

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
As at and Three and Six Months Ended June 30, 2025



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

(Unaudited, thousands of United States dollars)

	Note	June 30, 2025	December 31, 2024
ASSETS			
Current			
Cash and cash equivalents		15,001	21,697
Trade and other receivables		7,062	4,356
Prepaid expenditures		852	931
Total current assets		22,915	26,984
Exploration and evaluation assets	4	17,916	14,640
Property, plant and equipment	5	70,046	52,985
Right-of-use assets	6	5,938	5,623
Deferred tax asset		151	791
Non-current assets		94,051	74,039
Total assets		116,966	101,023
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		11,013	9,217
Dividend payable	8	3,660	3,283
Lease liabilities	6	1,132	1,069
Decommissioning liabilities	7	272	234
Total current liabilities		16,077	13,803
Lease liabilities	6	6,323	6,794
Decommissioning liabilities	7	1,360	1,064
Total liabilities		23,760	21,661
Shareholders' equity			
Share capital	8	43,408	43,269
Contributed surplus		53,780	53,423
Retained earnings		41,473	36,229
Accumulated other comprehensive loss		(45,455)	(53,559)
Total shareholders' equity		93,206	79,362
Total liabilities and shareholders' equity		116,966	101,023

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 June 30,		Six Months Ended June 30,	
	Note	2025	2024	2025	2024
Revenue					
Natural gas, oil and condensate sales	9	14,010	10,672	28,023	22,424
Royalties	2	(659)	(287)	(2,332)	(599)
Net natural gas, oil and condensate revenue		13,351	10,385	25,691	21,825
Other income	10	418	444	821	842
		13,769	10,829	26,512	22,667
Expenses					
Production	10	1,190	850	2,357	2,051
Transportation		31	-	31	-
General and administrative	10	1,465	1,570	2,991	2,993
Depletion and depreciation	5,6	2,836	1,701	5,958	3,548
Impairment		-	-	6	91
Finance expenses	10	371	371	827	754
Share-based compensation		325	315	654	602
Exploration & evaluation expenditures		-	-	-	96
Loss on asset disposition		-	-	4	-
Foreign exchange (gains) losses		(404)	3,204	(1,269)	4,374
Total expenses		5,814	8,011	11,559	14,509
Income before taxes		7,955	2,818	14,953	8,158
Income tax expense (recovery)					
Current		700	493	1,340	1,103
Deferred		425	(25)	713	155
Total		1,125	468	2,053	1,258
Net income		6,830	2,350	12,900	6,900
Exchange gain (loss) on translation of foreign operations		3,718	(5,175)	8,104	(6,637)
Comprehensive income (loss)		10,548	(2,825)	21,004	263
Net income per share					
	8				
Basic		0.18	0.06	0.35	0.19
Diluted		0.18	0.06	0.34	0.18

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, 2024		43,269	53,423	36,229	(53,559)	79,362
Issue of common shares	8	310	(310)	-	-	-
Share-based compensation		-	667	-	-	667
Net income		-	-	12,900	-	12,900
Other comprehensive income		-	-	-	8,104	8,104
Dividends declared	8	-	-	(7,303)	-	(7,303)
Share repurchase	8	(171)	-	(353)	-	(524)
Balance, June 30, 2025		43,408	53,780	41,473	(45,455)	93,206
Balance, December 31, 2023		43,461	52,235	33,570	(41,058)	88,208
Issue of common shares	8	1	(1)	-	-	-
Share-based compensation		-	574	-	-	574
Net income		-	-	6,900	-	6,900
Other comprehensive loss		-	-	-	(6,637)	(6,637)
Dividends declared	8	-	-	(6,592)	-	(6,592)
Balance, June 30, 2024		43,462	52,808	33,878	(47,695)	82,453

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 June 30,		Six Months Ended June 30,	
	Note	2025	2024	2025	2024
Operating Activities					
Net income		6,830	2,350	12,900	6,900
Adjustments:					
Depletion and depreciation	5,6	2,836	1,701	5,958	3,548
Impairment		-	-	6	91
Finance expenses	10	348	371	702	754
Share-based compensation		325	315	654	602
Foreign exchange		(398)	3,198	(1,349)	4,373
Deferred tax		425	(25)	713	155
Loss on asset disposition		-	-	4	-
Funds flow from operations		10,366	7,910	19,588	16,423
Changes in non-cash working capital	13	107	950	(298)	650
		10,473	8,860	19,290	17,073
Financing Activities					
Dividends paid	8	(3,643)	(3,296)	(6,926)	(8,423)
Repurchase of common shares	8	(227)	-	(524)	-
Lease liabilities payments	6	(561)	(566)	(1,124)	(1,134)
Changes in non-cash working capital	13	(38)	(8)	(105)	(35)
		(4,469)	(3,870)	(8,679)	(9,592)
Investing Activities					
Expenditures on exploration and evaluation assets	4	(1,226)	(437)	(2,619)	(577)
Expenditures on property, plant and equipment	5	(7,760)	(3,000)	(14,742)	(5,299)
Proceeds on disposition		-	204	8	204
Change in restricted cash		-	-	-	(3)
Changes in non-cash working capital	13	346	1,199	(550)	560
		(8,640)	(2,034)	(17,903)	(5,115)
Change in cash and cash equivalents		(2,636)	2,956	(7,292)	2,366
Effect of foreign exchange on cash balances		373	(725)	596	(1,011)
Cash and cash equivalents, beginning of period		17,264	17,450	21,697	18,326
Cash and cash equivalents, end of period		15,001	19,681	15,001	19,681
Cash and cash equivalents consist of:					
Cash		1,626	1,547	1,626	1,547
Cash equivalents		13,375	18,134	13,375	18,134
Supplemental information:					
Cash income taxes paid		504	241	1,113	1,349
Cash interest income received		291	352	574	639

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 six months ended June 30, 2025 and 2024

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 and Canada. 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 401, 255 – 17th Avenue SW, Calgary, Alberta, Canada, T2S 2T8.

NOTE 2 – BASIS OF PREPARATION

Basis of Measurement and Statement of Compliance

The interim condensed consolidated financial statements as at June 30, 2025 and December 31, 2024 and for the three and six months ended June 30, 2025 and June 30, 2024 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, 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, 2024.

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 August 6, 2025.

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, 2024. Actual results may differ from estimated amounts and those differences may be material.

As reported in the interim condensed consolidated financial statements for the three months ended March 31, 2025, Alvopetro recognized an incremental dispute-related royalty expense for the period July 2020 to March 31, 2025, along with associated finance expenses. The dispute was filed by gross overriding royalty (“GORR”) holders regarding the Company’s computation of the natural gas GORR for Block 197. There was no provision for this dispute prior to March 31, 2025 as Alvopetro had expected to successfully defend its position however, the dispute resolution procedures advanced the matter to arbitration under the rules of the International Chamber of Commerce (“ICC”) and in April 2025 the arbitral tribunal found in favour of the GORR holders, requiring Alvopetro to utilize a higher sales price in the computation of the GORR. The historical amount recorded in the three months ended March 31, 2025 for periods up to December 31, 2024, as well as the ongoing GORR calculations for the three and six months ended June 30, 2025 represent management’s best estimates however the actual calculation will be determined by the tribunal which may be materially different. In addition, the timing of this decision is uncertain and with the GORR award subject to inflation and interest adjustments, the balance owing will increase with the passage of time.

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

As at and for the three and six months ended June 30, 2025 and 2024

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 3 – SEGMENTED INFORMATION**

As at June 30, 2025 Alvopetro had two reportable operating segments which are consistent with the Company's geographic organization: 1) exploration, development and production assets in Brazil; and 2) development assets in Canada.

	As at and Three Months Ended June 30,							
	Brazil		Canada		Corporate		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
Operating netbacks:								
Natural gas, oil and condensate sales	13,420	10,672	590	-	-	-	14,010	10,672
Royalties	(563)	(287)	(96)	-	-	-	(659)	(287)
Production expenses	(1,130)	(850)	(60)	-	-	-	(1,190)	(850)
Transportation costs	-	-	(31)	-	-	-	(31)	-
Total	11,727	9,535	403	-	-	-	12,130	9,535
Other income	135	173	-	-	283	271	418	444
Finance expenses	369	369	-	-	2	2	371	371
Depletion and depreciation	2,583	1,649	195	-	58	52	2,836	1,701
Income tax expense	1,125	468	-	-	-	-	1,125	468
Net income (loss)	7,591	5,642	172	-	(933)	(3,292)	6,830	2,350
Property, plant & equipment	67,093	55,190	2,568	-	385	160	70,046	55,350
Capital expenditures	8,818	3,432	95	-	73	5	8,986	3,437

	As at and Six Months Ended June 30,							
	Brazil		Canada		Corporate		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
Operating netbacks:								
Natural gas, oil and condensate sales	27,433	22,424	590	-	-	-	28,023	22,424
Royalties	(2,236)	(599)	(96)	-	-	-	(2,332)	(599)
Production expenses	(2,297)	(2,051)	(60)	-	-	-	(2,357)	(2,051)
Transportation costs	-	-	(31)	-	-	-	(31)	-
Total	22,900	19,774	403	-	-	-	23,303	19,774
Other income	296	308	-	-	525	534	821	842
Finance expenses	823	751	-	-	4	3	827	754
Depletion and depreciation	5,700	3,492	195	-	63	56	5,958	3,548
Income tax expense	2,053	1,258	-	-	-	-	2,053	1,258
Net income (loss)	14,549	12,129	84	-	(1,733)	(5,229)	12,900	6,900
Property, plant & equipment	67,093	55,190	2,568	-	385	160	70,046	55,350
Capital expenditures	14,332	5,870	2,731	-	298	6	17,361	5,876

The Canada segment relates to a farmin agreement signed in February 2025 whereby Alvopetro agreed to fund 100% of two wells in exchange for a 50% non-operated working interest in an initial 12,243 acres of land in Western Saskatchewan. Production from these wells commenced in April 2025.

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

As at and for the three and six months ended June 30, 2025 and 2024

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 4 – EXPLORATION AND EVALUATION (“E&E”) ASSETS**

	As at	
	June 30, 2025	December 31, 2024
Balance, beginning of period	14,640	13,785
Capital expenditures	2,619	4,361
Capitalized share-based compensation	8	40
Change in decommissioning liabilities	-	39
Transfer to PP&E (Note 5)	(1,148)	(238)
Asset dispositions & other transfers	(16)	(325)
Impairment	(6)	(91)
Foreign currency translation	1,819	(2,931)
Balance, end of period	17,916	14,640

All E&E assets relate to the Company’s Brazil segment.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (“PP&E”)

	As at	
	June 30, 2025	December 31, 2024
Cost, beginning of period	79,327	86,766
Capital expenditures	14,742	10,944
Capitalized share-based compensation	99	127
Transfer from E&E assets (Note 4)	1,148	238
Change in decommissioning liabilities	94	286
Disposition	-	(97)
Foreign currency translation	10,343	(18,937)
Cost, end of period	105,753	79,327
Accumulated depletion, depreciation and impairment, beginning of period	(26,342)	(26,954)
Depletion and depreciation	(5,376)	(6,406)
Foreign currency translation	(3,989)	7,018
Accumulated depletion, depreciation and impairment, end of period	(35,707)	(26,342)
Net book value, end of period	70,046	52,985

There were no indications of impairment or impairment reversal on any properties as at and for the six months ended June 30, 2025.

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

As at and for the three and six months ended June 30, 2025 and 2024

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 6 – 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	
	June 30, 2025	December 31, 2024
Net book value, beginning of period	5,623	8,240
Additions	76	114
Depreciation	(582)	(1,186)
Foreign currency translation	821	(1,545)
Net book value, end of period	5,938	5,623

Net Book Value by Asset Class		
Natural gas facility	5,805	5,515
Office space	97	64
Surface land access	36	44
Total net book value	5,938	5,623

The Company’s lease liabilities are as follows:

	As at	
	June 30, 2025	December 31, 2024
Lease liabilities, beginning of period	7,863	8,681
Additions	76	114
Finance expense	629	1,370
Lease payments	(1,124)	(2,278)
Foreign currency translation	11	(24)
Lease liabilities, end of period	7,455	7,863
Current	1,132	1,069
Non-current	6,323	6,794
Total	7,455	7,863

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

As at and for the three and six months ended June 30, 2025 and 2024

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 7 – 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	
	June 30, 2025	December 31, 2024
Balance, beginning of period	1,298	1,147
Liabilities incurred	94	128
Revisions to obligations	-	197
Accretion	73	100
Foreign currency translation	167	(274)
Balance, end of period	1,632	1,298
Current	272	234
Non-current	1,360	1,064
Total	1,632	1,298

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

	Number of Shares	Amount (\$000s)
Balance as at December 31, 2023	36,617,940	43,461
Exercise of stock options	44,956	32
Repurchase and cancellation of shares	(189,000)	(224)
Balance as at December 31, 2024	36,473,896	43,269
Exercise of stock options	58,570	20
Exercise of Restricted Share Units	201,298	290
Repurchase and cancellation of shares	(140,900)	(171)
Balance as at June 30, 2025	36,592,864	43,408

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

As at and for the three and six months ended June 30, 2025 and 2024

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

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, 2023	1,801,440	6.07
Granted	352,000	4.75
Exercise of options	(77,777)	2.31
Options forfeited	(66,000)	7.52
Options expired	(5,555)	2.25
Balance as at December 31, 2024	2,004,108	5.95
Granted	16,000	5.06
Exercised	(94,444)	2.46
Forfeited	(90,000)	6.85
Balance as at June 30, 2025	1,835,664	6.08
Percentage of common shares outstanding	5.0%	

Options Outstanding at June 30, 2025				Options Exercisable at June 30, 2025		
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\$2.40 - \$3.99	196,665	2.43	1.2	196,665	2.43	1.2
CAD\$4.00 - \$5.99	602,666	4.79	3.0	260,666	4.84	1.4
CAD\$6.00 - \$7.99	479,333	6.94	2.4	198,671	6.92	2.4
CAD\$8.00 - \$8.01	557,000	8.01	3.4	125,999	8.01	3.4
CAD\$2.40 - \$8.01	1,835,664	6.08	2.8	782,001	5.27	1.9

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

As at and for the three and six months ended June 30, 2025 and 2024

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***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, 2023	881,541
Granted	355,039
Balance as at December 31, 2024	1,236,580
Granted	33,436
Exercised	(201,298)
Forfeited	(21,549)
Balance at June 30, 2025	1,047,169
Percentage of common shares outstanding	2.9%
Weighted average remaining contractual life (years)	3.2

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. Weighted average assumptions and resultant fair values for stock options granted in 2025 were as follows:

	Three Months Ended		Six Months Ended	
		June 30,		June 30,
	2025	2024	2025	2024
Risk free interest rate (%)	-	3.5	2.5	3.5
Expected term (years)	-	4.0	4.0	4.0
Expected volatility (%)	-	30.0	30.0	30.0
Expected annual dividend per share (CAD\$)	-	0.49	0.57	0.49
Forfeiture rate (%)	-	7.5	5.0	7.5
Weighted average fair value (CAD\$)	-	0.40	0.36	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 six months ended June 30, 2025 and 2024

*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		Six Months Ended	
		June 30,		June 30,
	2025	2024	2025	2024
Weighted average basic	37,260,718	37,285,616	37,278,249	37,282,318
Dilutive securities				
Stock options	159,206	88,163	122,102	139,619
RSUs & DSUs	374,725	226,631	369,718	225,051
Weighted average diluted	37,794,649	37,600,410	37,770,069	37,646,988

f) Dividends

Dividends declared and paid were as follows:

		Six Months Ended		
		June 30, 2025		
Period Declared	Dividend per share (\$)	Total Declared	Total Paid	Date Paid
Three months ended December 31, 2024	0.09	-	3,283	January 15, 2025
Three months ended March 31, 2025	0.10	3,643	3,643	April 15, 2025
Three months ended June 30, 2025	0.10	3,660	-	July 15, 2025
Total		7,303	6,926	

		Six Months Ended		
		June 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	-	July 15, 2024
Total		6,592	8,423	

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 six months ended June 30, 2025 and 2024

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 9 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

	Three Months Ended		Six Months Ended	
	2025	June 30, 2024	2025	June 30, 2024
Natural gas	12,563	9,949	25,532	21,009
Condensate	842	642	1,825	1,264
Oil	605	81	666	151
Total	14,010	10,672	28,023	22,424

For the six months ended June 30, 2025, natural gas revenue from Brazil represented 91% of total revenue from contracts with customers. Payment terms for natural gas are on or before the 10th business day of the month following satisfaction of the performance obligation. Payments for condensate are often made in advance of shipment. For the six months ended June 30, 2025 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 Brazil natural gas production. Amounts receivable from contracts with customers by commodity are as follows:

	As at	
	June 30, 2025	December 31, 2024
Natural gas	5,798	3,720
Oil	386	19
Total	6,184	3,739

NOTE 10 – NATURE OF OTHER INCOME AND EXPENSES**a) Other Income**

	Three Months Ended		Six Months Ended	
	2025	June 30, 2024	2025	June 30, 2024
Interest income	283	359	525	621
Tax recoveries from operations & other	135	85	296	221
Total	418	444	821	842

Production Expenses

	Three Months Ended		Six Months Ended	
	2025	June 30, 2024	2025	June 30, 2024
Personnel	332	178	702	311
Facility and infrastructure costs	411	426	811	871
Other fixed	243	62	440	474
Variable	197	140	397	268
Workover	7	44	7	127
Total	1,190	850	2,357	2,051

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

As at and for the three and six months ended June 30, 2025 and 2024

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

	Three Months Ended		Six Months Ended	
	2025	June 30, 2024	2025	June 30, 2024
Personnel	917	895	2,038	1,805
Travel	43	38	79	70
Office and IT	88	72	173	141
Professional fees	241	250	450	452
General corporate	551	553	995	1,056
Gross G&A expenses	1,840	1,808	3,735	3,524
Capitalized to E&E	-	(16)	(41)	(16)
Capitalized to PP&E	(375)	(222)	(703)	(515)
Net G&A expenses	1,465	1,570	2,991	2,993

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.

c) Finance Expenses

	Three Months Ended		Six Months Ended	
	2025	June 30, 2024	2025	June 30, 2024
Lease interest (Note 6)	305	346	629	704
Accretion of decommissioning liabilities (Note 7)	43	25	73	50
Other	23	-	125	-
Total finance expenses	371	371	827	754

NOTE 11 – CAPITAL MANAGEMENT

The Company’s capital consists of the following:

	As at	
	June 30, 2025	December 31, 2024
Cash and cash equivalents	15,001	21,697
Working capital deficit, excluding cash and cash equivalents	(8,163)	(8,516)
Working capital ⁽¹⁾	6,838	13,181
Lease liabilities – non-current	(6,323)	(6,794)
Shareholders’ equity	93,206	79,362

(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 six months ended June 30, 2025 and 2024

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

NOTE 12 – 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		Six Months Ended	
		June 30,		June 30,
	2025	2024	2025	2024
Increase (decrease) to natural gas revenues from:				
5% Appreciation of BRL to USD	661	562	1,344	1,180
10% Appreciation of BRL to USD	1,396	1,186	2,837	2,492
5% Depreciation of BRL to USD	(598)	(508)	(1,216)	(1,068)
10% Depreciation of BRL to USD	(1,142)	(970)	(2,321)	(2,039)

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			
	June 30, 2025		December 31, 2024	
	CAD\$ (000's)	BRL (000's)	CAD\$ (000's)	BRL (000's)
Cash and cash equivalents	480	30,697	461	20,527
Trade and other receivables	925	34,587	71	26,228
Accounts payable and accrued liabilities	(1,061)	(52,320)	(1,864)	(43,248)
Net exposure in foreign currency	343	12,964	(1,332)	3,507
Net exposure in USD (\$000s)	270	2,376	(926)	566

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 gain of \$0.4 million recognized in the Company's net income for the six months ended June 30, 2025 (June 30, 2024 – \$3.2 million loss) related to the change in the BRL to USD exchange rate on this intercompany balance. An additional foreign exchange gain of \$1.0 million from the Brazilian subsidiary is recognized in net income for the six months ended June 30, 2025 (June 30, 2024 - \$1.2 million loss) 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 six months ended June 30, 2025 and 2024

*Unaudited, all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 13 – CHANGES IN NON-CASH WORKING CAPITAL**

	Three Months Ended		Six Months Ended	
		June 30,		June 30,
	2025	2024	2025	2024
Change in:				
Trade and other receivables	(357)	158	(1,993)	1,165
Prepaid expenditures	411	90	180	46
Accounts payable and accrued liabilities	361	1,893	860	(36)
	415	2,141	(953)	1,175
Changes relating to:				
Operating activities	107	950	(298)	650
Financing activities	(38)	(8)	(105)	(35)
Investing activities	346	1,199	(550)	560
	415	2,141	(953)	1,175