and is a publicly traded company listed on the TSX Venture Exchange (TSX: ALV.V) and is also traded on the OTCQX® Best Market in the United States (OTCQX: ALVOF).

NOTE 2 – BASIS OF PRESENTATION

The interim condensed consolidated financial statements as at September 30, 2022 and December 31, 2021, and for the three and nine months ended September 30, 2022 and September 30, 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 November 15, 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 (“E&E”) ASSETS

	As at	
	September 30, 2022	December 31, 2021
Balance, beginning of period	3,713	25,764
Capital expenditures	13,703	1,528
Capitalized share-based compensation	46	22
Change in decommissioning liabilities	48	2
Transfer to PP&E (Note 4)	(13)	(23,427)
Asset dispositions & other transfers	-	1
Foreign currency translation	(497)	(177)
Balance, end of period	17,000	3,713

The majority of expenditures for the nine months ended September 30, 2022 relate to drilling and testing the 182-C1 well (spud on March 2nd), drilling the 183-B1 well (spud on June 5th) and drilling the 182-C2 well (spud on August 26th).

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

As at and for the three and nine months ended September 30, 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 (“PP&E”)**

	As at	
	September 30, 2022	December 31, 2021
Cost, beginning of period	47,766	25,174
Capital expenditures	5,148	2,985
Capitalized share-based compensation	31	44
Transfer from E&E assets (Note 3)	13	23,427
Other transfers	-	(255)
Change in decommissioning liabilities	-	(603)
Asset disposition	-	(56)
Foreign currency translation	1,218	(2,950)
Cost, end of period	54,176	47,766
Accumulated depletion, depreciation and impairment, beginning of period	(7,986)	(2,284)
Depletion and depreciation for the period	(4,122)	(6,736)
Asset disposition	-	36
Foreign currency translation	(185)	998
Accumulated depletion, depreciation and impairment, end of period	(12,293)	(7,986)
Net book value, end of period	41,883	39,780

The majority of expenditures for the nine months ended September 30, 2022 relate to development of our Murucututu field including production facilities and construction of the pipeline to tie-in our 197-1 well. There were no indicators of impairment or impairment reversal as at and for the nine months ended September 30, 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	
	September 30, 2022	December 31, 2021
Net book value, beginning of period	7,153	8,092
Additions	1,930	190
Depreciation of ROU assets	(747)	(971)
Foreign currency translation	316	(158)
Net book value, end of period	8,652	7,153

The additions in the nine months ended September 30, 2022 relate mainly to additional monthly equipment costs associated with the expansion of the natural gas processing facility.

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

As at and for the three and nine months ended September 30, 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	
	September 30, 2022	December 31, 2021
Lease liabilities, beginning of period	7,979	8,310
Additions	1,930	190
Finance expense	1,030	1,355
Lease payments	(1,460)	(1,856)
Foreign currency translation	-	(20)
Lease liabilities, end of period	9,479	7,979
Current	705	516
Non-current	8,774	7,463
Total	9,479	7,979

NOTE 6 – DECOMMISSIONING LIABILITIES

The decommissioning liabilities were estimated based on the net ownership interest of wells, facilities and pipelines, management's estimates of costs to abandon and reclaim those wells and infrastructure, and the potential future timing of the costs to be incurred.

	As at	
	September 30, 2022	December 31, 2021
Balance, beginning of period	568	1,143
Liabilities incurred	48	19
Revisions to obligations	-	(620)
Obligations settled	(5)	(6)
Accretion	41	82
Foreign currency translation	14	(50)
Balance, end of period	666	568
Current	63	61
Non-current	603	507
Total	666	568

NOTE 7 – CREDIT FACILITY

The Credit Facility was subject to monthly interest payments at 9.5% per annum. It was repaid in September 2022 and subsequently cancelled.

	As at	
	September 30, 2022	December 31, 2021
Balance at beginning of period	6,545	15,423
Repayments	(6,545)	(9,000)
Accrued interest due upon repayment	-	122
Balance at end of period	-	6,545

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

As at and for the three and nine months ended September 30, 2022

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 8 – SHARE CAPITAL****a) Issued and Outstanding Common Shares**

	Number of Shares	Amount (\$000s)
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	33,903,629	39,481
Exercise of stock options	216,143	120
Exercise of warrants	2,081,616	3,235
Balance as at September 30, 2022	36,201,388	42,836

b) Warrants to Purchase Common Shares

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

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance as at December 31, 2020	2,810,956	1.80
Exercised	(125,000)	1.80
Balance as at December 31, 2021	2,685,956	1.80
Exercised	(2,685,956)	1.80
Balance as at September 30, 2022	-	-

c) Options to Purchase Common Shares

Alvopetro has share-based compensation plans 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 and nine months ended September 30, 2022

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
Granted	14,000	6.15
Exercise of options for common shares	(216,143)	1.66
Adjustment for net settlement of options	(48,968)	1.73
Balance as at September 30, 2022	1,193,997	2.83

Options Outstanding at September 30, 2022				Options Exercisable at September 30, 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	110,000	0.96	0.64	110,000	0.96	0.64
CAD\$1.00 - \$1.99	138,888	1.29	1.15	138,888	1.29	1.15
CAD\$2.00 - \$2.99	613,109	2.39	3.05	180,005	2.33	2.52
CAD\$4.00 - \$4.99	318,000	4.84	4.14	-	-	-
CAD\$6.00 - \$6.15	14,000	6.15	4.73	-	-	-
CAD\$0.60 - \$6.15	1,193,997	2.83	2.92	428,893	1.64	1.60

d) Restricted Share Units and Deferred Share Units

Alvopetro has share-based compensation plans 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	2.9
Granted	263,165	3.9
Balance as at December 31, 2021	563,165	3.4
Granted	4,057	4.7
Balance as at September 30, 2022	567,222	3.4

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

As at and for the three and nine months ended September 30, 2022

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

The fair value of the stock options is estimated on the grant date using the Black-Scholes option pricing model. The fair value of the DSUs and RSUs is estimated based on the share price on the grant date. Weighted average assumptions and resultant fair values for stock options granted are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Risk free interest rate (%)	-	-	2.58	0.71
Expected term (years)	-	-	4.0	4.0
Expected volatility (%)	-	-	45.0	45.0
Expected annual dividend per share (\$)	-	-	0.32	-
Forfeiture rate (%)	-	-	5.0	5.0
Weighted average fair value (CAD\$)	-	-	1.39	1.06

Share-based compensation 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 (loss).

f) 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 as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Weighted average basic	34,433,913	32,923,238	34,106,814	32,860,300
Dilutive securities				
Stock options	431,438	1,019,414	474,275	915,717
Warrants ⁽¹⁾	1,505,918	900,239	1,547,435	583,194
RSUs & DSUs	567,426	466,667	564,601	357,387
Weighted average diluted	36,938,695	35,309,558	36,693,125	34,716,598

(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 September 30, 2021, all stock option, warrants, RSUs and DSUs were excluded because the effect would be anti-dilutive.

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

As at and for the three and nine months ended September 30, 2022

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

Dividends declared were as follows:

Period Declared	Dividend per share (\$)	Nine Months Ended September 30, 2022		Date Paid
		Total Declared	Total Paid	
Three months ended December 31, 2021	0.06	-	2,034	January 14, 2022
Three months ended March 31, 2022	0.08	2,716	2,716	April 14, 2022
Three months ended June 30, 2022	0.08	2,728	2,728	July 15, 2022
Three months ended September 30, 2022	0.08	2,896	-	October 14, 2022
Total		8,340	7,478	

Period Declared	Dividend per share (\$)	Nine Months Ended September 30, 2021		Date Paid
		Total Declared	Total Paid	
Three months ended September 30, 2021	0.06	2,023	-	October 15, 2021
Total		2,023	-	

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Natural gas	15,565	9,173	43,178	22,993
Condensate	1,093	779	3,115	2,054
Oil	14	11	138	37
Total	16,672	9,963	46,431	25,084

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 nine months ended September 30, 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	
	September 30, 2022	December 31, 2021
Natural gas	6,274	3,883
Condensate	-	-
Oil	-	-
Total	6,274	3,883

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

As at and for the three and nine months ended September 30, 2022

*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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Tax recoveries from operations	120	508	315	508
Retroactive tax recoveries	-	390	-	390
Interest income	86	9	169	14
Water disposal income and other	34	8	82	18
Total	240	915	566	930

In the nine months ended September 30, 2021 the Company recorded a \$0.4 million retroactive tax recovery resulting from a change in Brazilian tax legislation.

b) Production Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Personnel	49	69	146	198
Facility and pipeline	395	433	1,334	1,229
Other fixed	305	238	918	696
Variable	63	81	174	164
Workover	-	3	-	38
Total	812	824	2,572	2,325

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Personnel	831	745	2,546	2,015
Travel	23	8	116	15
Office and IT	54	39	157	110
Professional fees	207	203	533	579
General corporate	381	321	1,132	813
Gross G&A expenses	1,496	1,316	4,484	3,532
Capitalized to E&E	(228)	(61)	(584)	(214)
Capitalized to PP&E	(133)	(116)	(463)	(292)
Net G&A expenses	1,135	1,139	3,437	3,026

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 and nine months ended September 30, 2022

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

Finance expenses by nature are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Lease interest (Note 5)	373	364	1,030	1,050
Accretion of decommissioning liabilities (Note 6)	14	17	41	59
Amortization of deferred financing costs	180	161	496	479
Interest on Credit Facility (Note 7)	61	144	306	925
Total finance expenses	628	686	1,873	2,513

NOTE 11– CAPITAL MANAGEMENT

	As at	
	September 30, 2022	December 31, 2021
Cash and cash equivalents	17,380	11,469
Non-cash working capital deficit	(5,155)	(2,372)
Credit Facility	-	(6,545)
Working capital net of debt	12,225	2,552
Lease liabilities – non-current	(8,774)	(7,463)
Shareholders' equity	72,865	51,024

Alvopetro has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to dividends and its capital 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 United States dollar ("USD") to the Brazilian real ("BRL") as the natural gas price, although benchmarked to USD, is set semi-annually in BRL (based on historical foreign exchange rates) and billed monthly in the set BRL price until the next price redetermination. The following table denotes the overall impact on natural gas revenues of a 5% and 10% appreciation and depreciation of the BRL relative to the USD:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Increase (decrease) to natural gas revenues from:				
5% Appreciation of BRL to USD	819	483	2,272	1,210
10% Appreciation of BRL to USD	1,729	1,019	4,797	2,555
5% Depreciation of BRL to USD	(741)	(437)	(2,056)	(1,095)
10% Depreciation of BRL to USD	(1,415)	(834)	(3,925)	(2,090)

To reduce exposure to foreign exchange volatility with respect to the BRL, the Company entered into BRL/USD forward exchange rate contracts during 2022, all of which were settled, prior to September 30, 2022. 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 value recognized as an unrealized gain or loss included in earnings. Realized gains or losses are recognized in the period the contracts are settled.

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

As at and for the three and nine months ended September 30, 2022

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

The realized and unrealized gains and losses recognized are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Realized losses	(7)	(24)	(92)	(35)
Unrealized gains	7	139	-	42
Total gains (losses)	-	115	(92)	7

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

	As at			
	September 30, 2022		December 31, 2021	
	CAD (000's)	BRL (000's)	CAD (000's)	BRL (000's)
Cash and cash equivalents	541	44,021	514	20,093
Restricted cash	-	1,380	-	977
Trade and other receivables	41	35,590	68	22,948
Accounts payable and accrued liabilities	(1,215)	(40,699)	(1,744)	(22,170)
Net exposure in foreign currency	(633)	40,292	(1,162)	21,848
Net exposure in USD (\$000s)	(462)	7,452	(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 \$1.1 million for the nine months ended September 30, 2022 (September 30, 2021 – \$1.2 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.

NOTE 13 – CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Change in:				
Trade and other receivables	(477)	(1,211)	(2,419)	(1,512)
Prepaid expenditures	904	(16)	1,116	(125)
Accounts payable, accrued liabilities and dividends payable	2,448	794	3,045	1,085
	2,875	(433)	1,742	(552)
Changes relating to:				
Operating activities	490	(696)	(1,518)	(954)
Financing activities	103	151	272	278
Investing activities	2,282	112	2,988	124
	2,875	(433)	1,742	(552)

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

As at and for the three and nine months ended September 30, 2022

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

NOTE 14 – RESTATEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

In August 2022 the Company determined that there was an error in prior periods with respect to the application of IAS 21 – *The Effects of Changes in Foreign Exchange Rates* on accounting for the purchase price adjustment associated with the original acquisition of the Company's Brazilian assets and the functional currency associated with such amounts. IAS 21 requires that fair value adjustments relating to acquisitions be carried in the functional currency of the subsidiary acquired, being BRL in the case of the 2012 acquisition. The Company had incorrectly carried such amounts in USD since the time of the acquisition and given the devaluation of the BRL to USD since 2012, adjustments were required to bring the accounting records in compliance with IAS 21 for the periods as indicated.

The restatement is not as a result of any change to the Company's operations or the Company's business and there is no impact on the overall cash position, the net cash flows from operating, investing or financing activities on the statement of cash flows for any of the periods affected. The restated audited financial statements for the years ended December 31, 2021 and 2020 were filed by the Company on August 11, 2022 and the comparative periods included within these unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2021 have been restated to reflect these adjustments as follows:

	September 30, 2021					
	For the Three Months Ended			For the Nine Months Ended		
	Previously Reported	Adjustment	Restated	Previously Reported	Adjustment	Restated
<i>Impact on Consolidated Statements of Operations and Comprehensive Income (Loss)⁽¹⁾</i>						
Depletion and depreciation expense	(2,667)	224	(2,443)	(6,433)	659	(5,774)
Deferred tax expense	(1,288)	(1,734)	(3,022)	(3,820)	(1,881)	(5,701)
Net income (loss)	1,490	(1,510)	(20)	4,039	(1,222)	2,817
Exchange (loss) gain on translation of foreign operations	(633)	(371)	(1,004)	2,721	(224)	2,497
Comprehensive income (loss)	857	(1,881)	(1,024)	6,760	(1,446)	5,314
Net income (loss) per share amounts:						
Basic	0.05	(0.05)	(0.00)	0.12	(0.03)	0.09
Diluted	0.04	(0.04)	(0.00)	0.12	(0.04)	0.08
<i>Impact on Consolidated Statements of Cash Flows⁽²⁾</i>						
Operating Activities:						
Net income (loss)	1,490	(1,510)	(20)	4,039	(1,222)	2,817
Adjustments for non-cash items:						
Depletion and depreciation	2,667	(224)	2,443	6,433	(659)	5,774
Deferred tax	1,288	1,734	3,022	3,820	1,881	5,701
Funds flow from operations	7,930	-	7,930	18,157	-	18,157
Cash flow from operating activities	7,234	-	7,234	17,203	-	17,203

(1) The adjustments to reduce the carrying value of PP&E resulted in lower depletion and depreciation expense in 2021. In 2021, the Company revalued its deferred tax asset to a rate of 15.25% (from a rate of 34%). As the Company's deferred tax asset is restated to a higher amount as of December 31, 2020, this resulted in a higher deferred tax expense in 2021 when the deferred tax asset is revalued at the lower tax rate, resulting in an increase in the deferred tax expense in 2021. The adjustments to the exchange gain on translation of foreign operations, included in other comprehensive income in the Consolidated Statement of Operations and Comprehensive Income are due to the effect of foreign exchange on the translation of foreign operations as the PP&E carrying values are now reflected in local currency (BRL) and adjusted at each period end date for presentation purposes.

(2) There are adjustments to the individual line items within Operating Activities in the Consolidated Statements of Cash Flows. However, as reflected in the table above, there is no overall impact in funds flow from operations or cash flow from operating activities following the adjustments. Furthermore, there is no impact to any line items in Financing Activities or Investing Activities from any adjustments.