ALVOPETRO ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS
As at and Years Ended December 31, 2024 and 2023

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel 403-691-8000
Fax 403-691-8008
www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Alvopetro Energy Ltd.

Opinion

We have audited the consolidated financial statements of Alvopetro Energy Ltd. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2024 and December 31, 2023
- the consolidated statement of operations and comprehensive income for the years then ended
- the consolidated statement of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2024 and December 31, 2023, its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2024. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor’s report.

Assessment of the impact of estimated proved and probable oil and gas reserves on the depletion of property, plant and equipment (“PP&E”)

Description of the matter

We draw attention to Note 3 and Note 6 to the financial statements. The Entity depletes natural gas and oil assets, which are included within PP&E, using the unit-of-production method using the ratio of production in the period to the related proved and probable oil and gas reserves before royalties. The depletion base includes estimated forecasted future development costs to be incurred in developing proved and probable oil and gas reserves. Depletion and depreciation expense on PP&E was $6,406 thousand for the year ended December 31, 2024.

The estimate of proved and probable oil and gas reserves requires the expertise of independent third party reserve evaluators and includes significant assumptions related to:

- Forecasted natural gas and oil prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity engages independent third party reserve evaluators to estimate the proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on the depletion of PP&E as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We assessed the depletion expense calculation for compliance with IFRS Accounting Standards.

With respect to the estimate of proved and probable oil and gas reserves:

- We evaluated the competence, capabilities and objectivity of the independent third party reserve evaluators engaged by the Entity
- We compared forecasted natural gas and oil prices to those published by other independent third party reserve evaluators
- We compared the 2024 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2024 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Shane Doig.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 18, 2025

ALVOPETRO ENERGY LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Thousands of United States dollars)

	Note	December 31, 2024	December 31, 2023
ASSETS			
Current			
Cash and cash equivalents		**21,697**	18,326
Restricted cash		**-**	72
Trade and other receivables	10	**4,356**	6,859
Prepaid expenditures		**931**	738
Total current assets		**26,984**	25,995
Exploration and evaluation assets	5	**14,640**	13,785
Property, plant and equipment	6	**52,985**	59,812
Right-of-use assets	7	**5,623**	8,240
Deferred tax asset	12	**791**	1,993
Total assets		**101,023**	109,825
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**9,217**	6,662
Dividend payable	9	**3,283**	5,127
Lease liabilities	7	**1,069**	959
Decommissioning liabilities	8	**234**	130
Total current liabilities		**13,803**	12,878
Lease liabilities	7	**6,794**	7,722
Decommissioning liabilities	8	**1,064**	1,017
Total liabilities		**21,661**	21,617
Shareholders' equity			
Share capital	9	**43,269**	43,461
Contributed surplus		**53,423**	52,235
Retained earnings		**36,229**	33,570
Accumulated other comprehensive loss		**(53,559)**	(41,058)
Total shareholders' equity		**79,362**	88,208
Total liabilities and shareholders' equity		**101,023**	109,825

Commitments and Contingencies (Note 17)
Subsequent Event (Note 18)

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

Approved by:

"signed"

John D. Wright
Chairman of the Board of Directors

"signed"

Firoz Talakshi
Chairman of the Audit Committee

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Thousands of United States dollars, except per share amounts)

	Note	Year ended December 31, 2024	2023
Revenue			
Natural gas, oil and condensate sales	10	**45,517**	59,687
Royalties		**(1,310)**	(1,663)
Net natural gas, oil and condensate revenue		**44,207**	58,024
Other income	11	**1,732**	1,795
		45,939	59,819
Expenses			
Production	11	**4,156**	4,205
General and administrative	11	**6,389**	4,936
Depletion and depreciation	6,7	**7,592**	7,668
Impairment	5,6	**91**	10,986
Exploration & evaluation		**96**	82
Finance expenses	11	**1,470**	1,553
Share-based compensation		**1,240**	1,147
Gain on asset dispositions		**(2)**	-
Foreign exchange loss (gain)	14	**5,760**	(3,557)
		26,792	27,020
Income before taxes		**19,147**	32,799
Income tax expense			
Current	12	**1,983**	2,520
Deferred	12	**869**	1,754
Total		**2,852**	4,274
Net income		**16,295**	28,525
Exchange (loss) gain on translation of foreign operations		**(12,501)**	2,349
Comprehensive income		**3,794**	30,874
Net income per share	9		
Basic		**0.44**	0.77
Diluted		**0.43**	0.76

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

ALVOPETRO ENERGY LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Thousands of United States dollars)

	Note	Common Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2023		**43,461**	**52,235**	**33,570**	**(41,058)**	**88,208**
Issue of common shares	9	**32**	**(16)**	**-**	**-**	**16**
Shares repurchased	9	**(224)**	**-**	**(466)**	**-**	**(690)**
Share-based compensation		**-**	**1,204**	**-**	**-**	**1,204**
Net income		**-**	**-**	**16,295**	**-**	**16,295**
Other comprehensive loss		**-**	**-**	**-**	**(12,501)**	**(12,501)**
Dividends declared	9	**-**	**-**	**(13,170)**	**-**	**(13,170)**
Balance, December 31, 2024		**43,269**	**53,423**	**36,229**	**(53,559)**	**79,362**
Balance, December 31, 2022		42,933	51,361	25,521	(43,407)	76,408
Issue of common shares	9	175	(91)	-	-	84
Share restructuring	9	357	-	-	-	357
Shares repurchased	9	(4)	(5)	(14)	-	(23)
Share-based compensation		-	970	-	-	970
Net income		-	-	28,525	-	28,525
Other comprehensive income		-	-	-	2,349	2,349
Dividends declared	9	-	-	(20,462)	-	(20,462)
Balance, December 31, 2023		43,461	52,235	33,570	(41,058)	88,208

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of United States dollars)

		Year ended December 31,	
	Note	**2024**	2023
Operating Activities			
Net income		**16,295**	28,525
Adjustments:			
Depletion and depreciation	6,7	**7,592**	7,668
Impairment	5,6	**91**	10,986
Finance expenses	11	**1,470**	1,553
Share-based compensation		**1,240**	1,147
Foreign exchange		**5,720**	(3,541)
Deferred tax	12	**869**	1,754
Gain on disposition of assets		**(2)**	-
Settlement of decommissioning liabilities	8	**-**	(62)
Funds flow from operations		**33,275**	48,030
Changes in non-cash working capital	15	**1,626**	(328)
		34,901	47,702
Financing Activities			
Dividends paid	9	**(15,014)**	(19,692)
Issue of common shares	9	**16**	84
Share restructuring	9	**-**	357
Repurchase and cancellation of common shares	9	**(690)**	(23)
Lease liabilities payments	7	**(2,278)**	(2,274)
Changes in non-cash working capital	15	**(24)**	(192)
		(17,990)	(21,740)
Investing Activities			
Expenditures on exploration and evaluation assets	5	**(4,361)**	(6,091)
Expenditures on property, plant and equipment	6	**(10,944)**	(21,358)
Proceeds on dispositions		**389**	-
Change in restricted cash		**60**	264
Changes in non-cash working capital	15	**3,170**	(567)
		(11,686)	(27,752)
Change in cash and cash equivalents		**5,225**	(1,790)
Effect of foreign exchange on cash balances		**(1,854)**	332
Cash and cash equivalents, beginning of year		**18,326**	19,784
Cash and cash equivalents, end of year		**21,697**	18,326
Cash and cash equivalents consist of:			
Cash		**2,283**	2,273
Cash equivalents		**19,414**	16,053
Supplemental information:			
Cash income taxes paid		**2,223**	2,730
Cash interest income received		**1,226**	1,262

The accompanying notes are an integral part of these 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 PRESENTATION

Basis of Measurement and Statement of Compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") and were authorized for issuance by the Company's Board of Directors on March 18, 2025.

The consolidated financial statements are presented in U.S dollars ("USD") which is the parent Company's functional currency.

Use of Judgments, Estimates and Assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that impact the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, as at the date of the consolidated statements of financial position as well as the reported amounts of revenue, expenses and cash flows during the periods presented. Management makes judgments regarding the application of IFRS for each accounting policy. Estimates and assumptions relate primarily to unsettled transactions and events as of the date of the consolidated financial statements and actual results could differ materially from estimated amounts. These estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Judgments, estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and on a prospective basis. Estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the consolidated financial statements.

Current Environment and Estimation Uncertainty

Market uncertainty shaped by global events, including geopolitical factors, international conflicts, changes in relations between countries, tariffs and renegotiation or nullification of trade agreements can have a significant impact on global commodity prices, even more so when such circumstances involve countries that are major players in the oil and gas industry. It is impossible to accurately forecast the effect of any resultant outcomes on commodity prices, currency exchange rates or inflation, making it difficult to measure the nature, extent and magnitude of the financial impact these situations may have, specifically with respect to the recoverable amount of the Company's exploration and evaluation assets and property, plant and equipment.

The global advancement of, and growing demand for, alternative energy sources can affect several assumptions used to determine the recoverable amount of the Company's exploration and evaluation assets and property, plant and equipment and the timing and settlement of decommissioning obligations. The time it will take global energy markets to transition from carbon-based sources to alternative energy is unknown.

Alvopetro's focus on responsibly supplying energy and minimizing our environmental impact, as well as complying with regulations impacting emissions and other environmental-related matters has a multitude of potential implications for the Company. How the Company prioritizes and reports on these matters can affect access to capital markets, the Company's reputation and costs, specifically insurance and human resources. This becomes more complicated when regulations with respect to communicating environmental goals and actions to address climate change lack clarity.

For Alvopetro, the most significant estimates, judgments and assumptions potentially affected by the situations above, are the valuation of Alvopetro's exploration and evaluation assets and property, plant and equipment. Amounts recorded for depletion and depreciation, the decommissioning provision and deferred taxes are also impacted by the worldwide economic climate because they are based on several assumptions and estimates with respect to oil and natural gas proved plus probable reserves. The potential resulting direct and indirect impact to the Company of these uncertainties has been considered in management's estimates at the period-end; however, there could be further material impact in future periods.

Redetermination of Working Interest in the Caburé Natural Gas Field

As reported in the audited consolidated financial statements as at and for the year ended December 31, 2023, the redetermination of Alvopetro's working interest in the unitized area, which includes Alvopetro's Caburé natural gas field (the "Unit"), commenced in the fourth quarter of 2023, with an independent third party expert (the "Expert") engaged to evaluate the parties' interpretations of the working interests. As at December 31, 2023 Alvopetro's working interest in the Unit was 49.1%, with Alvopetro's partner in the Unit ("the Partner") holding the remaining 50.9%. On April 4, 2024, the parties received the Expert decision which found in favour of Alvopetro, increasing the Company's working interest to 56.2%. Thereafter Alvopetro received a notice of dispute from the Partner with respect to the Expert's final decision, seeking to stay the redetermination procedure. In response, Alvopetro filed an emergency arbitration request before the International Court of Arbitration of the International Chamber of Commerce ("ICC") seeking an injunction to make the Expert decision effective on June 1, 2024, as provided for in the Unit Operating Agreement (the "UOA"). In May 2024, the final order (the "Order") of the emergency arbitrator found in favour of Alvopetro with respect to the binding nature of the Expert's decision. In compliance with the Order, the redetermined working interests became effective on June 1, 2024 with Alvopetro's increased working interest of 56.2% resulting in the following impact on these consolidated financial statements in the year ended December 31, 2024:

- a $1.1 million increase in PP&E related to Alvopetro's revised working interest applicable to the historical unit development costs, included in expenditures on property, plant and equipment in the consolidated statements of cash flows;
- additional $0.1 million of production costs and general and administrative expenses, related to historical unit costs which, under the UOA, are to be charged based on working interest;
- a $0.1 million increase in Alvopetro's asset retirement obligations to reflect the Company's obligation for 56.2% of the Unit's estimated decommissioning costs; and
- depletion expense calculated based on revised reserves at the redetermined working interest and production volumes in the period which may be impacted by increased production entitlements from the Unit.

The Order is a provisional and contingent decision until reviewed by an arbitral tribunal pursuant to the Rules of Arbitration (the "Rules") of the ICC as provided for under the terms of the UOA. The full arbitration process has commenced, however the timing and outcome of the full arbitration is uncertain and Alvopetro is exposed to risks and uncertainties which may impact future revenues, future cash flows and Alvopetro's reserves and reserve life. Such impact may be material. In addition, throughout this process Alvopetro will be exposed to additional legal and other costs associated with the arbitration. Even where Alvopetro is successful, the proceedings may be time consuming and costly. The UOA provides for future redeterminations which also may have a material impact to Alvopetro.

Judgments, estimates and assumptions made by management that have the most significant effect on the amounts recognized in the consolidated financial statements are discussed further in Note 3.

NOTE 3 – MATERIAL ACCOUNTING POLICIES

Consolidation

These consolidated financial statements include the accounts of Alvopetro and its controlled subsidiaries. Intercompany transactions and balances are eliminated on consolidation. As at December 31, 2024 and 2023, the Company controls 100 percent of its subsidiaries (see Note 16).

Joint Operations

The Company has oil and gas exploration activities that are conducted jointly with others and these consolidated financial statements reflect the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows from such activities. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets. The determination of a joint arrangement requires management's judgment and interpretation of IFRS. The classification of a joint arrangement between joint operations and joint venture, which requires further judgment and interpretation, will affect how the financial position and results of the joint arrangement are accounted for.

Exploration and Evaluation ("E&E") Assets

Pre-exploration and pre-licensing costs associated with the investigating, bidding and acquisition of petroleum properties are expensed as exploration and evaluation expense when the targeted petroleum lease or concession is not obtained.

Costs incurred subsequent to obtaining the rights to explore, and prior to establishing commercial viability and technical feasibility, are classified as E&E assets. Such costs include land and license acquisition, technical services and studies, exploration drilling and testing, and directly attributable employee compensation. E&E assets also include equipment inventory, some of which is used for future exploration wells and some of which is transferred to PP&E for development projects. E&E assets are not depleted and are classified as such until they are considered technically feasible and commercially viable.

When E&E assets are considered technically feasible and commercially viable, they are reclassified to PP&E. Technical feasibility and commercial viability is initially indicated by the assignment of proved and/or probable reserves and then further subject to management judgement considering all relevant factors. Upon determination of technical feasibility and commercial viability, the E&E assets are tested for impairment and the estimated recoverable amount is transferred to PP&E.

The determination of technical feasibility and commercial viability and the impairment assessment requires significant judgment, estimates and assumptions with respect to future prospects, drilling success, well results from other activities including completions and stimulations, existing commitments and expiry of rights to explore, available funds, projected production rates, future market conditions and other significant changes (technological, economic, legal, regulatory).

Property, Plant and Equipment ("PP&E")

PP&E consists primarily of natural gas and oil development and production assets and, to a lesser extent, operational equipment and corporate assets.

Natural gas and oil assets, which are included in property, plant and equipment, include all costs directly associated with the development of natural gas and oil reserves. These expenditures include proved property acquisitions, geological and geophysical costs, development drilling and completions on productive and non-productive wells, infrastructure, decommissioning liabilities, directly attributable employee compensation and transfers from exploration and evaluation assets where technical feasibility and commercial viability has been established.

Natural gas and oil assets are accumulated on a cash generating unit ("CGU") basis. Costs accumulated within each CGU are depleted using the unit-of-production method using the ratio of production in the period to the related proved and probable oil and gas reserves before royalties as determined annually by independent third-party reserves evaluators. The depletion base consists of capitalized costs and estimated future development costs to be incurred in developing proved and probable reserves.

Costs related to replacing parts of assets included in PP&E are capitalized only when they increase the future economic benefits to be derived from the specific asset to which they relate. All other expenditures are recognized as an expense in the consolidated statements of operations and comprehensive income as incurred. The carrying amount of any replaced or sold component is derecognized.

The Company uses estimated proved and probable oil and gas reserves to deplete PP&E, to assess for indicators of impairment or impairment reversal on the Company's CGUs and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU. The estimation of proved and probable oil and gas reserves is an inherently complex process which involves professional judgment and geoscientific interpretation as well as determination of forecasted production, forecasted natural gas and oil prices and the timing and amount of forecasted operating costs, forecasted future development costs and forecasted royalties, all of which are subject to uncertainty. Key estimates used in determining future cash flows from proved and probable oil and gas reserves include:

Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forecasted natural gas and oil prices, production costs, required development costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being revised.

Natural gas and crude oil prices – Forward price estimates are used in the discounted cash flow model. These prices are adjusted for quality differentials, heat content and other factors. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

Impairment

E&E assets, which are comprised of the accumulated expenditures for each block for which technical feasibility and commercial viability has not yet been determined, are reviewed quarterly for indicators of impairment and at the time of transfer to PP&E. Indicators of impairment consist of facts and circumstances suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Where the carrying amount exceeds the estimated recoverable amount, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive income.

PP&E assets are grouped for impairment purposes by CGU and reviewed quarterly for indicators of impairment. An impairment test is performed whenever events or changes in circumstances indicate that the carrying value of the asset or CGU may not be recoverable. The CGU's recoverable amount is the greater of its fair value less costs of disposal and its value-in-use. Fair value less costs of disposal incorporates management's judgment, determined using discounted future cash flows of reserves at forecasted prices and costs. The value-in-use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. If the carrying amount exceeds the estimated recoverable amount, the CGU is written down with an impairment loss recorded in the consolidated statement of operations and comprehensive income.

Impairment losses from previous periods are assessed at each reporting date for indications that the impairment loss no longer exists or has decreased. Impairment losses can be reversed if there is a change in the estimates used to determine the recoverable amount but cannot exceed the carrying value of the asset prior to impairment less any depreciation and depletion that would have been taken if no impairment had been recognized.

Leases

A contractual arrangement where a party has the right to control the use of an identified asset in exchange for consideration is or contains a lease. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

At commencement, determined to be when the leased asset is available for use, the lease liability is recognized, measured at the present value of the lease payments that are not paid at the commencement date and discounted using the implicit lease rate or Alvopetro's incremental borrowing rate when the implicit rate is not readily determinable. A corresponding right-of-use ("ROU") asset is recognized. The ROU asset is based on the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. ROU assets are subsequently measured at cost less accumulated depreciation and impairment losses.

The ROU asset is depreciated over the shorter of: 1) the asset's useful life; and 2) the lease term on a straight-line basis. Adjustments to the ROU asset are made if the contractual arrangement includes costs to dismantle the asset.

The lease liability is remeasured when there is a change in future lease payments arising from a change in rate, a change to the Company's expected residual value guarantee payable, or changes in the assessment for exercising a purchase, termination or extension option. Lease payments are allocated between repayment of the lease liability and finance expense which is charged to the consolidated statements of operations and comprehensive income.

The measurement of lease obligations is subject to management's judgements, including the applicable incremental borrowing rate, based on assessment of the economic environment, term and underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense may differ due to changes in the market conditions and expected lease terms.

Decommissioning Liabilities

The Company recognizes the present value of the estimated future decommissioning liabilities related to statutory, contractual or other legal obligations associated with the retirement of assets. A corresponding increase to the carrying amount of the related asset is recorded.

Decommissioning liabilities are based on the estimated costs to abandon and reclaim all wells, facilities and pipelines as required under the terms of concession contracts and laws and regulations. The liability is discounted using the risk-free rate based on government bond rates for maturities coinciding as closely as possible with the estimated remaining years to abandonment.

In estimating future decommissioning liabilities various assumptions are required with respect to the amount and timing of abandonment and reclamation costs, inflation factors, future interest rates and potential changes in the legal, regulatory, environmental and political environments.

Revenue Recognition

The Company's revenues are primarily derived from the production of natural gas, condensate and oil. Revenue is recognized when the performance obligations are satisfied and revenue can be reliably measured. The performance obligations are satisfied upon delivery, when control of the product has transferred to the customer, being when the product has been physically transferred to the contracted delivery point. Revenue is measured at the consideration specified in the contract and represents amounts receivable for the hydrocarbons sold, net of discounts and sales taxes.

Income Taxes

Income tax expense is comprised of current and deferred income taxes. Income tax expense is recognized in the consolidated statements of operations and comprehensive income except to the extent that it relates to items recognized directly in equity.

Current tax expense is based on estimated taxable income and tax rates which are determined pursuant to tax law enacted or substantively enacted at the reporting date, adjusted for any available tax incentives or benefits which reduce current tax otherwise payable.

The Company follows the liability method of accounting for deferred taxes. Under this method, deferred income tax assets or liabilities are recorded to reflect the difference between the accounting and tax base of assets and liabilities and unused tax losses. Deferred income taxes are measured using tax rates that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The impact of tax benefits and incentives which may reduce the Company's income tax expense are considered in determining the expected future rates.

Deferred income tax assets are recognized for deductible temporary differences to the extent it is probable that future taxable profit will be available. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow the assets to be recovered. Deferred income tax assets and liabilities are offset only if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities to the extent they could be realized simultaneously.

The determination of deferred taxes requires interpretation of complex laws and regulations involving multiple jurisdictions. The measurement of income tax expense and deferred tax assets and liabilities is based on judgment in applying tax law and estimates on the applicable tax rates, available tax incentives, and the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities as well as the expected recoverability of deferred tax assets. The extent to which deferred tax assets are recognized are based on estimates of future profitability which are based on estimated future commodity prices and estimates of reserves, all of which are subject to management estimates, judgments and assumptions. Tax interpretation, regulations, and legislation in both Canada and Brazil are subject to change and interpretation which can affect the timing of the reversal of temporary tax differences, the tax rates in effect when such differences reverse and the Company's ability to utilize tax losses and other tax pools in the future. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. If any of these judgments and estimates prove to be inaccurate, actual results may differ significantly from that estimated and recorded by management and future earnings may be impacted.

Foreign and Reporting Currency

The Company's functional currencies are the Brazilian real ("BRL") for all Brazil entities and the USD for all Canadian entities. Alvopetro has chosen to present its consolidated financial statements in USD.

The designation of the Company's functional currencies is a judgment made by management based on the currency of the primary economic environment in which the Company operates. Despite the fact that the contracted price for natural gas under the Company's long-term natural gas sales agreement is derived from international benchmark prices in USD and the benchmark price for oil and condensate is set in USD, due to the business environment as well as foreign exchange and banking regulations in Brazil, management is of the opinion that the primary economic environment influencing the Company's labour, material and other costs as well as actual cash receipts from sales is Brazil.

Transactions in currencies other than the entity's functional currencies are recognized at the rates of exchange prevailing on the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting period date. Non-monetary assets, liabilities, revenues and expenses are translated at transaction date exchange rates. Any exchange gains or losses are included in the determination of net income on the consolidated statement of operations and comprehensive income.

The assets and liabilities of all Brazil entities are translated to USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates at the date of the transactions. Resultant foreign currency differences are recognized in other comprehensive income on the consolidated statements of operations and comprehensive income.

Amounts receivable from a foreign operation are considered part of the reporting entity's net investment when settlement is neither forecasted nor likely to occur in the foreseeable future. Foreign exchange gain or losses related to such items are recognized in other comprehensive income and presented in accumulated other comprehensive income in equity. Such amounts are retained in accumulated other comprehensive income and released to earnings where the Company has disposed of its entire interest in the foreign operation or loses control, joint control or significant influence over a foreign operation. Where any amounts receivable from a foreign operation are expected to be settled in the foreseeable future, foreign exchange gains or losses related to such items are recognized in the consolidated statements of income and comprehensive income from the date the Company determines such future settlement is likely to occur.

The determination of the timing and quantum of any anticipated settlement of amounts receivable from foreign operations and the resulting treatment of any foreign exchange gains or losses on such intercompany amounts is subject to judgment based on management estimates and assumptions of future profitability and capital and other activities, all of which are subject to additional uncertainties.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade and other receivables, accounts payable and accrued liabilities and dividends payable. These financial instruments are measured at amortized cost.

Fair Value Hierarchy

The fair value of financial instruments and certain other non-financial items recorded at fair value are categorized using a three-level hierarchy which reflects the inputs available for measurement:

Level 1 – values based on quoted prices in active markets for identical assets or liabilities;

Level 2 – values based on quoted market prices for similar instruments in markets that are not active or model inputs that are observable either directly or indirectly; and

Level 3 – values based on inputs that are unobservable for the asset or liability.

The estimated fair value of the Company's financial instruments approximates their carrying value due to their short term to maturity.

Derivative Instruments

The Company may at times use derivative instruments to manage its exposure to fluctuations in commodity prices, foreign currency exchange rates or interest rates. Alvopetro does not use financial derivatives for trading or speculative purposes. Derivative instruments, when employed, are recorded at fair value with changes in the fair value of the instruments recognized in the consolidated statements of operations.

As the delivery and receipt of a non-financial item is the underlying premise of the Company's long-term gas sales agreement ("GSA") it is accounted for as an executory contract. As such, it is not considered to be a financial asset or liability and settlements on the physical deliveries are recognized as natural gas revenue in the period the product is delivered to the sales point.

Impairment of Financial Assets

At each reporting date the Company assesses any objective evidence that a financial asset carried at amortized cost is impaired. Management uses judgment in making these assumptions, taking into consideration past loss history, existing market conditions and forward-looking estimates at the end of each reporting period. Any impairment is recorded in the consolidated statements of operations.

Segmented Operations

As at December 31, 2024 and 2023:

- all natural gas, oil and condensate sales revenue is derived from Brazilian operations;
- all exploration and evaluation assets and all material property, plant and equipment are located in Brazil;
- cash and cash equivalents are held in both Canada and Brazil (see Note 14);
- all of the restricted cash at December 31, 2023 was held in Brazil; and
- the Company does not have any revenue in Canada other than interest earned on cash balances.

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

NOTE 4 – CHANGES IN ACCOUNTING STANDARDS

New and Revised Accounting Standards

On January 1, 2024 the Company adopted amendments to the following standards:

- IAS 1 *Presentation of Financial Statements*; and
- IFRS 16 *Leases.*

The amendments did not have any impact on the financial statements as at and for the year ended December 31, 2024.

The Company has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective and may have a potential impact on the consolidated financial statements of the Company:

Standard and Description	Date of Adoption	Expected Impact on Consolidated Financial Statements
Certain classification and measurement requirements in IFRS 9 *Financial Instruments* have been amended with corresponding amendments to IFRS 7 *Financial Instruments: Disclosures*.	January 1, 2026	The Company is evaluating the expected impact on the financial statements.
The objective of IFRS 18 *Presentation and Disclosure in Financial Statements*, issued in April 2024, is to set out requirements for the presentation and disclosure of information in general purpose financial statements to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.	January 1, 2027	The Company expects an impact on the financial statements and is currently evaluating.

NOTE 5 – EXPLORATION AND EVALUATION ASSETS

	As at	
	December 31, 2024	December 31, 2023
Balance, beginning of year	**13,785**	16,114
Capital expenditures	**4,361**	6,091
Capitalized share-based compensation	**40**	8
Change in decommissioning liabilities	**39**	191
Transfer to PP&E (Note 6)	**(238)**	(3,025)
Asset dispositions & other transfers	**(325)**	(22)
Impairment	**(91)**	(6,748)
Foreign currency translation	**(2,931)**	1,176
Balance, end of year	**14,640**	13,785

Approximately $9.2 million of the total exploration and evaluation ("E&E") Assets balance relates to the portion of Block 183 not part of the Murucututu project. This asset is currently in the Development Assessment Plan ("PAD") phase. In 2022 Alvopetro drilled the 183-B1 well and in 2024 attempted an optimization project on this well during which challenges were encountered and the operation was abandoned. The original expiry of the PAD phase has ended; however Alvopetro has filed a request to extend the expiry date with an agreement to drill a natural gas prospect on the block. Given Alvopetro's history of extension approvals the Company is anticipating the request will be approved; however, as of the date of these consolidated financial statements the Company is still awaiting the decision on the request.

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Equipment inventory which was sold for $0.2 million during the year ended December 31, 2024 was first transferred to assets held for sale. Prior to transfer the equipment was written down to its estimated fair value, resulting in impairment of $0.1 million.

During 2023 an impairment loss of $6.7 million was recognized on Block 182 to reduce the carrying value of the block to $nil at December 31, 2023. The block was relinquished in 2024.

General and administrative costs totaling $0.2 million (December 31, 2023 - $0.1 million) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

Included in E&E assets is equipment inventory with a carrying value of $5.2 million (December 31, 2023 - $6.4 million).

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	As at	
	December 31, 2024	December 31, 2023
Cost, beginning of year	**86,766**	57,144
Capital expenditures	**10,944**	21,358
Capitalized share-based compensation	**127**	131
Transfer from E&E assets (Note 5)	**238**	3,025
Change in decommissioning liabilities	**286**	338
Disposition	**(97)**	-
Foreign currency translation	**(18,937)**	4,770
Cost, end of year	**79,327**	86,766
Accumulated depletion, depreciation and impairment, beginning of year	**(26,954)**	(14,684)
Depletion and depreciation	**(6,406)**	(6,491)
Impairment	**-**	(4,238)
Foreign currency translation	**7,018**	(1,541)
Accumulated depletion, depreciation and impairment, end of year	**(26,342)**	(26,954)
Net book value, end of year	**52,985**	59,812

Capital expenditures for the year ended December 31, 2024 include $1.1 million relating to Alvopetro's share of historical Unit expenditures adjusted to the redetermined working interest of 56.2% compared to the initial working interest of 49.1% (see Note 2). General and administrative costs totaling $1.0 million (December 31, 2023 - $1.3 million) that were directly related to property, plant, and equipment activities have been capitalized.

During the year ended December 31, 2024 the Company disposed of land for proceeds of $0.1 million.

Future development costs of $49.7 million (December 31, 2023 – $40.1 million) were included in the depletion calculation.

At the end of each reporting period the Company assesses impairment and impairment reversal indicators for each CGU. There were no indications of impairment or impairment reversal on any properties as at and for the year ended December 31, 2024. In 2023, the Company recognized an impairment of $4.2 million on the Bom Lugar field to reduce the carrying value to the estimated recoverable amount at that time.

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	
	December 31, 2024	December 31, 2023
Net book value, beginning of year	**8,240**	8,701
Additions	**114**	26
Depreciation	**(1,186)**	(1,177)
Foreign currency translation	**(1,545)**	690
Net book value, end of year	**5,623**	8,240
Net Book Value by Asset Class		
Natural gas facility	**5,515**	8,094
Office space	**64**	71
Surface land access	**44**	75
Total net book value	**5,623**	8,240

The Company's lease liabilities are as follows:

	As at	
	December 31, 2024	December 31, 2023
Lease liabilities, beginning of year	**8,681**	9,428
Additions	**114**	26
Finance expense	**1,370**	1,495
Lease payments	**(2,278)**	(2,274)
Foreign currency translation	**(24)**	6
Lease liabilities, end of year	**7,863**	8,681
Current	**1,069**	959
Non-current	**6,794**	7,722
Total	**7,863**	8,681

The majority of the right-of-use assets and the lease liabilities are related to the lease component contained in Alvopetro's 10-year contract (the "Gas Treatment Agreement") with Enerflex Ltd. ("Enerflex") expiring in July 2030. Under the Gas Treatment Agreement, Enerflex constructed, maintains, operates and warranties the onstream performance of the natural gas treatment facility ("the Facility") to process natural gas from the Company's Caburé and Murucututu natural gas fields.

The right-of-use assets are depreciated over the lease term. The present value of future minimum lease payments were discounted using a rate of 17%.

NOTE 8 – 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	
	December 31, 2024	December 31, 2023
Balance, beginning of year	**1,147**	639
Liabilities incurred	**128**	33
Revisions to obligations	**197**	496
Obligations settled - cash	**-**	(62)
Obligations settled – non cash	**-**	(21)
Accretion	**100**	58
Foreign currency translation	**(274)**	4
Balance, end of year	**1,298**	1,147

Current	**234**	130
Non-current	**1,064**	1,017
Total	**1,298**	1,147

Total undiscounted cash flows, escalated at 3.9% (December 31, 2023 - 3.5%) for inflation, required to settle the Company's decommissioning liabilities are estimated to be $9.3 million (December 31, 2023 - $14.9 million). These estimated cash flows are discounted using an average risk-free rate of 9.1% (December 31, 2023 – 8.9%).

Revisions in the period represent the incremental provision related to the increase in the Company's working interest in the Caburé natural gas field (see Note 2) as well as adjustments to estimated timing of abandonment of certain properties. Non-cash obligations settled in 2023 represent tangible equipment transferred from E&E assets.

NOTE 9 – 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.

Issued and Outstanding Common Shares

	Year Ended December 31,			
	2024		2023	
	Number of Shares	**Amount ($000)**	Number of Shares	Amount ($000)
Balance, beginning of year	**36,617,940**	**43,461**	36,311,579	42,933
Exercise of stock options	**44,956**	**32**	310,961	175
Repurchase and cancellation of shares	**(189,000)**	**(224)**	(4,600)	(4)
Share restructuring	**-**	**-**	-	357
Balance, end of year	**36,473,896**	**43,269**	36,617,940	43,461

In 2023 Alvopetro received approval from the TSX Venture Exchange ("TSXV") for a normal course issuer bid (the "2023 NCIB"), under which a total of 4,600 Alvopetro Energy common shares were repurchased and subsequently cancelled in the year through the Company's TSXV-approved automatic share purchase plan. The 2023 NCIB expired on January 5, 2024 with no further share repurchases in 2024. On August 13, 2024, Alvopetro launched another normal course issuer bid (the "2024 NCIB"), the terms permitting Alvopetro to repurchase up to 2,953,044 common shares from August 13, 2024 to the earlier of August 12, 2025 or when the 2024 NCIB is completed or terminated by Alvopetro. During the year ended December 31, 2024, 189,000 shares were repurchased and cancelled. The average per-share value in the share capital account prior to the repurchases is applied to the number of shares cancelled to reduce share capital. The difference between the reduction in share capital and the amount paid for the shares repurchased is then allocated to contributed surplus and retained earnings.

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

In 2021 Alvopetro completed a 2,100:1 share consolidation immediately followed by a 1:700 split (the "Share Restructuring"), resulting in an effective 3:1 share consolidation. Pursuant to the Share Restructuring, shareholders who held less than 2,100 shares immediately prior to the Share Restructuring (the "Non-Continuing Shareholders") were entitled to cash consideration upon surrender of their shares. Under the court approved transaction, Non-Continuing Shareholders had two years from the date of the Share Restructuring to provide the documentation required to receive the cash payment. At the time of the Share Restructuring, Alvopetro deposited a total of $1.1 million with a depositary for payments to be made to Non-Continuing Shareholders. In September 2023, following the two-year anniversary date of the Share Restructuring, a total of $0.4 million of the initial deposit remained unclaimed and was returned to Alvopetro in 2023.

b) Options to Purchase Common Shares

Alvopetro has a share-based compensation plan whereby the Company may grant stock options to its directors, officers, employees and consultants as part of the Company's long-term incentive plan to align compensation with shareholders' interests. The options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price (CAD$)
Balance as at December 31, 2022	1,564,996	4.25
Granted	638,000	8.01
Exercise of options	(384,556)	1.83
Options forfeited	(17,000)	7.21
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**
Percentage of common shares outstanding	**5.5%**	

	Options Outstanding at December 31, 2024			**Options Exercisable at December 31, 2024**		
Exercise Price	Number of Options	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (Years)
CAD$2.25 - $3.99	291,109	2.44	1.4	191,109	2.46	0.9
CAD$4.00 - $5.99	612,666	4.79	3.5	260,666	4.84	1.9
CAD$6.00 - $7.99	501,333	6.94	2.9	194,004	6.94	2.9
CAD$8.00 - $8.01	599,000	8.01	3.9	105,999	8.01	3.9
CAD$2.25 - $8.01	**2,004,108**	**5.95**	**3.2**	**751,778**	**5.22**	**2.2**

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 DSUs and RSUs	
	December 31, 2024	December 31, 2023
Balance, beginning of year	**881,541**	729,288
Granted	**355,039**	152,253
Balance, end of year	**1,236,580**	881,541
Percentage of common shares outstanding	**3.4%**	2.4%
Weighted average remaining contractual life (years)	**3.3**	3.7

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 were as follows:

	Year ended December 31,	
	2024	2023
Risk free interest rate (%)	**3.1**	4.3
Expected term (years)	**4.2**	4.0
Expected volatility (%)	**30.0**	30.0
Expected annual dividend per share ($)	**0.49**	0.56
Weighted average forfeiture rate (%)	**5.0**	5.2
Weighted average fair value (CAD$)	**0.42**	0.89

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.

d) 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. Pursuant to the treasury stock method, where dilutive instruments are vested and require little or no further consideration to be exercised, the impact of such instruments is included in the computation of weighted average basic shares outstanding. Accordingly, the computation in the table below includes all DSUs and all vested RSUs in basic shares for the purposes of the net earnings per share calculations.

The following reconciles the number of shares used in the basic and diluted net earnings per share calculations:

	Year ended December 31,	
	2024	2023
Weighted average basic	**37,289,043**	37,121,109
Dilutive securities		
Stock options	**119,643**	525,658
RSUs	**149,063**	122,930
Weighted average diluted	**37,557,749**	37,769,697

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

e) Dividends

Dividends declared and paid were as follows:

		Year Ended December 31, 2024		
Period Declared	**Dividend per share ($)**	**Total Declared**	**Total Paid**	**Date Paid**
Three months ended December 31, 2023	**0.14**	**-**	**5,127**	January 15, 2024
Three months ended March 31, 2024	**0.09**	**3,296**	**3,296**	April 15, 2024
Three months ended June 30, 2024	**0.09**	**3,296**	**3,296**	July 15, 2024
Three months ended September 30, 2024	**0.09**	**3,295**	**3,295**	October 15, 2024
Three months ended December 31, 2024	**0.09**	**3,283**	**-**	January 15, 2025
Total		**13,170**	**15,014**	

		Year Ended December 31, 2023		
Period Declared	**Dividend per share ($)**	**Total Declared**	**Total Paid**	**Date Paid**
Three months ended December 31, 2022	0.12	**-**	**4,357**	January 13, 2023
Three months ended March 31, 2023	0.14	**5,104**	**5,104**	April 14, 2023
Three months ended June 30, 2023	0.14	**5,109**	**5,109**	July 14, 2023
Three months ended September 30, 2023	0.14	**5,122**	**5,122**	October 13, 2023
Three months ended December 31, 2023	0.14	**5,127**	**-**	January 15, 2024
Total		**20,462**	**19,692**	

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.

NOTE 10 – REVENUE FROM CONTRACTS WITH CUSTOMERS

	Year ended December 31,	
	2024	2023
Natural gas	**42,442**	56,433
Condensate	**2,785**	3,109
Oil	**290**	145
Total	**45,517**	59,687

Throughout 2023 and 2024 the Company's natural gas price was set semi-annually using a trailing weighted average basket of USD benchmark prices, translated to BRL based on the average BRL relative to USD and then fixed in BRL until the next price re-set date. As all invoices are issued in BRL, actual receipts and revenue recognized in equivalent USD will be subject to exchange rate variations.

The Company's oil and condensate sales revenues are derived under contracts with customers based on floating prices, specifically the Brent benchmark oil price adjusted for contracted discounts at a fixed percentage of Brent in the case of oil sales and, in the case of condensate sales, typically at fixed premiums to Brent.

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

Contracted payment terms are on or before the 25th day of the month following satisfaction of the performance obligation and payments for condensate are often made in advance of shipment. For the year ended December 31, 2024 the natural gas sales revenue has been collected within the timing expected. There is no indication of potential collection issues with Bahiagás, the local distribution company in the state of Bahia in Brazil and sole customer of the Company's natural gas production. Amounts receivable from contracts with customers by commodity are as follows:

	As at December 31,	
	2024	2023
Natural gas	**3,720**	6,486
Condensate	**-**	13
Oil	**19**	-
Total	**3,739**	6,499

NOTE 11 – NATURE OF OTHER INCOME AND EXPENSES

a) Other Income

	Year Ended December 31,	
	2024	2023
Interest income	**1,241**	1,277
Tax recoveries from operations & other	**491**	518
Total other income	**1,732**	1,795

b) Production Expenses

	Year Ended December 31,	
	2024	2023
Personnel	**792**	360
Facility and pipeline	**1,668**	1,638
Other fixed	**959**	1,738
Variable	**610**	387
Workover	**127**	82
Total production expenses	**4,156**	4,205

c) General and Administrative ("G&A") Expenses

	Year Ended December 31,	
	2024	2023
Personnel	**4,199**	3,287
Travel	**180**	185
Office and IT costs	**310**	298
Professional fees	**1,110**	830
General corporate	**1,829**	1,721
Gross G&A expenses	**7,628**	6,321
Capitalized to E&E (Note 5)	**(225)**	(107)
Capitalized to PP&E (Note 6)	**(1,014)**	(1,278)
Net G&A expenses	**6,389**	4,936

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.

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

d) Finance Expenses

	Year Ended December 31,	
	2024	2023
Lease interest (Note 7)	**1,370**	1,495
Accretion of decommissioning liabilities (Note 8)	**100**	58
Total finance expenses	**1,470**	1,553

NOTE 12 – TAXES

Alvopetro computes Brazil corporate income tax under the actual profit regime. Under this regime, the corporate tax rate on taxable income is 34%, comprised of corporate income tax of 15%, surtax of 10%, and a social contribution tax of 9%. Tax losses may be carried forward indefinitely; however, any utilization of losses in a subsequent taxation year is limited to 30% of the taxable income in that period.

In 2021, the Company received approval from tax authorities in Brazil for Supertintendência de Desenvolvimento do Nordeste ("SUDENE"), a regional tax incentive offered for Bahia State. Pursuant to the incentive, the Company may reduce its corporate tax and surtax liability by 75% for profits arising on qualifying natural gas projects, resulting in an effective tax rate of 15.25% where profits for SUDENE purposes align with taxable income under the actual profit regime. The SUDENE incentive applies to profit from natural gas and, as of 2023, profits from condensate earned by Alvopetro for a period of ten taxation years, commencing January 1, 2021 and ending December 31, 2030 (the "SUDENE period").

Deferred tax assets and liabilities are measured using substantively enacted tax rates that are expected to apply when temporary differences are expected to reverse. As the Company expects the majority of temporary differences to reverse in the SUDENE period, the Company has measured its deferred tax assets at the SUDENE tax rate of 15.25%.

Income tax expense differs from the amount that would have been expected by applying the statutory income tax rate to income before taxes. The principal reasons for this difference are as follows:

	Year ended December 31,	
	2024	2023
Income before taxes	**19,147**	32,799
Statutory income tax rate	**34%**	34%
Expected income tax expense	**6,510**	11,152
(Decrease) increase resulting from:		
Effect of tax incentives and lower local tax rates	**(5,120)**	(8,474)
Non-deductible amounts for tax purposes	**1,274**	783
Share-based compensation	**422**	390
Change in unrecognized deferred tax asset	**(353)**	457
Impact of foreign exchange fluctuations and other	**119**	(34)
Income tax expense	**2,852**	4,274

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

The components of income tax expense are as follows:

	Year ended December 31,	
	2024	2023
Current tax expense	**1,983**	2,520
Deferred tax expense	**869**	1,754
Total income tax expense	**2,852**	4,274
Effective tax rate(1)	**14.9%**	13.0%

(1) Calculated as total income tax expense divided by income before taxes.

The change in the Company's deferred tax asset balance is as follows:

	Year ended December 31,	
	2024	2023
Deferred tax asset, beginning of the year	**1,993**	3,525
Recognized in deferred income tax expense	**(869)**	(1,754)
Recognized in other comprehensive income ("OCI")	**(333)**	222
Deferred tax asset, end of year	**791**	1,993

The components of the Company's deferred tax assets and liabilities arising from temporary differences and loss carry-forwards as well as the associated amount of deferred tax recovery or expense recognized in the Company's consolidated statements of operations and comprehensive loss are outlined below.

Deferred tax (liability) asset	PP&E, E&E and ROU assets	Decommissioning liabilities	Tax loss carryforwards	Other tax pools	Unrecognized deferred tax asset	Total
As at December 31, 2022	(1,417)	98	3,700	2,384	(1,240)	3,525
Deferred tax recovery (expense)	1,353	68	(1,616)	(1,102)	(457)	(1,754)
Recognition in OCI	(66)	10	87	191	-	222
As at December 31, 2023	(130)	176	2,171	1,473	(1,697)	1,993
Deferred tax (expense) recovery	**(868)**	**70**	**261**	**(685)**	**353**	**(869)**
Recognition in OCI	**131**	**(47)**	**(122)**	**(295)**	**-**	**(333)**
As at December 31, 2024	**(867)**	**199**	**2,310**	**493**	**(1,344)**	**791**

An unrecognized deferred tax asset of $1.3 million exists at December 31, 2024 (December 31, 2023 - $1.7 million), all of which relates to Canada. Total tax loss carry-forwards include $4.0 million attributable to Brazil, which carryforward indefinitely but are limited to annual utilization of up to 30% of taxable income in subsequent periods, and $6.9 million attributable to Canada which expire between 2033 and 2044.

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

NOTE 13 – CAPITAL MANAGEMENT

The Company's capital consists of the following:

	As at December 31,	
	2024	2023
Cash and cash equivalents	**21,697**	18,326
Working capital[(1)] deficit, excluding cash and cash equivalents	**(8,516)**	(5,209)
Working capital	**13,181**	13,117
Lease liabilities – non-current	**(6,794)**	(7,722)
Shareholders' equity	**79,362**	88,208

(1) Working capital is calculated as total current assets less total current liabilities.

Alvopetro has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital and dividend programs to the extent the capital expenditures are not committed. There are no external restrictions on how the Company manages its capital.

NOTE 14 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Overview

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

Financial Risk

The Company is exposed to risks arising from the volatility of commodity prices, foreign exchange rates and interest rates, resulting in market risks, credit risk and liquidity risk. Risk management strategies are employed to ensure that any exposures are within risk tolerance levels compatible with the Company's business objectives. Alvopetro's Board of Directors has overall responsibility for establishment and oversight of the Company's risk management policies and activities.

Market Risk

Market risk is the risk that changes in market factors will affect the Company's cash flows, net income, comprehensive income, liquidity or the value of financial instruments. Market uncertainly associated with financial institution instability, international conflicts, trade wars and tariff disputes, geopolitical factors and pandemics is incorporated into management's risk assessments but given the lack of precedence, is difficult to accurately predict with confidence.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Company's natural gas, oil and condensate sales are denominated in BRL based on USD benchmark prices, unused tax pools in Brazil are in BRL and all operational, administrative and capital activities related to the Brazil properties are transacted primarily in BRL. Alvopetro's GSA is exposed to fluctuations in the USD to the BRL as the natural gas price, although benchmarked to USD, was set semi-annually throughout 2023 and 2024 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:

	Year Ended December 31,	
	2024	2023
Increase (decrease) to natural gas revenues from:		
5% Appreciation of BRL to USD	**2,234**	2,970
10% Appreciation of BRL to USD	**4,716**	6,270
5% Depreciation of BRL to USD	**(2,021)**	(2,687)
10% Depreciation of BRL to USD	**(3,858)**	(5,130)

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			
	December 31, 2024		December 31, 2023	
	CAD$ (000's)	**BRL (000's)**	CAD$ (000's)	BRL (000's)
Cash and cash equivalents	**461**	**20,527**	197	28,095
Restricted cash – current	**-**	**-**	-	350
Trade and other receivables	**71**	**26,228**	93	32,598
Accounts payable and accrued liabilities	**(1,864)**	**(43,248)**	(948)	(25,686)
Net exposure in foreign currency	**(1,332)**	**3,507**	(658)	35,357
Net exposure in USD ($000s)	**(926)**	**566**	(498)	7,303

Based on financial instruments held at December 31, 2024 and 2023, sensitivity to fluctuations in the exchange rates as indicated below would have the following estimated effect on net income and other comprehensive income:

	Year Ended December 31,	
	2024	2023
Effect of 5% appreciation in CAD and BRL to USD		
Decrease to net income	**(46)**	(25)
Increase to other comprehensive income	**30**	384
Effect of 5% depreciation in CAD and BRL to USD		
Increase to net income	**46**	25
Decrease to other comprehensive income	**(27)**	(348)

Commodity Price Risk

For the year ended December 31, 2024 approximately 93% (December 31, 2023 – 95%) of natural gas, oil and condensate sales was related to natural gas sales. Fluctuations in natural gas prices may have a significant impact on the carrying value of this property as well as cash flows and the Company's resultant ability to execute planned capital expenditures and meet ongoing obligations. Changes in commodity prices can also affect the Company's ability to obtain future financings and the terms of those future financings. Alvopetro's natural gas volumes are sold pursuant to its GSA at a natural gas price based on average historical international USD benchmark commodity prices.

The Company did not have any forward commodity price contracts in place as at or during the years ended December 31, 2024 and 2023 but may consider such in the future to protect cash flows and manage this risk.

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

Interest Rate Risk

The Company is exposed to interest rate cash flow risk on cash and cash equivalents and restricted cash due to fluctuations in market interest rates applied to such balances.

Credit Risk

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations, any potential impact for Alvopetro primarily pertaining to trade and other receivables.

Alvopetro is subject to credit risk by virtue of having only one customer for its natural gas production, creating economic dependence on this counterparty. At December 31, 2024, $3.7 million of accounts receivable (December 31, 2023 - $6.5 million) or 85% (2023 - 95%) is related to natural gas production sold to this counterparty (see Note 10), the full balance of which was received subsequent to December 31, 2024. Alvopetro is paid for its production monthly and has assessed the risk of nonpayment from this customer, the distribution company for the state of Bahia, as very low. To date there have been no issues with respect to recoverability of the accounts receivable from Alvopetro's natural gas customer nor any significant issues recovering amounts from oil or condensate customers. As such, the risk of non-collection from this counterparty and any of Alvopetro's counterparties is not expected to have a material impact on the financial statements.

The Company closely monitors other trade receivables, recognizing a provision when collection is in doubt. There were no material expected credit losses recognized in 2024 or 2023. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when due. The Company manages this risk by forecasting cash flows for a minimum period of twelve months which involves preparation of capital expenditure, operating and general and administrative budgets, all of which are monitored and updated as considered necessary. All obligations in 2024 and 2023 were satisfied with the Company's cash balances and cash flows from operating activities. In the event the Company experiences a decline in cash flows, dividend payments are at the discretion of the Board of Directors and, with the exception of any work commitments, Alvopetro has flexibility with respect to capital activities planned.

NOTE 15 – CHANGES IN NON-CASH WORKING CAPITAL

	Year ended December 31,	
	2024	2023
Change in:		
Trade and other receivables	**1,250**	862
Prepaid expenditures	**(319)**	(296)
Accounts payable and accrued liabilities	**3,841**	(1,653)
	4,772	(1,087)
Changes relating to:		
Operating activities	**1,626**	(328)
Financing activities	**(24)**	(192)
Investing activities	**3,170**	(567)
	4,772	(1,087)

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

NOTE 16 – RELATED PARTY TRANSACTIONS

Key management personnel are comprised of Alvopetro's directors and officers. Compensation for these individuals is set forth as follows:

	Year ended December 31,	
	2024	2023
Short-term benefits	**1,748**	1,282
Share-based compensation	**1,031**	1,017
Total	**2,779**	2,299

The following table lists the Company's subsidiaries and their respective countries of incorporation, each owned 100% directly and indirectly at December 31, 2024:

Subsidiary Name	Country of Incorporation
Alvopetro Oil and Gas Investments Inc.	Canada
Alvopetro S.A. Extração de Petróleo e Gás Natural	Brazil

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The following is a summary of Alvopetro's contractual commitments as at December 31, 2024:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Gas Treatment Agreement(1)	1,249	2,499	3,124	6,872
Office lease	32	144	16	192
Total Commitments	**1,281**	**2,643**	**3,140**	**7,064**

(1) Amounts for the Gas Treatment Agreement are BRL denominated commitments and reflected in the table above based on the U.S. dollar equivalent as at December 31, 2024. As a result, such commitments are subject to fluctuations in the USD/BRL foreign exchange rate.

Amounts presented above for the Gas Treatment Agreement represent the monthly service fees for operation and maintenance of the Facility and operating fees for Alvopetro's 11-kilometre transfer pipeline, not considered to constitute a lease (see Note 7). The office lease commitment amounts above relate to a lease agreement the Company has entered into in Canada which commences in 2025 and ends in 2029. Management has assessed that this agreement is a lease under IFRS 16 and it will be classified as such when the space is available for use in 2025.

The Company has abandonment guarantees that are required to be posted with the ANP for the Bom Lugar, Mãe-da-lua, Caburé and Murucututu fields under the terms of the concession contract for each field. Alvopetro has recognized the estimated abandonment costs relating to these and all exploration assets as part of decommissioning liabilities on the consolidated statements of financial position.

As is customary in the oil and gas industry, we may at times have work plans in place to reserve or earn certain acreage positions or wells. If we do not complete such work plans in a timely manner, the acreage positions or wells may be lost, or penalties may be applied.

In the normal course of operations we have disputes for which we currently cannot determine the ultimate results. The Company rigorously defends its positions in any such matters and has a policy to record contingent liabilities as the amounts become determinable and the probability of loss is more likely than not. The Company currently has no contingent liabilities recorded. However, the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters are unknown and could have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 18 – SUBSEQUENT EVENT

On February 5, 2025 Alvopetro announced that it has entered into a farmin agreement (“the Farmin”) with a private Canadian company. Under the terms of the Farmin, Alvopetro agreed to fund 100% of two earning wells in exchange for a 50% non-operated working interest in 12,243 acres of land in Western Saskatchewan. To the extent costs for the two earning wells exceed C$5.0 million, the incremental amount is to be allocated based on working interest. As of the date of these consolidated financial statements, the two wells have been drilled and are being completed and equipped. Alvopetro’s estimated total costs for the two earning wells is expected to be approximately C$4.0 million.

This Farmin does not have any impact on the consolidated financial statements nor the Company’s independently estimated oil and natural gas reserves as at and for the year ended December 31, 2024.