ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
As at and Three and Six Months Ended June 30, 2026

ALVOPETRO

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, thousands of United States dollars)

	Note	June 30, 2026	December 31, 2025
ASSETS			
Current			
Cash and cash equivalents		**35,056**	32,372
Restricted cash		**72**	22
Trade and other receivables	11	**7,639**	6,426
Prepaid expenditures		**627**	487
Assets held for sale	4	**665**	585
Total current assets		**44,059**	39,892
Exploration and evaluation assets	5	**17,886**	17,278
Property, plant and equipment	6	**86,667**	77,475
Right-of-use assets	7	**5,263**	5,471
Non-current assets		**109,816**	100,224
Total assets		**153,875**	140,116
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**11,582**	11,257
Dividend payable	10	**4,477**	4,408
Bank debt	8	**12,000**	4,000
Lease liabilities	7	**1,304**	1,247
Decommissioning liabilities	9	**258**	243
Liabilities held for sale	4	**305**	287
Total current liabilities		**29,926**	21,442
Bank debt	8	**8,000**	16,000
Lease liabilities	7	**5,140**	5,782
Decommissioning liabilities	9	**1,402**	1,167
Deferred tax liabilities		**1,796**	351
Total liabilities		**46,264**	44,742
Shareholders' equity			
Share capital	10	**45,002**	43,656
Contributed surplus		**53,801**	54,189
Retained earnings		**52,511**	43,573
Accumulated other comprehensive loss		**(43,703)**	(46,044)
Total shareholders' equity		**107,611**	95,374
Total liabilities and shareholders' equity		**153,875**	140,116

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

	Note	Three Months Ended June 30, 2026	Three Months Ended June 30, 2025	Six Months Ended June 30, 2026	Six Months Ended June 30, 2025
Revenue					
Natural gas, oil and condensate sales	11	**19,180**	14,010	**36,572**	28,023
Royalties	2	**(1,127)**	(659)	**(2,308)**	(2,332)
Net natural gas, oil and condensate revenue		**18,053**	13,351	**34,264**	25,691
Other income	12	**846**	418	**1,596**	821
		18,899	13,769	**35,860**	26,512
Expenses					
Production	12	**1,503**	1,190	**2,982**	2,357
Transportation		**59**	31	**117**	31
General and administrative	12	**1,991**	1,465	**3,727**	2,991
Depletion and depreciation	6,7	**3,800**	2,836	**7,534**	5,958
Impairment	4	**146**	-	**146**	6
Finance expenses	12	**700**	371	**1,393**	827
Share-based compensation	10	**429**	325	**596**	654
Loss on asset disposition		**-**	-	**-**	4
Foreign exchange gains		**(1,023)**	(404)	**(2,333)**	(1,269)
Total expenses		**7,605**	5,814	**14,162**	11,559
Income before taxes		**11,294**	7,955	**21,698**	14,953
Income tax expense					
Current		**1,283**	700	**2,436**	1,340
Deferred		**247**	425	**1,439**	713
Total		**1,530**	1,125	**3,875**	2,053
Net income		**9,764**	6,830	**17,823**	12,900
Exchange (loss) gain on translation of foreign operations		**(609)**	3,718	**2,341**	8,104
Comprehensive income		**9,155**	10,548	**20,164**	21,004
Net income per share	10				
Basic		**0.26**	0.18	**0.47**	0.35
Diluted		**0.26**	0.18	**0.47**	0.34

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)

	Note	Common Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2025		**43,656**	**54,189**	**43,573**	**(46,044)**	**95,374**
Issue of common shares		**1,346**	**(1,102)**	**-**	**-**	**244**
Share-based compensation		**-**	**714**	**-**	**-**	**714**
Net income		**-**	**-**	**17,823**	**-**	**17,823**
Other comprehensive income		**-**	**-**	**-**	**2,341**	**2,341**
Dividends declared	10	**-**	**-**	**(8,885)**	**-**	**(8,885)**
Balance, June 30, 2026		**45,002**	**53,801**	**52,511**	**(43,703)**	**107,611**
Balance, December 31, 2024		43,269	53,423	36,229	(53,559)	79,362
Issue of common shares		310	(310)	-	-	-
Share-based compensation		-	667	-	-	667
Net income		-	-	12,900	-	12,900
Other comprehensive income		-	-	-	8,104	8,104
Dividends declared	10	-	-	(7,303)	-	(7,303)
Share repurchase		(171)		(353)		(524)
Balance, June 30, 2025		43,408	53,780	41,473	(45,455)	93,206

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)

	Note	Three Months Ended June 30, 2026	2025	Six Months Ended June 30, 2026	2025
Operating Activities					
Net income		**9,764**	6,830	**17,823**	12,900
Adjustments:					
Depletion and depreciation	6,7	**3,800**	2,836	**7,534**	5,958
Impairment	4	**146**	-	**146**	6
Finance expenses	12	**651**	348	**1,309**	702
Share-based compensation	10	**429**	325	**596**	654
Foreign exchange		**(939)**	(398)	**(2,244)**	(1,349)
Deferred tax		**247**	425	**1,439**	713
Loss on asset disposition		**-**	-	**-**	4
Funds flow from operations		**14,098**	10,366	**26,603**	19,588
Changes in non-cash working capital	15	**(179)**	107	**(1,967)**	(298)
		13,919	10,473	**24,636**	19,290
Financing Activities					
Dividends paid	10	**(4,408)**	(3,643)	**(8,816)**	(6,926)
Interest paid on bank debt	8	**(350)**	-	**(704)**	-
Issuance of common shares	10	**244**	-	**244**	-
Repurchase of common shares	10	**-**	(227)	**-**	(524)
Lease liabilities payments	7	**(566)**	(561)	**(1,135)**	(1,124)
Changes in non-cash working capital	15	**36**	(38)	**2**	(105)
		(5,044)	(4,469)	**(10,409)**	(8,679)
Investing Activities					
Expenditures on exploration and evaluation assets	5	**(434)**	(1,226)	**(768)**	(2,619)
Expenditures on property, plant and equipment	6	**(7,085)**	(7,760)	**(11,900)**	(14,742)
Proceeds on disposition		**6**	-	**12**	8
Changes in non-cash working capital	15	**1,248**	346	**541**	(550)
		(6,265)	(8,640)	**(12,115)**	(17,903)
Change in cash and cash equivalents		**2,610**	(2,636)	**2,112**	(7,292)
Effect of foreign exchange on cash balances		**(4)**	373	**572**	596
Cash and cash equivalents, beginning of period		**32,450**	17,264	**32,372**	21,697
Cash and cash equivalents, end of period		**35,056**	15,001	**35,056**	15,001
Cash and cash equivalents consist of:					
Cash		**8,592**	1,626	**8,592**	1,626
Cash equivalents		**26,464**	13,375	**26,464**	13,375
Supplemental information:					
Cash income taxes paid		**1,360**	504	**2,201**	1,113
Cash interest income received		**584**	291	**1,092**	574

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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, 2026 and for the three and six months ended June 30, 2026 and June 30, 2025 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, 2025, except as noted below. 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, 2025.

In 2026, the Company adopted the new classification and measurement requirements in IFRS 9 *Financial Instruments*. The amendments had no material effect on the amounts recorded in the financial statements.

The interim condensed consolidated financial statements are presented in U.S dollars ("USD").

These interim condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors on August 5, 2026.

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, 2025. Actual results may differ from estimated amounts and those differences may be material.

Under the terms of the Unit Operating Agreement ("UOA") with respect to Alvopetro's interest in the unitized area, which includes its Caburé natural gas field (the "Unit"), the working interest assigned to each party is subject to redeterminations. The first redetermination was completed in 2024, whereby Alvopetro was successful, resulting in an increase in its working interest from 49.1% to 56.2%, however this decision was disputed by Alvopetro's partner. An emergency arbitration process granted Alvopetro the redetermined interest effective June 1, 2024; provisional and contingent until reviewed by an arbitral tribunal (the "Tribunal") pursuant to the Rules of Arbitration of the International Chamber of Commerce ("ICC"). On April 27, 2026, Alvopetro was notified that the Tribunal found in favour of Alvopetro, stating that the decision of the independent expert in the redetermination process is final, valid, and effective, definitively binding the Parties, pursuant to the UOA and maintaining Alvopetro's 56.2% working interest in the Unit. The Tribunal also determined that the disputing partner shall reimburse Alvopetro for 90% of costs incurred with respect to the proceeding. As such, Alvopetro recorded a $0.1 million recovery in general and administrative expenses for the six months ended June 30, 2026. This represents the estimated, inflated costs recovered less the success fee owing to Alvopetro's legal counsel. Alvopetro's working interest in the Unit remains subject to future redeterminations which may have a material impact to Alvopetro.

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

As initially 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 ICC and in April 2025 the arbitral tribunal agreed with the GORR holders that Alvopetro is required to use a different sales price in the royalty computation. The final calculation has not yet been determined and the amount recorded by Alvopetro to June 30, 2026 represents management's best estimates, however the actual amount determined by the tribunal 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.

NOTE 3 – SEGMENTED INFORMATION

As at June 30, 2026 Alvopetro had two reportable operating segments which are consistent with the Company's geographic structure: 1) exploration, development and production assets in Brazil; and 2) development and production assets in Western Canada.

	As at and Three Months Ended June 30,							
	Brazil		Canada		Corporate		Total	
	2026	2025	**2026**	2025	**2026**	2025	**2026**	2025
Operating netbacks:								
Natural gas, oil and condensate sales	**17,973**	13,420	**1,207**	590	**-**	-	**19,180**	14,010
Royalties	**(948)**	(563)	**(179)**	(96)	**-**	-	**(1,127)**	(659)
Production expenses	**(1,308)**	(1,130)	**(195)**	(60)	**-**	-	**(1,503)**	(1,190)
Transportation costs	**-**	-	**(59)**	(31)	**-**	-	**(59)**	(31)
Total	**15,717**	11,727	**774**	403	**-**	-	**16,491**	12,130
Other income	**240**	135	**-**	-	**606**	283	**846**	418
Finance expenses	**346**	369	**1**	-	**353**	2	**700**	371
Depletion and depreciation	**3,469**	2,583	**305**	195	**26**	58	**3,800**	2,836
Impairment	**146**	-	**-**	-	**-**	-	**146**	-
Income tax expense	**1,530**	1,125	**-**	-	**-**	-	**1,530**	1,125
Net income (loss)	**9,506**	7,591	**328**	172	**(70)**	(933)	**9,764**	6,830
Property, plant & equipment	**77,884**	67,093	**8,682**	2,568	**101**	385	**86,667**	70,046
Capital expenditures	**7,499**	8,818	**(37)**	95	**57**	73	**7,519**	8,986

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

	As at and Six Months Ended June 30,							
	Brazil		Canada		Corporate		Total	
	2026	2025	**2026**	2025	**2026**	2025	**2026**	2025
Operating netbacks:								
Natural gas, oil and condensate sales	**34,399**	27,433	**2,173**	590	**-**	-	**36,572**	28,023
Royalties	**(1,998)**	(2,236)	**(310)**	(96)	**-**	-	**(2,308)**	(2,332)
Production expenses	**(2,642)**	(2,297)	**(340)**	(60)	**-**	-	**(2,982)**	(2,357)
Transportation costs	**-**	-	**(117)**	(31)	**-**	-	**(117)**	(31)
Total	**29,759**	22,900	**1,406**	403	**-**	-	**31,165**	23,303
Other income	**490**	296	**-**	-	**1,106**	525	**1,596**	821
Finance expenses	**692**	823	**2**	-	**699**	4	**1,393**	827
Depletion and depreciation	**6,804**	5,700	**653**	195	**77**	63	**7,534**	5,958
Impairment	**146**	-	**-**	-	**-**	-	**146**	-
Income tax expense	**3,077**	2,053	**-**	-	**798**	-	**3,875**	2,053
Net income (loss)	**18,409**	14,549	**1,022**	84	**(1,608)**	(1,733)	**17,823**	12,900
Property, plant & equipment	**77,884**	67,093	**8,682**	2,568	**101**	385	**86,667**	70,046
Capital expenditures	**10,640**	14,332	**1,909**	2,731	**119**	298	**12,668**	17,361

NOTE 4 – ASSETS AND LIABILITIES HELD FOR SALE

Assets	**June 30, 2026**	December 31, 2025
Balance, beginning of period	**585**	-
Transfer from PP&E (Note 6)	**-**	580
Assignment Agreement amendments	**189**	-
Impairment	**(146)**	(26)
Foreign exchange	**37**	31
Balance, end of period	**665**	585

Liabilities	**June 30 2026**	December 31, 2025
Balance, beginning of period	**287**	-
Transfer from Decommissioning Liabilities (Note 9)	**-**	297
Foreign exchange	**18**	(10)
Balance, end of period	**305**	287

During the year ended December 31, 2025, Alvopetro entered into an assignment agreement ("the Assignment Agreement") to dispose of its interests in the Bom Lugar and Mãe-da-lua oil fields in Brazil. In 2026 certain terms of the Assignment Agreement were amended, some of which impacted estimated amounts including interim period adjustments and the expected timing of receipt of deferred consideration. The carrying value of the assets held for sale was adjusted accordingly and the balance at June 30, 2026 represents the estimated recoverable amount of the asset.

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

NOTE 5 – EXPLORATION AND EVALUATION ("E&E") ASSETS

	As at	
	June 30, 2026	December 31, 2025
Balance, beginning of period	**17,278**	14,640
Capital expenditures	**768**	3,384
Capitalized share-based compensation	**-**	9
Transfer to PP&E (Note 6)	**(1,131)**	(2,096)
Asset dispositions & other transfers	**(19)**	(316)
Impairment	**-**	(6)
Foreign currency translation	**990**	1,663
Balance, end of period	**17,886**	17,278

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

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT ("PP&E")

	As at	
	June 30, 2026	December 31, 2025
Cost, beginning of period	**108,395**	79,327
Capital expenditures	**11,900**	30,109
Capitalized share-based compensation	**150**	257
Transfer from E&E Assets (Note 5)	**1,131**	2,096
Transfer to Assets Held for Sale (Note 4)	**-**	(13,557)
Change in decommissioning liabilities	**106**	321
Foreign currency translation	**4,642**	9,842
Cost, end of period	**126,324**	108,395
Accumulated depletion, depreciation and impairment, beginning of period	**(30,920)**	(26,342)
Depletion and depreciation	**(6,947)**	(11,779)
Impairment	**-**	(1,859)
Transfer to Assets Held for Sale (Note 4)	**-**	12,977
Foreign currency translation	**(1,790)**	(3,917)
Accumulated depletion, depreciation and impairment, end of period	**(39,657)**	(30,920)
Net book value, end of period	**86,667**	77,475

There were no indications of impairment or impairment reversal on any properties as at and for the six months ended June 30, 2026.

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

NOTE 7 – 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, 2026	December 31, 2025
Net book value, beginning of period	**5,471**	5,623
Additions	**-**	159
Depreciation	**(587)**	(1,184)
Foreign currency translation	**379**	873
Net book value, end of period	**5,263**	5,471
Net Book Value by Asset Class		
Natural gas facility	**5,141**	5,289
Office space	**96**	149
Surface land access	**26**	33
Total net book value	**5,263**	5,471

The Company's lease liabilities are as follows:

	As at	
	June 30, 2026	December 31, 2025
Lease liabilities, beginning of period	**7,029**	7,863
Additions	**-**	159
Finance expense	**551**	1,232
Lease payments	**(1,135)**	(2,262)
Foreign currency translation	**(1)**	37
Lease liabilities, end of period	**6,444**	7,029
Current	**1,304**	1,247
Non-current	**5,140**	5,782
Total	**6,444**	7,029

NOTE 8 – BANK DEBT

	June 30, 2026	December 31, 2025
Current	**12,000**	4,000
Non-current	**8,000**	16,000
Total	**20,000**	20,000

During the year ended December 31, 2025 the Company's wholly-owned subsidiary in Brazil entered into a $20 million loan agreement (the "Loan") with an international branch of a Brazilian chartered financial institution. In connection with the Loan, the Company's Brazilian subsidiary entered into a standby letter of credit with the Brazil chartered financial institution to guarantee the obligations under the Loan. The Loan is also guaranteed by Alvopetro's parent company. The Loan matures on November 29, 2027 with quarterly repayments of $4 million scheduled to commence on November 30, 2026. The Loan bears interest at a fixed rate of 7% per annum (including all applicable charges), payable quarterly.

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

Under the terms of the Loan agreement, Alvopetro is subject to certain customary financial and non-financial covenants, standard representations and warranties, and events of default. All financial covenants are with respect to the distribution of dividends as follows:

1) the total amount of dividends declared by Alvopetro in the four fiscal quarters immediately preceding the date of declaration of such dividend, does not exceed the Adjusted Cash Flow from Operations for the same period where Adjusted Cash Flow from Operations is defined as Cash Flow from Operating Activities calculated on a consolidated basis, before changes in non-cash working capital, less the total of all interest accrued during the period and principal payments due under the Loan during the same period; and
2) on a consolidated basis, Alvopetro Energy Ltd. maintains a minimum cash or cash equivalents balance of $3.0 million on the closing date of the fiscal quarter immediately preceding the declaration of such dividend.

The Company was in compliance with all financial and non-financial covenants with respect to dividends declared in 2026 and is in compliance with all loan covenants at June 30, 2026. There are no facts or circumstances which indicate to management that the Company will not comply with the debt covenants in the twelve months following the date of these financial statements.

NOTE 9 – DECOMMISSIONING LIABILITIES

Decommissioning liabilities are 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, 2026	December 31, 2025
Balance, beginning of period	**1,410**	1,298
Liabilities incurred	**80**	198
Revisions to obligations	**26**	123
Obligations settled - cash	**-**	(216)
Obligations settled – non cash	**-**	(2)
Transfer to Assets Held for Sale (Note 4)	**-**	(297)
Accretion	**66**	127
Foreign currency translation	**78**	179
Balance, end of period	**1,660**	1,410

Current	**258**	243
Non-current	**1,402**	1,167
Total	**1,660**	1,410

NOTE 10 – SHARE CAPITAL

a) **Issued and Outstanding Common Shares**

	Number of Shares	Amount ($000s)
Balance as at December 31, 2024	36,473,896	43,269
Exercise of stock options	58,570	20
Exercise of Deferred Share and Restricted Share Units	350,631	553
Repurchase and cancellation of shares	(151,000)	(186)
Balance as at December 31, 2025	**36,732,097**	**43,656**
Exercise of stock options	328,368	667
Exercise of Deferred Share and Restricted Share Units	247,152	679
Balance as at June 30, 2026	**37,307,617**	**45,002**

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, 2024	2,004,108	5.95
Granted	50,000	5.59
Exercised	(94,444)	2.46
Forfeited	(90,750)	6.84
Balance as at December 31, 2025	**1,868,914**	**6.07**
Granted	**10,000**	**9.12**
Exercised	**(608,997)**	**4.88**
Forfeited	**(43,500)**	**6.77**
Balance as at June 30, 2026	**1,226,417**	**6.67**
Percentage of common shares outstanding	**3.3%**	

	Options Outstanding at June 30, 2026			**Options Exercisable at June 30, 2026**		
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$4.38 - $5.99	444,417	4.84	2.8	85,667	4.84	0.4
CAD$6.00 - $7.99	240,000	6.96	1.4	240,000	6.96	1.4
CAD$8.00 - $9.12	542,000	8.03	2.4	211,998	8.01	2.4
CAD$4.38 - $9.12	**1,226,417**	**6.67**	**2.4**	**537,665**	**7.04**	**1.6**

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 RSUs, DSUs and performance share units ("PSUs") to purchase common shares of the Company.

	Number of RSUs & DSUs
Balance as at December 31, 2024	1,236,580
Granted	80,551
Exercised	(350,631)
Forfeited	(21,549)
Balance at December 31, 2025	944,951
Granted	296,538
Exercised	(247,152)
Balance at June 30, 2026	**994,337**
Percentage of common shares outstanding	**2.7%**
Weighted average remaining contractual life (years)	**3.8**

d) Share-Based Compensation

The fair value of the RSUs and DSUs 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 were as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2026	2025	**2026**	2025
Risk free interest rate (%)	**3.6**	-	**3.6**	-
Expected term (years)	**4.0**	-	**4.0**	-
Expected volatility (%)	**30.0**	-	**30.0**	-
Expected annual dividend per share (CAD$)	**0.66**	-	**0.66**	-
Forfeiture rate (%)	**7.5**	-	**7.5**	-
Weighted average fair value (CAD$)	**1.21**	-	**1.21**	-

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.

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:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	**2026**	2025
Weighted average basic	**37,730,808**	37,260,718	**37,579,224**	37,278,249
Dilutive securities				
Stock options	**282,680**	159,206	**329,608**	122,102
RSUs & DSUs	**251,946**	374,725	**246,543**	369,718
Weighted average diluted	**38,265,434**	37,794,649	**38,155,375**	37,770,069

f) Dividends

Dividends declared and paid were as follows:

		Six Months Ended June 30, 2026		
Period Declared	**Dividend per share ($)**	**Total Declared**	**Total Paid**	**Date Paid**
Three months ended December 31, 2025	0.12	**-**	**4,408**	January 15, 2026
Three months ended March 31, 2026	0.12	**4,408**	**4,408**	April 15, 2026
Three months ended June 30, 2026	0.12	**4,477**	**-**	July 15, 2026
Total		**8,885**	**8,816**	

		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	

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.

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

NOTE 11 – REVENUE FROM CONTRACTS WITH CUSTOMERS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	**2026**	2025
Natural gas – Brazil	**16,306**	12,563	**31,356**	25,532
Condensate – Brazil	**1,600**	842	**2,905**	1,825
Oil – Brazil & Canada	**1,274**	605	**2,311**	666
Total	**19,180**	14,010	**36,572**	28,023

For the six months ended June 30, 2026, natural gas revenue from Brazil represented 86% 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, 2026 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, 2026	December 31, 2025
Natural gas – Brazil	**6,563**	5,553
Condensate – Brazil	**-**	69
Oil – Brazil & Canada	**743**	238
Total	**7,306**	5,860

NOTE 12 – NATURE OF OTHER INCOME AND EXPENSES

a) Other Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	**2026**	2025
Interest income	**603**	283	**1,103**	525
Tax recoveries from operations & other	**243**	135	**493**	296
Total	**846**	418	**1,596**	821

b) Production Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	**2026**	2025
Personnel	**489**	332	**950**	702
Facility and infrastructure costs	**473**	411	**928**	811
Other fixed	**201**	243	**431**	440
Variable	**336**	197	**661**	397
Workover	**4**	7	**12**	7
Total	**1,503**	1,190	**2,982**	2,357

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 June 30,		Six Months Ended June 30,	
	2026	2025	**2026**	2025
Personnel	**1,320**	917	**2,593**	2,038
Travel	**53**	43	**93**	79
Office and IT	**151**	88	**357**	173
Professional fees	**247**	241	**379**	450
General corporate	**689**	551	**1,124**	995
Gross G&A expenses	**2,460**	1,840	**4,546**	3,735
Capitalized to E&E	**-**	-	**-**	(41)
Capitalized to PP&E	**(469)**	(375)	**(819)**	(703)
Net G&A expenses	**1,991**	1,465	**3,727**	2,991

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 June 30,		Six Months Ended June 30,	
	2026	2025	**2026**	2025
Lease interest (Note 7)	**265**	305	**551**	629
Loan interest (Note 8)	**351**	-	**693**	-
Accretion of decommissioning liabilities (Note 9)	**36**	43	**66**	73
Other	**48**	23	**83**	125
Total finance expenses	**700**	371	**1,393**	827

NOTE 13 – CAPITAL MANAGEMENT

The Company's capital consists of the following:

	As at	
	June 30, 2026	December 31, 2025
Cash and cash equivalents	**35,056**	32,372
Working capital(1) deficit, excluding cash and cash equivalents	**(20,923)**	(13,922)
Working capital(1)	**14,133**	18,450
Bank debt, non-current	**(8,000)**	(16,000)
Working capital, net of debt	**6,133**	2,450
Lease liabilities – non-current	**(5,140)**	(5,782)
Shareholders' equity	**107,611**	95,374

(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. Other than the covenants disclosed in Note 8 with respect to the Loan, there are no external restrictions on how the Company manages its capital.

NOTE 14 – 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 June 30,		Six Months Ended June 30,	
	2026	2025	**2026**	2025
Increase (decrease) to natural gas revenues from:				
5% Appreciation of BRL to USD	**858**	661	**1,650**	1,344
10% Appreciation of BRL to USD	**1,812**	1,396	**3,484**	2,837
5% Depreciation of BRL to USD	**(776)**	(598)	**(1,493)**	(1,216)
10% Depreciation of BRL to USD	**(1,482)**	(1,142)	**(2,850)**	(2,321)

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, 2026		December 31, 2025	
	CAD$ (000's)	**BRL (000's)**	CAD$ (000's)	BRL (000's)
Cash and cash equivalents	**855**	**85,232**	147	51,812
Restricted cash	**-**	**373**	-	123
Trade and other receivables	**932**	**35,960**	645	32,630
Accounts payable and accrued liabilities	**(570)**	**(55,625)**	(6,047)	(34,930)
Net exposure in foreign currency	**1,217**	**65,940**	(5,255)	49,635
Net exposure in USD ($000s)	**857**	**12,738**	(3,834)	9,021

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

NOTE 15 – CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	**2026**	2025
Change in:				
Restricted cash	**(22)**	-	**(49)**	-
Trade and other receivables	**74**	(357)	**(1,210)**	(1,993)
Prepaid expenditures	**157**	411	**(132)**	180
Accounts payable and accrued liabilities	**896**	361	**(33)**	860
	1,105	415	**(1,424)**	(953)
Changes relating to:				
Operating activities	**(179)**	107	**(1,967)**	(298)
Financing activities	**36**	(38)	**2**	(105)
Investing activities	**1,248**	346	**541**	(550)
	1,105	415	**(1,424)**	(953)