

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
As at and Three and Nine Months Ended September 30, 2024



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

(Unaudited, thousands of United States dollars)

	Note	September 30, 2024	December 31, 2023
ASSETS			
Current			
Cash and cash equivalents		24,515	18,326
Restricted cash		67	72
Trade and other receivables		5,136	6,859
Prepaid expenditures		479	738
Total current assets		30,197	25,995
Exploration and evaluation assets	3	12,706	13,785
Property, plant and equipment	4	59,338	59,812
Right-of-use assets	5	6,647	8,240
Deferred tax asset		943	1,993
Non-current assets		79,634	83,830
Total assets		109,831	109,825
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		9,810	6,662
Dividend payable	7	3,295	5,127
Lease liabilities	5	1,054	959
Decommissioning liabilities	6	190	130
Total current liabilities		14,349	12,878
Lease liabilities	5	7,052	7,722
Decommissioning liabilities	6	971	1,017
Total liabilities		22,372	21,617
Shareholders' equity			
Share capital	7	43,394	43,461
Contributed surplus		53,077	52,235
Retained earnings		37,559	33,570
Accumulated other comprehensive loss		(46,571)	(41,058)
Total shareholders' equity		87,459	88,208
Total liabilities and shareholders' equity		109,831	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 INCOME**

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note	2024	2023	2024	2023
Revenue					
Natural gas, oil and condensate sales	8	12,879	12,313	35,303	44,387
Royalties		(367)	(318)	(966)	(1,254)
Net natural gas, oil and condensate revenue		12,512	11,995	34,337	43,133
Other income	9	455	471	1,297	1,375
		12,967	12,466	35,634	44,508
Expenses					
Production	9	1,043	1,017	3,094	3,053
General and administrative	9	1,572	1,298	4,565	3,806
Depletion and depreciation	4,5	2,020	1,621	5,568	5,476
Impairment	3	-	-	91	-
Finance expenses	9	361	386	1,115	1,178
Share-based compensation	7	283	249	885	813
Exploration & evaluation expenditures		-	-	96	82
Gain on disposition of assets	4	(50)	-	(50)	-
Foreign exchange (gains) losses		(616)	1,471	3,758	(2,234)
Total expenses		4,613	6,042	19,122	12,174
Income before taxes		8,354	6,424	16,512	32,334
Income tax					
Current		503	512	1,606	1,865
Deferred		699	93	854	2,596
Total		1,202	605	2,460	4,461
Net income		7,152	5,819	14,052	27,873
Exchange gain (loss) on translation of foreign operations		1,124	(1,575)	(5,513)	650
Comprehensive income		8,276	4,244	8,539	28,523
Net income per share					
	7				
Basic		0.19	0.16	0.38	0.75
Diluted		0.19	0.15	0.37	0.74

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	7	8	(8)	-	-	-
Shares repurchased	7	(75)	-	(176)	-	(251)
Share-based compensation		-	850	-	-	850
Net income		-	-	14,052	-	14,052
Other comprehensive loss		-	-	-	(5,513)	(5,513)
Dividends declared	7	-	-	(9,887)	-	(9,887)
Balance, September 30, 2024		43,394	53,077	37,559	(46,571)	87,459
Balance, December 31, 2022		42,933	51,361	25,521	(43,407)	76,408
Issue of common shares	7	150	(76)	-	-	74
Share restructuring		357	-	-	-	357
Share-based compensation		-	683	-	-	683
Net income		-	-	27,873	-	27,873
Other comprehensive income		-	-	-	650	650
Dividends declared	7	-	-	(15,335)	-	(15,335)
Balance, September 30, 2023		43,440	51,968	38,059	(42,757)	90,710

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 September 30,		Nine Months Ended September 30,	
	Note	2024	2023	2024	2023
Operating Activities					
Net income		7,152	5,819	14,052	27,873
Adjustments:					
Depletion and depreciation	4,5	2,020	1,621	5,568	5,476
Impairment	3	-	-	91	-
Finance expenses	9	361	386	1,115	1,178
Share-based compensation	7	283	249	885	813
Gain on disposition of asset	4	(50)	-	(50)	-
Foreign exchange		(579)	1,451	3,794	(2,239)
Deferred tax		699	93	854	2,596
Settlement of decommissioning liabilities	6	-	(1)	-	(60)
Funds flow from operations		9,886	9,618	26,309	35,637
Changes in non-cash working capital	12	828	2,851	1,478	4,161
		10,714	12,469	27,787	39,798
Financing Activities					
Dividends paid	7	(3,296)	(5,109)	(11,719)	(14,570)
Issue of common shares	7	-	16	-	74
Share repurchase & reorganization	7	(251)	357	(251)	357
Lease liabilities payments	5	(573)	(533)	(1,707)	(1,670)
Changes in non-cash working capital	12	-	37	(35)	7
		(4,120)	(5,232)	(13,712)	(15,802)
Investing Activities					
Expenditures on exploration and evaluation assets	3	(370)	(2,286)	(947)	(4,449)
Expenditures on property, plant and equipment	4	(4,377)	(8,417)	(9,676)	(18,066)
Proceeds on disposition	3,4	147	-	351	-
Change in restricted cash		-	226	(3)	209
Changes in non-cash working capital	12	2,705	772	3,265	1,164
		(1,895)	(9,705)	(7,010)	(21,142)
Change in cash and cash equivalents		4,699	(2,468)	7,065	2,854
Effect of foreign exchange on cash balances		135	(351)	(876)	141
Cash and cash equivalents, beginning of period		19,681	25,598	18,326	19,784
Cash and cash equivalents, end of period		24,515	22,779	24,515	22,779
Cash and cash equivalents consist of:					
Cash		1,856	1,355	1,856	1,355
Cash equivalents		22,659	21,424	22,659	21,424
Supplemental information:					
Cash income taxes paid		454	894	1,803	2,154
Cash interest income received		322	384	961	994

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 nine months ended September 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 September 30, 2024 and December 31, 2023 and for the three and nine months ended September 30, 2024 and September 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 nine months ended September 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 November 6, 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, with an independent third party expert (the “Expert”) engaged to evaluate the parties’ interpretations of the working interests. 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%. On April 4, 2024, the parties received the Expert decision which found in favour of Alvopetro, increasing the Company’s working interest to 56.2%. Thereafter Alvopetro received a notice of dispute from the Partner with respect to the Expert’s final decision, seeking to stay the redetermination procedure. In response, 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, as provided for in the Unit Operating Agreement (the “UOA”). In May 2024, the final order (the “Order”) of the emergency 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 in the nine months ended September 30, 2024:

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

As at and for the three and nine months ended September 30, 2024 and 2023

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- a \$1.1 million increase in PP&E related to Alvopetro's revised working interest applicable to the historical unit development costs, with a corresponding liability due to the Partner, which was outstanding at September 30, 2024 and paid in October;
- 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 Alvopetro's asset retirement obligations to reflect the Company's obligation 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. The full arbitration process has commenced, however the timing and outcome of the full arbitration is uncertain and Alvopetro is exposed to risks and uncertainties which may impact future revenues, future cash flows and Alvopetro's reserves and reserve life. Such impact may be material. In addition, throughout this process Alvopetro will be exposed to additional legal and other costs associated with the arbitration. Even where Alvopetro is successful, the proceedings may be time consuming and costly. The UOA provides for future redeterminations which also may have a material impact to Alvopetro.

NOTE 3 – EXPLORATION AND EVALUATION ASSETS

	As at	
	September 30, 2024	December 31, 2023
Balance, beginning of period	13,785	16,114
Capital expenditures	947	6,091
Capitalized share-based compensation	12	8
Change in decommissioning liabilities	-	191
Transfer (to) PP&E (Note 4)	(284)	(3,025)
Asset dispositions & other transfers	(220)	(22)
Impairment	(91)	(6,748)
Foreign currency translation	(1,443)	1,176
Balance, end of period	12,706	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 nine months ended September 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	
	September 30, 2024	December 31, 2023
Cost, beginning of period	86,766	57,144
Capital expenditures	9,676	21,358
Capitalized share-based compensation	104	131
Transfer from E&E assets (Note 3)	284	3,025
Change in decommissioning liabilities	72	338
Disposition	(97)	-
Foreign currency translation	(9,187)	4,770
Cost, end of period	87,618	86,766
Accumulated depletion, depreciation and impairment, beginning of period	(26,954)	(14,684)
Depletion and depreciation	(4,683)	(6,491)
Impairment	-	(4,238)
Foreign currency translation	3,357	(1,541)
Accumulated depletion, depreciation and impairment, end of period	(28,280)	(26,954)
Net book value, end of period	59,338	59,812

Capital expenditures for the nine months ended September 30, 2024 include \$1.1 million relating to Alvopetro'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).

During the three months ended September 30, 2024 the Company disposed of land for proceeds of \$0.2 million.

There were no indications of impairment or impairment reversal on any properties as at and for the nine months ended September 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	
	September 30, 2024	December 31, 2023
Net book value, beginning of period	8,240	8,701
Additions	102	26
Depreciation	(885)	(1,177)
Foreign currency translation	(810)	690
Net book value, end of period	6,647	8,240

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

As at and for the three and nine months ended September 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	6,501	8,094
Office space	92	71
Surface land access	54	75
Total net book value	6,647	8,240

The Company's lease liabilities are as follows:

	As at	
	September 30, 2024	December 31, 2023
Lease liabilities, beginning of period	8,681	9,428
Additions	102	26
Finance expense	1,040	1,495
Lease payments	(1,707)	(2,274)
Foreign currency translation	(10)	6
Lease liabilities, end of period	8,106	8,681
Current	1,054	959
Non-current	7,052	7,722
Total	8,106	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	
	September 30, 2024	December 31, 2023
Balance, beginning of period	1,147	639
Liabilities incurred	1	33
Revisions to obligations (Note 2)	71	496
Obligations settled - cash	-	(62)
Obligations settled - non cash	-	(21)
Accretion	75	58
Foreign currency translation	(133)	4
Balance, end of period	1,161	1,147
Current	190	130
Non-current	971	1,017
Total	1,161	1,147

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

As at and for the three and nine months ended September 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	20,131	8
Repurchase and cancellation of shares	(62,800)	(75)
Balance as at September 30, 2024	36,575,271	43,394

On August 13, 2024, Alvopetro launched a normal course issuer bid (the "2024 NCIB") to repurchase Alvopetro common shares. The terms of the 2024 NCIB permit Alvopetro to repurchase up to 2,953,044 common shares from August 13, 2024 to the earlier of August 12, 2025 or when the 2024 NCIB is completed or terminated by Alvopetro. In the three months ended September 30, 2024, 62,800 shares were repurchased and have subsequently been cancelled.

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	(39,999)	2.37
Forfeited	(52,000)	7.53
Balance as at September 30, 2024	1,809,441	6.02
Percentage of common shares outstanding	4.9%	

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

As at and for the three and nine months ended September 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 September 30, 2024				Options Exercisable at September 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	334,442	2.41	1.5	234,442	2.42	1.0
CAD\$4.00 - \$5.99	360,666	4.73	2.9	154,670	4.84	2.1
CAD\$6.00 - \$7.99	508,333	6.95	3.2	99,335	6.92	3.2
CAD\$8.00 - \$8.01	606,000	8.01	4.1	-	-	-
CAD\$2.25 - \$8.01	1,809,441	6.02	3.1	488,447	4.10	1.8

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	65,171
Balance at September 30, 2024	946,712
Percentage of common shares outstanding	2.6%
Weighted average remaining contractual life (years)	3.1

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 months ended September 30, 2024 as well as the three and nine months ended September 30, 2023. Weighted average assumptions and resultant fair values for stock options granted in 2024 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Risk free interest rate (%)	-	-	3.5	-
Expected term (years)	-	-	4.0	-
Expected volatility (%)	-	-	30.0	-
Expected annual dividend per share (CAD\$)	-	-	0.49	-
Forfeiture rate (%)	-	-	7.5	-
Weighted average fair value (CAD\$)	-	-	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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Weighted average basic	37,300,451	37,137,795	37,286,262	37,086,138
Dilutive securities				
Stock options	88,766	565,595	144,089	499,449
RSUs	272,439	164,489	240,962	162,866
Weighted average diluted	37,661,656	37,867,879	37,671,313	37,748,453

f) Dividends

Dividends declared and paid were as follows:

		Nine Months Ended September 30, 2024		
Period Declared	Dividend per share (\$)	Total Declared	Total Paid	Date 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	3,296	July 15, 2024
Three months ended September 30, 2024	0.09	3,295	-	October 15, 2024
Total		9,887	11,719	

		Nine Months Ended September 30, 2023		
Period Declared	Dividend per share (\$)	Total Declared	Total Paid	Date 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	5,109	July 14, 2023
Three months ended September 30, 2023	0.14	5,122	-	October 13, 2023
Total		15,335	14,570	

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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Natural gas	12,044	11,628	33,053	41,961
Condensate	757	666	2,021	2,349
Oil	78	19	229	77
Total	12,879	12,313	35,303	44,387

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 nine months ended September 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	
	September 30, 2024	December 31, 2023
Natural gas	4,559	6,486
Condensate	20	13
Total	4,579	6,499

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest income	320	360	941	1,019
Tax recoveries from operations & other	35	111	356	356
Total	455	471	1,297	1,375

b) Production Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Personnel	232	95	543	233
Facility and pipeline	401	387	1,272	1,198
Other fixed	290	446	764	1,265
Variable	120	89	388	275
Workover	-	-	127	82
Total	1,043	1,017	3,094	3,053

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

As at and for the three and nine months ended September 30, 2024 and 2023

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***c) General and Administrative (“G&A”) Expenses**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Personnel	1,028	968	2,833	2,708
Travel	45	56	115	131
Office and IT	89	67	230	217
Professional fees	346	203	798	621
General corporate	383	392	1,439	1,222
Gross G&A expenses	1,891	1,686	5,415	4,899
Capitalized to E&E	(44)	(13)	(60)	(101)
Capitalized to PP&E	(275)	(375)	(790)	(992)
Net G&A expenses	1,572	1,298	4,565	3,806

General corporate expenses include public company costs, corporate insurance, directors’ fees and other miscellaneous expenses. G&A expenses directly attributable to exploration and development projects, primarily being personnel costs, are capitalized.

d) Finance Expenses

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Lease interest (Note 5)	336	373	1,040	1,135
Accretion of decommissioning liabilities (Note 6)	25	13	75	43
Total finance expenses	361	386	1,115	1,178

NOTE 10 – CAPITAL MANAGEMENT

The Company’s capital consists of the following:

	As at	
	September 30, 2024	December 31, 2023
Cash and cash equivalents	24,515	18,326
Working capital deficit, excluding cash and cash equivalents	(8,667)	(5,209)
Working capital ⁽¹⁾	15,848	13,117
Lease liabilities – non-current	(7,052)	(7,722)
Shareholders’ equity	87,459	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.

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

As at and for the three and nine months ended September 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 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Increase (decrease) to natural gas revenues from:				
5% Appreciation of BRL to USD	634	612	1,740	2,208
10% Appreciation of BRL to USD	1,338	1,292	3,673	4,662
5% Depreciation of BRL to USD	(574)	(554)	(1,574)	(1,998)
10% Depreciation of BRL to USD	(1,095)	(1,057)	(3,005)	(3,815)

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			
	September 30, 2024		December 31, 2023	
	CAD\$ (000's)	BRL (000's)	CAD\$ (000's)	BRL (000's)
Cash and cash equivalents	371	34,124	197	28,095
Restricted cash – current	-	364	-	350
Trade and other receivables	59	27,546	93	32,598
Accounts payable and accrued liabilities	(1,247)	(44,206)	(948)	(25,686)
Net exposure in foreign currency	(817)	17,828	(658)	35,357
Net exposure in USD (\$000s)	(605)	3,272	(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 \$2.9 million recognized in the Company's net income for the nine months ended September 30, 2024 (September 30, 2023 – \$1.8 million gain) related to the change in the BRL to USD exchange rate on this intercompany balance. An additional foreign exchange loss of \$1.0 million from the Brazilian subsidiary is recognized in net income for the nine months ended September 30, 2024 (September 30, 2023 - \$0.4 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.

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

As at and for the three and nine months ended September 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 12 – CHANGES IN NON-CASH WORKING CAPITAL**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Change in:				
Trade and other receivables	(98)	1,990	1,068	3,694
Prepaid expenditures	145	212	190	(198)
Accounts payable and accrued liabilities	3,486	1,067	3,450	1,445
Other liabilities	-	391	-	391
	3,533	3,660	4,708	5,332
Changes relating to:				
Operating activities	828	2,851	1,478	4,161
Financing activities	-	37	(35)	7
Investing activities	2,705	772	3,265	1,164
	3,533	3,660	4,708	5,332