ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, thousands of United States dollars)

	Note	September 30, 2014	December 31, 2013
ASSETS			
Current			
Cash and cash equivalents		**$ 40,823**	$ 100,268
Restricted cash	3	**11,072**	-
Trade and other receivables		**378**	342
Prepaid expenditures		**205**	147
Total current assets		**52,478**	100,757
Restricted cash	3	**18,637**	-
Other assets		**642**	-
Exploration and evaluation assets	4	**69,984**	45,002
Property, plant and equipment	5	**10,038**	9,697
Non-current assets		**99,301**	54,699
Total assets		**$ 151,779**	$ 155,456
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 7,374**	$ 2,250
		7,374	2,250
Deferred tax liability		**3,673**	3,791
Decommissioning liabilities	6	**3,514**	2,833
		14,561	8,874
Shareholders' equity			
Share capital	7	**151,937**	151,937
Contributed surplus		**754**	74
Deficit		**(10,726)**	(3,679)
Accumulated other comprehensive loss		**(4,747)**	(1,750)
Total shareholders' equity		**137,218**	146,582
Total liabilities and shareholders' equity		**$ 151,779**	$ 155,456

Commitments and contingencies (Note 11)

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

	Note	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue and other income					
Oil sales		**$ 257**	$ 177	**$ 894**	$ 876
Royalties and production taxes		**(24)**	(15)	**(91)**	(49)
Oil and gas revenue		**233**	162	**803**	827
Other income		**84**	-	**350**	30
Total revenue and other income		**317**	162	**1,153**	857
Expenses					
Production		**266**	411	**953**	1,070
Transportation		**9**	7	**35**	27
General and administrative		**1,274**	739	**4,031**	2,901
Depletion and depreciation		**77**	25	**257**	234
Impairment	5	**-**	6,267	**-**	6,267
Accretion of decommissioning liabilities	6	**21**	50	**73**	56
Share-based compensation	7	**158**	100	**474**	301
Foreign exchange loss (gain)		**47**	-	**2,462**	(15)
Total expenses		**1,852**	7,599	**8,285**	10,841
Loss before taxes and non-controlling interest		**(1,535)**	(7,437)	**(7,132)**	(9,984)
Income tax expense (recovery)		**187**	2	**(85)**	20
Net loss		**(1,722)**	(7,439)	**(7,047)**	(10,004)
Exchange (loss) gain on translation of foreign operations		**(4,767)**	199	**(2,997)**	(1,840)
Comprehensive loss		**$ (6,489)**	$ (7,240)	**$ (10,044)**	$ (11,844)
Net loss attributable to:					
Common shareholders		**(1,722)**	(5,793)	**(7,047)**	(7,796)
Non-controlling interest		**-**	(1,646)	**-**	(2,208)
Net loss		**$ (1,722)**	$ (7,439)	**$ (7,047)**	$ (10,004)
Comprehensive loss attributable to:					
Common shareholders		**(6,489)**	(5,644)	**(10,044)**	(9,176)
Non-controlling interest		**-**	(1,596)	**-**	(2,668)
Comprehensive loss		**$ (6,489)**	$ (7,240)	**$ (10,044)**	$ (11,844)
Net loss per share attributable to common shareholders	7				
Basic		**(0.02)**	(0.07)	**(0.08)**	(0.09)
Diluted		**(0.02)**	(0.07)	**(0.08)**	(0.09)

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)

		Nine months ended September 30,		
		2014	2013	
	Note	**Alvopetro Shareholders' Equity**	Net Investment	Non-controlling Interest
Share capital				
Balance, beginning of period		$ 151,937	$ -	$ -
Issued during the period		-	-	-
Balance, end of period		**$ 151,937**	$ -	$ -
Contributed surplus				
Balance, beginning of period		$ 74	$ -	$ -
Share-based compensation expense	7	474	-	-
Share-based compensation capitalized	7	206	-	-
Balance, end of period		**$ 754**	$ -	$ -
Deficit				
Balance, beginning of period		$ (3,679)	$ -	$ -
Net loss		(7,047)	-	-
Balance, end of period		**$ (10,726)**	$ -	$ -
Accumulated other comprehensive loss				
Balance, beginning of period		$ (1,750)	-	-
Other comprehensive loss		(2,997)	-	-
Balance, end of period		**$ (4,747)**	$ -	$ -
Net Investment				
Balance, beginning of period		$ -	$ 37,094	$ 10,326
Net loss		-	(7,796)	(2,208)
Other comprehensive loss		-	(1,380)	(460)
Contributions and net change in investment		-	5,487	723
Share-based compensation expense	7	-	301	-
Balance, end of period		**$ -**	$ 33,706	$ 8,381

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of United States dollars)

	Note	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Operating Activities					
Net loss		**$ (1,722)**	$ (7,439)	**$ (7,047)**	$ (10,004)
Adjustments for non-cash items:					
Depletion and depreciation		**77**	25	**257**	234
Impairment	5	**-**	6,267	**-**	6,267
Accretion of decommissioning liability	6	**21**	50	**73**	56
Deferred tax expense		**179**	-	**(118)**	-
Share-based compensation	7	**158**	100	**474**	301
Unrealized foreign exchange (gain) loss		**(44)**	-	**121**	-
		(1,331)	(997)	**(6,240)**	(3,146)
Changes in non-cash working capital		**172**	94	**(23)**	130
		(1,159)	(903)	**(6,263)**	(3,016)
Investing Activities					
Expenditures on exploration and evaluation assets	4	**(14,859)**	(1,752)	**(27,104)**	(2,369)
Expenditures on property, plant and equipment	5	**(39)**	(84)	**(381)**	(267)
Change in other assets		**235**	(886)	**(642)**	(886)
Change in restricted cash	3	**(2,689)**	-	**(29,378)**	-
Changes in non-cash working capital		**5,111**	-	**5,169**	-
		(12,241)	(2,722)	**(52,336)**	(3,522)
Financing Activities					
Net contributions from Petrominerales Ltd.	1	**-**	3,194	**-**	5,487
Net contributions from non- controlling interest		**-**	723	**-**	723
		-	3,917	**-**	6,210
Change in cash and cash equivalents		**(13,400)**	292	**(58,599)**	(328)
Effect of foreign exchange on cash balances		**(444)**	123	**(846)**	(25)
Cash and cash equivalents, beginning of period		**54,667**	361	**100,268**	1,129
Cash and cash equivalents, end of period		**$ 40,823**	$ 776	**$ 40,823**	$ 776
Cash and cash equivalents consist of:					
Cash		**$ 40,823**	$ 776	**$ 40,823**	$ 776
Cash equivalents		-	-	-	-

See accompanying notes to these interim condensed consolidated financial statements.

NOTE 1 – CORPORATE INFORMATION AND BASIS OF PRESENTATION

Alvopetro Energy Ltd. ("Alvopetro" or "the Company") is engaged in the exploration, development and production of hydrocarbons in Brazil. Alvopetro is a publicly traded company listed on the TSX Venture Exchange (TSXV: ALV.V), was incorporated under the *Business Corporations Act* (Alberta) on September 25, 2013 as 1774501 Alberta Ltd., and subsequently changed its name to Alvopetro Energy Ltd. on November 19, 2013. The Company's head office and records are located at 1175, 332 6th Avenue S.W., Calgary, Alberta, Canada, T2P 0B2.

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2014 and September 30, 2013 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, 2013, except as discussed in Note 2 below with respect to the adoption of new accounting standards. 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, 2013.

These interim condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors on November 19, 2014.

2013 Arrangement

On September 29, 2013, Petrominerales Ltd. ("Petrominerales"), Pacific Rubiales Energy Corp. ("Pacific Rubiales"), and 1774501 Alberta Ltd. (now Alvopetro Energy Ltd. and at that time a wholly-owned subsidiary of Petrominerales) entered into an agreement pursuant to which the parties agreed to complete an arrangement (the "Arrangement") under section 193 of the *Business Corporations Act* (Alberta). Under the Arrangement, Pacific Rubiales acquired Petrominerales, with each Petrominerales shareholder receiving cash consideration of Canadian dollars ("CAD") $11.00 and one common share of Alvopetro for each Petrominerales share held. On November 27, 2013, Petrominerales shareholders approved the Arrangement which was completed on November 28, 2013.

In connection with the Arrangement, Petrominerales transferred to Alvopetro its entire interest in the Recôncavo, Tucano, Camamu-Almada and Sergipe-Alagoas basins onshore Brazil consisting of three producing fields and 16 exploration blocks (the "Brazil Properties") and approximately $85.6 million (CAD$91.0 million) in cash. Following completion of the Arrangement, Alvopetro began carrying on the exploration, development and production previously carried on by Petrominerales with respect to the Brazil Properties.

Transactions occurring prior to the Arrangement on November 28, 2013 were derived from the accounting records of Petrominerales. The Brazil Properties now owned by Alvopetro were acquired by Petrominerales on December 11, 2012 and the financial information from this date to November 28, 2013 is intended to be representative of the Brazil Properties had Alvopetro been operating them as a stand-alone entity, subject to Petrominerales' control, during this time. The financial information related to this period has been prepared by Alvopetro's management in accordance with IFRS and requires the use of significant judgments made in allocating reported amounts related to the Brazil Properties. In the opinion of management, these interim condensed consolidated financial statements reflect all adjustments necessary to present fairly the interim condensed consolidated statements of the financial position and the results of operations in accordance with IFRS, however they may not reflect Alvopetro's financial position, results of operations and cash flows had the Company been operating in its current structure for the reporting periods presented in these interim condensed consolidated financial statements during which time it was a subsidiary of Petrominerales.

Presentation of the Interim Condensed Consolidated Statements of Financial Position

As Alvopetro Energy Ltd. was a wholly-owned subsidiary of Petrominerales until the closing of the Arrangement, the transfer of assets and liabilities was recorded by the Company at the carrying amounts recorded in Petrominerales' consolidated statement of financial position at the time of the transfer, other than certain amounts that are recorded as exploration and evaluation assets by Alvopetro rather than goodwill with respect to the December 11, 2012 acquisition, as detailed in Note 5 in the December 31, 2013 audited consolidated financial statements.

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

Presentation of the Interim Condensed Consolidated Statements of Operations and Comprehensive Loss

All revenue, royalties and production taxes, production expenses and transportation expenses on the interim condensed consolidated statements of operations and comprehensive loss are directly attributable to the Brazil Properties now owned by Alvopetro. General and administrative expenses recorded prior to the Arrangement have been determined based on actual Brazil general and administrative expenses and time charges by Petrominerales' employees to the Brazil Properties. Share-based compensation recorded by Petrominerales up to the Arrangement date has been allocated to Alvopetro based on the percentage of the direct time charged to the Brazil Properties divided by total general and administrative costs for the Petrominerales Calgary office. For reporting periods after the date of the Arrangement, amounts recorded for general and administrative and share-based compensation expenses are based on amounts incurred by Alvopetro as a stand-alone entity.

Presentation of the Interim Condensed Consolidated Statements of Changes in Equity

For reporting periods prior to the Arrangement, Petrominerales' direct ownership of the net assets is shown as a net investment because share capital did not exist. Petrominerales' investment includes the accumulated net loss and net cash investments, including any foreign exchange translation effect of the foreign operations in Brazil. At the close of the Arrangement, the carrying amount of the net investment of $151.9 million was ascribed to the common share capital of Alvopetro.

Segmented Operations

All oil sales revenue is derived from Brazilian operations. All material exploration and evaluation assets and property, plant and equipment are located in Brazil. The majority of the Company's cash as well as all current and non-current restricted cash is located in Canada and is mainly denominated in U.S. dollars as at September 30, 2014. The Company does not have any significant income in Canada other than interest earned on cash and restricted cash balances.

NOTE 2 – CHANGES IN ACCOUNTING STANDARDS

New Accounting Standards

The interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the 2013 annual consolidated financial statements with the exception of the following new standards and interpretations adopted on January 1, 2014:

Standard and Description	Adoption Impact on Interim Financial Statements
IAS 32 *Financial Instruments: Presentation* - addresses inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities.	Adoption of this standard did not impact these interim financial statements.
IFRIC 21 *Levies* - clarifies the requirements for recognizing a liability for a levy imposed by a government.	Adoption of this standard did not impact these interim financial statements.
IAS 36 – *Impairment of assets* – requires additional disclosure on the recoverable amount of an impaired Cash Generating Unit.	Amendments to this standard did not impact these interim financial statements.

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

Standards issued but not yet effective

The Company continues to assess the impact of adopting new standards as described in the 2013 annual consolidated financial statements as well as any new pronouncements from the International Accounting Standards Board including the following:

- IFRS 9 *Financial Instruments* which provides requirements for the classification and measurement of financial assets. This standard does not yet have a mandatory effective date but early adoption is allowed.
- IFRS 15 *Revenue from Contracts with Customers* which supersedes IAS 18 *Revenue*, IAS 11, *Construction Contracts* and certain revenue-related interpretations. This standard will be effective for annual periods beginning on or after January 1, 2017.

NOTE 3 – RESTRICTED CASH AND CREDIT FACILITY

	As at	
	September 30, 2014	**December 31, 2013**
Restricted cash – current	**$ 11,072**	$ -
Restricted cash – non-current	**18,637**	-
Balance, end of period	**$ 29,709**	$ -

In the first quarter of 2014, the Company entered into a credit support facility (the "Facility") with a Canadian bank for up to CAD $30.0 million which was increased to CAD $45.0 million during the three months ended September 30, 2014. This Facility allows for the issuance of letters of credit ("LCs") and letters of guarantee in support of the financial guarantees required by the National Agency of Petroleum, Natural Gas and Biofuels (the "ANP"), an agency of the Brazil government, for Alvopetro's work commitments under the terms of its concession contracts as discussed further in Note 11. These types of financial guarantees for work commitments are required by the ANP for all operators in Brazil.

Pursuant to the terms of the Facility, the issuance of letters of credit and letters of guarantee must be fully cash collateralized by Alvopetro. Cash collateral amounts posted by Alvopetro may at times be in excess of actual committed amounts due to additional amounts required to be deposited for foreign currency risk margins, in accordance with the terms of our Facility. During the six months ended June 30, 2014, the Company issued irrevocable LCs through the Facility for a total of Brazilian real ("BRL") 51.3 million and, accordingly, posted cash collateral of approximately $26.7 million. During the three months ended September 30, 2014, $0.5 million related to the marginal fields was released and the Company issued additional LCs of BRL 6.1 million, posting cash collateral of approximately $3.1 million. Of the $29.7 million September 30, 2014 balance, $10.7 million relates to LCs expiring within one year and is therefore classified as current. The Company earns interest income on these cash deposits under the Facility at rates of between 0.20 and 0.35 percent per annum based on current terms. Additional letters of credit and letters of guarantee, and any required accompanying cash collateralization, will be issued and posted, as applicable and as required, for any future blocks acquired by Alvopetro in Brazil.

Restricted cash balances at September 30, 2014 include $1.5 million of (current) cash collateral posted in respect of work commitments on Block 197 and $1.5 million of (non-current) cash collateral posted in respect of work commitments on Block 183. Both of these work commitments have been satisfied by wells drilled on these blocks. Subject to customary ANP approval of these wells in satisfaction of the associated work commitment, the corresponding LC will be released.

Approximately $0.3 million of cash collateral is also posted with respect to Canadian corporate credit cards and is classified as current restricted cash.

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

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

	As at	
	September 30, 2014	**December 31, 2013**
Balance, beginning of period	**$ 45,002**	$ 35,530
Capital expenditures	**27,104**	5,606
Capitalized share-based compensation	**167**	7
Transfer from other assets	**-**	6,886
Change in decommissioning liabilities	**379**	59
Foreign currency translation	**(2,668)**	(3,086)
Balance, end of period	**$ 69,984**	$ 45,002

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	As at	
	September 30, 2014	**December 31, 2013**
Cost, beginning of period	**$ 10,529**	$ 7,535
Capital expenditures	**381**	1,217
Capitalized share-based compensation	**39**	5
Change in decommissioning liabilities	**380**	2,004
Foreign currency translation	**(241)**	(232)
Cost, end of period	**$ 11,088**	$ 10,529
Accumulated depletion and depreciation, beginning of period	**(832)**	(26)
Depletion and depreciation for the period	**(257)**	(403)
Impairment	**-**	(431)
Foreign currency translation	**39**	28
Accumulated depletion and depreciation, end of period	**(1,050)**	(832)
Net book value, end of period	**$ 10,038**	$ 9,697

During the three months ended September 30, 2013 the Company recognized an impairment of $6.3 million related to the mature field cash generating units (“CGUs”) at Bom Lugar, Jiribatuba and Aracaju as a result of a decline in the value of the assets. The impairment was calculated based on the difference between the net book value and the value-in-use. The key assumptions used in determining the value-in-use were the discount rate, commodity prices, volumes and inventory of undrilled locations. The values assigned to the key assumptions represented management’s assessment of the future trends in the oil and gas industry and were based on both internal and external sources. A discount rate of 15% was used in the assessment of impairment for all CGUs.

During the three months ended December 31, 2013, the majority of the impairment booked at September 30, 2013 was reversed, resulting in an overall impairment of $0.4 million as at December 31, 2013. The reversal of the impairment losses resulted from a change from the September 30, 2013 estimates used to determine the value-in-use at each CGU, specifically a reduction of estimated future operating costs, estimated future capital cost estimates, and an increase in future sales price estimates.

NOTE 6 – DECOMMISSIONING LIABILITIES

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

	As at	
	September 30, 2014	**December 31, 2013**
Balance, beginning of period	**$ 2,833**	$ 1,014
Liabilities incurred	**338**	59
Revisions to obligations	**421**	2,004
Accretion	**73**	79
Foreign currency translation	**(151)**	(323)
Balance, end of period	**$ 3,514**	$ 2,833

Total undiscounted cash flows, escalated at 6.5% (December 31, 2013 – 6.0%) for inflation, required to settle the Company's decommissioning provision are estimated to be $5.5 million (December 31, 2013 – $4.9 million) and have been discounted using an average risk free rate of 2.8% (December 31, 2013 – 3.4%), which represents an estimated U.S. Treasury bill rate for a period of 15 years, the average remaining years to abandonment. The revision during the three and nine months ended September 30, 2014 is related to a change in the inflation rate and estimated risk free rate.

NOTE 7 – SHARE CAPITAL

a) Authorized

Alvopetro has an unlimited number of common shares authorized for issuance. The Company is also authorized to issue preferred shares in one or more series.

b) Issued and Outstanding Common Shares

	Number of Shares	Amount ($000s)
Balance as at September 30, 2014 and December 31, 2013	**85,166,871**	**$ 151,937**

c) Options to Purchase Common Shares

Alvopetro has a stock option plan whereby the Company may grant stock options to its directors, officers, employees and consultants. The plan allows for the issuance of up to ten percent of the outstanding common shares of the Company. The exercise price of each option is not less than the five-day volume weighted average price of the Company's common shares on the TSX Venture Exchange prior to the date of grant. Typically, options granted vest over a period of three years from the date of grant and expire five years from the date of grant. Alvopetro granted 2,995,436 stock options on December 16, 2013 and 102,000 stock options during the nine months ended September 30, 2014.

Exercise Price	Options Outstanding	Remaining Contractual Life (years)	Options Exercisable	Remaining Contractual Life (years)
CAD$1.02	2,995,436	4.21	-	-
CAD$1.10-1.24	102,000	4.71	-	-
	3,097,436	**4.23**	**-**	**-**

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

d) Share-Based Compensation

The fair value of the stock options granted in 2014 has been estimated on the grant date using the Black-Scholes option pricing model, assuming risk-free interest rates of 1.31%, an expected term of 4.0 years and expected volatility of 50%, for a resultant fair value of CAD$0.51 per option. Total share-based compensation of $0.2 million and $0.7 million (September 30, 2013 – $nil), respectively was computed for the three and nine months ended September 30, 2014 relating to options granted under Alvopetro's stock option plan. Of these amounts, approximately $0.1 million and $0.2 million (September 30, 2013 - $nil), respectively was capitalized to exploration and evaluation assets and property, plant and equipment, for the three and nine months ended September 30, 2014, with the remainder recognized as share-based compensation expense on the interim condensed consolidated statements of operations and comprehensive loss.

Share-based compensation for the periods preceding the Arrangement on November 28, 2013 represent an allocated portion of Petrominerales' share-based compensation expense based on time charged to the Brazil Properties by Petrominerales employees. The total share-based compensation expense of $0.3 million recognized for the nine months ended September 30, 2013, relates to this allocation of Petrominerales' share-based compensation.

e) Net Loss Per Share Attributable to Common Shareholders

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the applicable period. The following table provides the number of shares used in the basic and diluted per share computations:

	Three and nine months ended September 30, 2014	2013
Weighted average common shares outstanding, basic and diluted	**85,166,871**	85,166,871

In determination of the weighted average number of diluted common shares outstanding for the three and nine months ended September 30, 2014, all stock options were excluded because the effect would be anti-dilutive. As there were no shares outstanding for Alvopetro at September 30, 2013, the per share amounts for the related periods are based on the number of shares issued pursuant to the Arrangement.

NOTE 8 – CAPITAL MANAGEMENT

Alvopetro manages its capital to support the Company's strategic growth objectives and maintain financial capacity and flexibility for the purpose of funding the Company's exploration and development activities.

At September 30, 2014 the Company's net working capital surplus was $45.1 million (December 31, 2013 - $98.5 million) which includes $40.8 million (December 31, 2013 - $100.3 million) of cash and $11.1 million (December 31, 2013 - $nil) of current restricted cash but excludes non-current restricted cash of $18.6 million (December 31, 2013 - $nil).

The Company's current portion of restricted cash of $11.1 million includes $10.7 million of cash collateral pledged for letters of credit expiring within the next twelve months associated with work commitments in Brazil. The cash posted as collateral for these letters of credit may be available earlier pending completion of the related work commitments. Additional current restricted cash relates to cash pledged for corporate credit cards ($0.3million).

Alvopetro has $18.6 million of non-current restricted cash related to collateral posted for work commitments in Brazil for letters of credit with expiry dates subsequent to September 30, 2015 (January 2016 to December 2017). Funds may be made available to Alvopetro earlier pending completion of the related work commitments.

Alvopetro has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure program, other than with respect to work commitments. The Company considers its capital structure at this time to include shareholders' equity which at September 30, 2014 was $137.2 million (December 31, 2013 - $146.6 million). In the event that adjustments to the capital structure are necessary, the Company may consider issuing additional equity, raising debt or revising its capital investment programs.

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

The Company has not paid or declared any dividends since the date of incorporation.

NOTE 9 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade and other receivables and accounts payable and accrued liabilities.

Fair Value of Financial Instruments

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment that may affect the placement within the fair value hierarchy level. Due to the short-term nature of accounts receivable and accounts payable and accrued liabilities, their carrying value approximates their fair value. The carrying values and respective fair values of Alvopetro's financial instruments at September 30, 2014 is set forth in the table below. The Company does not currently have any fair value measurements classified as Level 2 or Level 3.

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Carried at fair value through profit or loss				
Cash and cash equivalents(1)	**40,823**	**40,823**	100,268	100,268
Restricted cash – current and long-term(1)(2)	**29,709**	**29,709**	-	-
	70,532	**70,532**	100,268	100,268
Carried at cost or amortized cost				
Trade and other receivables	**378**	**378**	342	342
Accounts payable and accrued liabilities	**(7,374)**	**(7,374)**	(2,250)	(2,250)
	(6,996)	**(6,996)**	(1,908)	(1,908)

(1) Level 1
(2) Restricted cash balances include amounts pledged as collateral for work commitments (Note 3).

Risks Associated with Financial Assets and Liabilities

The nature of Alvopetro's operations exposes the Company to credit risk, foreign currency risk, commodity price risk, interest rate risk, and liquidity risk. The Company has several practices and policies in place to help mitigate these risks. A description of the nature and extent of risks arising from the Company's financial instruments can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2013. The Company's exposure to these risks has not changed significantly since then, other than with respect to foreign currency risk. During the six months ended June 30, 2014 the Company converted approximately CAD$84.8 million of Canadian dollars held at December 31, 2013 to U.S. dollars ("USD") of $77.5 million. The following financial instruments were denominated in currencies other than USD as at September 30, 2014 and December 31, 2013:

	As at			
	September 30, 2014		December 31, 2013	
	CAD (000's)	BRL (000's)	CAD (000's)	BRL (000's)
Cash and cash equivalents	2,786	4,360	90,727	2,075
Restricted cash – current	353	-	-	-
Trade and other receivables	57	703	7	785
Accounts payable and accrued liabilities	(77)	(16,550)	(31)	(3,264)
Net exposure in foreign currency	3,119	(11,487)	90,703	(404)
Net exposure in USD ($000s)	2,782	(4,688)	85,280	(173)

NOTE 10 – RELATED PARTY TRANSACTIONS

Alvopetro is party to non-material office-related administrative transactions with Touchstone Exploration Inc. (formerly Petrobank Energy and Resources Ltd.), a related party of the Company due to common directors. These transactions include administrative consulting fees and office sub-lease expenses charged to Alvopetro, summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Office rent and related costs	$ 57	$ -	$ 170	$ -
Administrative consulting fees	$ -	$ -	$ 7	$ -

The Company did not have an amount owing to Touchstone Exploration Inc. at September 30, 2014 or 2013.

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

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The following is a summary of contractual commitments as at September 30, 2014:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments(1)				
Block 131(2)	$ 1,242	$ -	$ -	$ 1,242
Block 132(2)	1,242	-	-	1,242
Block 144(2)	1,242	-	-	1,242
Block 157(2)	1,242	-	-	1,242
Block 182(2)	1,242	-	-	1,242
Block 196(2)	1,242	-	-	1,242
Block 197(2)	1,239	-	-	1,239
Block 183	1,237	-	-	1,237
Block 170	-	1,224	-	1,224
Block 106	-	465	-	465
Block 107	-	3,102	-	3,102
Block 177	-	2,934	-	2,934
Block 169	-	-	1,551	1,551
Block 198	-	-	1,551	1,551
Block 255	-	-	1,856	1,856
Block 256	-	-	412	412
Bom Lugar	-	-	143	143
Jiribatuba	-	-	143	143
Aracaju	-	-	102	102
Total minimum work commitments	$ **9,928**	$ **7,725**	$ **5,758**	**$ 23,411**
Office leases(3)	**245**	**39**	-	**284**
Total commitments	**$ 10,173**	**$ 7,764**	**$ 5,758**	**$ 23,695**

Notes:

(1) Under the terms of the ANP concession contracts for each of our exploration blocks and each of our mature fields, the Company has work commitments which must be completed prior to the applicable phase expiry date. Amounts above include the one well commitment required under the current exploratory phase of Block 197, fulfilled by our 197(1) well drilled on this block during the three months ended March 31, 2014, subject to ANP approval. In addition, we completed drilling our first well on Block 183 subsequent to September 30, 2014 which, subject to ANP approval, fulfils the well commitment amount for Block 183 in the table above.

(2) Alvopetro has applied to the ANP for an extension to the work commitment phase deadline for our 9th Brazil Bid Round blocks (Blocks 131, 132, 144, 157, 182, 196, 197). While we expect that this will be granted, the Company cannot guarantee that the ANP will grant the requested extension. To the extent the extension is not granted on one or more of the requested blocks, the associated concession contract(s) may be revoked, amounts recognized as exploration and evaluation assets with respect to these blocks may be subject to impairment at that time, and Alvopetro may be required to pay to the ANP an amount representing the value, calculated pursuant to the contract, of the unfulfilled portion of the related work commitments, estimated as up to a maximum of $8.7 million for all of our 9th Brazil Bid Round blocks.

(3) The Company is committed to future minimum payments for office space in Canada and Brazil.

Alvopetro's activities in Brazil are subject to minimum local content requirements with respect to materials and supplies utilized. The specific local content requirements for the exploration phase were determined during the bidding process for each particular block and are assessed at the phase expiry date. Management undertakes considerable effort to adhere to these requirements; however, there may be circumstances when it is not advantageous or reasonably possible for the Company to do so. If the Company does not meet the local content requirements for a particular phase as specified according to the respective concession contract, a fine, which varies by concession depending on exploration phase and type of cost, will be incurred. The Company is continually monitoring its local content compliance and actual or potential fines. As of September 30, 2014, the potential estimated fine is not material.