

# **ALVOPETRO ENERGY LTD.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**As at and Years Ended December 31, 2025 and 2024**





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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Alvo Petro Energy Ltd.

### ***Opinion***

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

- the consolidated statements of financial position as at December 31, 2025 and December 31, 2024
- the consolidated statements of operations and comprehensive income for the years then ended
- the consolidated statements 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, 2025 and December 31, 2024, and 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, 2025. 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 related to Brazil on depletion of property, plant and equipment ("PP&E") located in Brazil***

#### ***Description of the matter***

We draw attention to Note 3, Note 5 and Note 8 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 \$11,779 thousand for the year ended December 31, 2025, a portion of which relates to depletion of PP&E in Brazil.

The estimate of proved and probable oil and gas reserves requires the expertise of independent third party reserves 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 reserves 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 related to Brazil on depletion of PP&E located in Brazil as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of Brazilian 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 related to Brazil PP&E for compliance with IFRS Accounting Standards.



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

- We evaluated the competence, capabilities and objectivity of the independent third party reserves evaluators engaged by the Entity
- We compared forecasted natural gas and oil prices to those published by other independent third party reserves evaluators
- We compared 2025 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 2025 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.

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 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.

*KPMG LLP*

Chartered Professional Accountants

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

Calgary, Canada

March 17, 2026

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

(Thousands of United States dollars)

	Note	December 31, 2025	December 31, 2024
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		32,372	21,697
Restricted cash		22	-
Trade and other receivables	13	6,426	4,356
Prepaid expenditures		487	931
Assets held for sale	6	585	-
<b>Total current assets</b>		<b>39,892</b>	<b>26,984</b>
Exploration and evaluation assets	7	17,278	14,640
Property, plant and equipment	8	77,475	52,985
Right-of-use assets	9	5,471	5,623
Deferred tax asset	15	-	791
<b>Total assets</b>		<b>140,116</b>	<b>101,023</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		11,257	9,217
Dividend payable	12	4,408	3,283
Bank debt	10	4,000	-
Lease liabilities	9	1,247	1,069
Decommissioning liabilities	11	243	234
Liabilities held for sale	6	287	-
<b>Total current liabilities</b>		<b>21,442</b>	<b>13,803</b>
Bank debt	10	16,000	-
Lease liabilities	9	5,782	6,794
Decommissioning liabilities	11	1,167	1,064
Deferred tax liability	15	351	-
<b>Total liabilities</b>		<b>44,742</b>	<b>21,661</b>
<b>Shareholders' equity</b>			
Share capital	12	43,656	43,269
Contributed surplus		54,189	53,423
Retained earnings		43,573	36,229
Accumulated other comprehensive loss		(46,044)	(53,559)
<b>Total shareholders' equity</b>		<b>95,374</b>	<b>79,362</b>
<b>Total liabilities and shareholders' equity</b>		<b>140,116</b>	<b>101,023</b>

Commitments and Contingencies (Note 20)

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

**ALVOPETRO ENERGY LTD.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

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

	Note	Year ended December 31,	
		2025	2024
<b>Revenue</b>			
Natural gas, oil and condensate sales	13	57,954	45,517
Royalties		(4,104)	(1,310)
Net natural gas, oil and condensate revenue		53,850	44,207
Other income	14	2,040	1,732
		<b>55,890</b>	<b>45,939</b>
<b>Expenses</b>			
Production	14	5,260	4,156
Transportation		129	-
General and administrative	14	6,899	6,389
Depletion and depreciation	8,9	12,963	7,592
Impairment	6,7,8	1,839	91
Exploration & evaluation		-	96
Finance expenses	14	1,676	1,470
Share-based compensation	12	1,215	1,240
Loss (gain) on asset dispositions		4	(2)
Foreign exchange (gain) loss	17	(1,174)	5,760
		<b>28,811</b>	<b>26,792</b>
<b>Income before taxes</b>		<b>27,079</b>	<b>19,147</b>
<b>Income tax expense</b>	15		
Current		2,751	1,983
Deferred		1,230	869
<b>Total</b>		<b>3,981</b>	<b>2,852</b>
<b>Net income</b>		<b>23,098</b>	<b>16,295</b>
Exchange gain (loss) on translation of foreign operations		7,515	(12,501)
<b>Comprehensive income</b>		<b>30,613</b>	<b>3,794</b>
<b>Net income per share</b>			
	12		
Basic		0.62	0.44
Diluted		0.61	0.43

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)

		Common Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Balance, December 31, 2024</b>	Note	<b>43,269</b>	<b>53,423</b>	<b>36,229</b>	<b>(53,559)</b>	<b>79,362</b>
Issue of common shares	12	573	(573)	-	-	-
Shares repurchased	12	(186)	-	(370)	-	(556)
Share-based compensation		-	1,339	-	-	1,339
Net income		-	-	23,098	-	23,098
Other comprehensive gain		-	-	-	7,515	7,515
Dividends declared	12	-	-	(15,384)	-	(15,384)
<b>Balance, December 31, 2025</b>		<b>43,656</b>	<b>54,189</b>	<b>43,573</b>	<b>(46,044)</b>	<b>95,374</b>
<b>Balance, December 31, 2023</b>		43,461	52,235	33,570	(41,058)	88,208
Issue of common shares	12	32	(16)	-	-	16
Shares repurchased	12	(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	12	-	-	(13,170)	-	(13,170)
<b>Balance, December 31, 2024</b>		<b>43,269</b>	<b>53,423</b>	<b>36,229</b>	<b>(53,559)</b>	<b>79,362</b>

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

# ALVOPETRO ENERGY LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of United States dollars)

		Year ended December 31,	
	Note	2025	2024
<b>Operating Activities</b>			
Net income		23,098	16,295
Adjustments:			
Depletion and depreciation	8,9	12,963	7,592
Impairment	6,7,8	1,839	91
Finance expenses	14	1,492	1,470
Share-based compensation	12	1,215	1,240
Foreign exchange		(1,028)	5,720
Deferred tax	15	1,230	869
Loss (gain) on asset disposition		4	(2)
Settlement of decommissioning liabilities	11	(216)	-
Funds flow from operations		40,597	33,275
Changes in non-cash working capital	18	208	1,626
		40,805	34,901
<b>Financing Activities</b>			
Bank debt	10	20,000	-
Dividends paid	12	(14,259)	(15,014)
Issue of common shares		-	16
Repurchase and cancellation of common shares	12	(556)	(690)
Lease liabilities payments	9	(2,262)	(2,278)
Changes in non-cash working capital	18	(146)	(24)
		2,777	(17,990)
<b>Investing Activities</b>			
Expenditures on exploration and evaluation assets	7	(3,384)	(4,361)
Expenditures on property, plant and equipment	8	(30,109)	(10,944)
Proceeds on dispositions		278	389
Change in restricted cash		-	60
Changes in non-cash working capital	18	389	3,170
		(32,826)	(11,686)
<b>Change in cash and cash equivalents</b>		10,756	5,225
<b>Effect of foreign exchange on cash balances</b>		(81)	(1,854)
<b>Cash and cash equivalents, beginning of year</b>		21,697	18,326
<b>Cash and cash equivalents, end of year</b>		32,372	21,697
Cash and cash equivalents consist of:			
Cash		13,957	2,283
Cash equivalents		18,415	19,414
Supplemental information:			
Cash income taxes paid		2,602	2,223
Cash interest income received		1,172	1,226

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

## **ALVOPETRO ENERGY LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the years ended December 31, 2025 and 2024

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

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#### **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 17, 2026.

The consolidated financial statements are presented in U.S dollars (“USD”) which was the parent Company’s functional currency from inception until September 30, 2025. As of October 1, 2025, the parent company’s functional currency is the Canadian dollar (“CAD”).

##### **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 with respect to the marketability and price of petroleum products is a function of several factors, many that are beyond the control of Alvopetro. Uncertainty over supply and demand, influenced by global events such as international conflicts and changes in relations between countries, creates volatility in financial markets and commodity pricing. Furthermore, sanctions, tariffs and renegotiation or nullification of trade agreements, and political and geopolitical uncertainties can also have a significant impact on global commodity prices, even more so when such events and circumstances involve countries that are major players in the oil and gas industry. It is impossible to accurately forecast the future effect of these situations on commodity prices, currency exchange rates or inflation, making it difficult for management 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 therefore it is difficult for management to accurately predict the impact of the advancement of alternative energy sources on the valuation of Alvopetro’s oil and natural gas properties.

## ALVOPETRO ENERGY LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2025 and 2024

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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. Regulations impacting climate and climate-related matters are constantly evolving and how the Company prioritizes and reports on these matters can affect access to capital markets, the Company's reputation, as well as overall costs, specifically insurance and human resources. The Company continues to monitor the evolving environmental regulations and its potential impact on the Company

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 global political and economic climates 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 years ended December 31, 2023 and 2024, 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 each 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 the 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 is underway, however the timing and outcome of such 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 incur 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.

## ALVOPETRO ENERGY LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2025 and 2024

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#### **GORR Dispute**

As initially reported in the interim condensed consolidated financial statements for the three months ended March 31, 2025, Alvo Petro 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 Alvo Petro 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 found in favour of the GORR holders, requiring Alvo Petro to utilize a higher sales price in the computation of the GORR. The amount recorded for historical periods up to December 31, 2024, as well as the ongoing GORR calculations for the year ended December 31, 2025 represent 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 – MATERIAL ACCOUNTING POLICIES**

##### **Consolidation**

These consolidated financial statements include the accounts of Alvo Petro and its controlled subsidiaries. Intercompany transactions and balances are eliminated on consolidation. As at December 31, 2025 and 2024, the Company controls 100 percent of its subsidiaries (see Note 19).

##### **Joint Operations**

The Company has oil and gas exploration and production 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.

##### **Assets and Liabilities Held for Sale**

Assets and liabilities are classified as held for sale if the carrying amount will be recovered principally through a highly probable sale transaction rather than through continued use. In accordance with IFRS, a sale is considered highly probable if the assets are available for immediate sale and management has stated their intention to sell the properties within one year. Assets classified as held for sale are measured at the lower of the carrying amount and the fair value less costs to sell, and are not depreciated.

##### **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 externally-acquired interests in properties or internal E&E assets are considered technically feasible and commercially viable, they are classified or transferred to PP&E. Technical feasibility and commercial viability is generally indicated by the assignment of proved and/or probable reserves and then further subject to management judgement however in the absence of

## ALVOPETRO ENERGY LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2025 and 2024

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reserves, management will apply judgement considering all relevant factors. Upon determination of technical feasibility and commercial viability of E&E assets, they are tested for impairment with the estimated recoverable amount 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 (including 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.

## ALVOPETRO ENERGY LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2025 and 2024

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

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#### 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.

## ALVOPETRO ENERGY LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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#### 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

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

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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 the Brazil entity, CAD for the Canadian parent company and USD for the Canadian subsidiary. Alvo Petro 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 in Brazil 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.

Alvo Petro's acquisition and subsequent development of interests in Canadian properties in 2025 triggered a change in the facts and circumstances originally considered to determine the functional currency of the parent company, which holds the Canadian interests. As a result, the functional currency of the parent company was changed from USD to CAD effective October 1, 2025.

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, assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting period date. 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.

For presentation purposes, the assets and liabilities denominated in BRL and CAD are translated to USD at exchange rates at the reporting date and income and expenses 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. 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.

**Financial Instruments**

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

## ALVOPETRO ENERGY LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The estimated fair value of the Company's financial instruments, excluding bank debt, approximates their carrying value due to their short term to maturity. The estimated fair value of the bank debt approximates its carrying value as it bears interest at market rates (level 2 fair value).

#### *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. Alvo Petro 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.

## NOTE 4 – CHANGES IN ACCOUNTING STANDARDS

### **New and Revised Accounting Standards**

There have been no accounting standard changes with a material effect on the reported net income or net assets of the Company during the year ended December 31, 2025 or 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:

<b>Standard and Description</b>	<b>Date of Adoption</b>	<b>Expected Impact on Consolidated Financial Statements</b>
Certain classification and measurement requirements in IFRS 9 <i>Financial Instruments</i> have been amended with corresponding amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> .	January 1, 2026	The Company is evaluating the expected impact on the financial statements.
The objective of IFRS 18 <i>Presentation and Disclosure in Financial Statements</i> , 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.

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

As at and for the years ended December 31, 2025 and 2024

*All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 5 – SEGMENTED INFORMATION**

As at December 31, 2025 Alvo Petro had two reportable operating segments which are consistent with the Company's geographic organization: 1) exploration, development and production assets in Brazil; and 2) development and production assets in Canada.

	As at and for the Year Ended December 31,							
	Brazil		Canada		Corporate		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
Operating netbacks:								
Natural gas, oil and condensate sales	56,095	45,517	1,859	-	-	-	57,954	45,517
Royalties	(3,808)	(1,310)	(296)	-	-	-	(4,104)	(1,310)
Production expenses	(5,020)	(4,156)	(240)	-	-	-	(5,260)	(4,156)
Transportation costs	-	-	(129)	-	-	-	(129)	-
Total	47,267	40,051	1,194	-	-	-	48,461	40,051
Other income	947	577	-	-	1,093	1,155	2,040	1,732
Finance expenses	1,528	1,466	2	-	146	4	1,676	1,470
Depletion and depreciation	12,057	7,341	763	-	143	251	12,963	7,592
Impairment	1,839	91	-	-	-	-	1,839	91
Income tax expense	3,827	2,852	-	-	154	-	3,981	2,852
Net income (loss)	27,239	24,960	458	-	(4,599)	(8,665)	23,098	16,295
Property, plant & equipment	69,467	52,913	7,592	-	416	72	77,475	52,985
Capital expenditures	25,110	15,280	8,033	-	350	25	33,493	15,305

**NOTE 6 – ASSETS AND LIABILITIES HELD FOR SALE**

<b>Assets</b>	As at December 31,	
	2025	2024
Balance, beginning of year	-	-
Transfer from PP&E (Note 8)	580	-
Impairment reversal	(26)	-
Foreign exchange	31	-
Balance, end of year	585	-
<b>Liabilities</b>	As at December 31,	
	2025	2024
Balance, beginning of year	-	-
Transfer from Decommissioning Liabilities (Note 11)	297	-
Foreign exchange	(10)	-
Balance, end of year	287	-

During the year ended December 31, 2025, Alvo Petro entered into an assignment agreement to dispose of its interests in the Bom Lugar and Mãe-da-lua oil fields in Brazil. The carrying value of these properties was reduced to the recoverable amount prior to the transfer from property, plant and equipment ("PP&E"). The purchaser will assume all decommissioning obligations related to these properties upon closing, which is contingent on customary regulatory approvals.

The impairment reversal reflects adjustments to the estimated recoverable amount, specifically the deferred consideration portion of the estimated proceeds.

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

As at and for the years ended December 31, 2025 and 2024

*All tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted***NOTE 7 – EXPLORATION AND EVALUATION ASSETS**

	As at December 31,	
	2025	2024
Balance, beginning of year	14,640	13,785
Capital expenditures	3,384	4,361
Capitalized share-based compensation	9	40
Change in decommissioning liabilities	-	39
Transfer to PP&E (Note 8)	(2,096)	(238)
Asset dispositions & other transfers	(316)	(325)
Impairment	(6)	(91)
Foreign currency translation	1,663	(2,931)
<b>Balance, end of year</b>	<b>17,278</b>	<b>14,640</b>

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

Impairment losses relate to the sale of equipment inventory which was written down to its estimated fair value.

General and administrative costs totaling \$0.1 million (December 31, 2024 - \$0.2 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 \$5.7 million (December 31, 2024 - \$5.2 million).

**NOTE 8 – PROPERTY, PLANT AND EQUIPMENT**

	As at December 31,	
	2025	2024
Cost, beginning of year	79,327	86,766
Capital expenditures	30,109	10,944
Capitalized share-based compensation	257	127
Transfer from E&E assets (Note 7)	2,096	238
Transfer to Assets Held for Sale (Note 6)	(13,557)	-
Change in decommissioning liabilities	321	286
Disposition	-	(97)
Foreign currency translation	9,842	(18,937)
<b>Cost, end of year</b>	<b>108,395</b>	<b>79,327</b>
Accumulated depletion, depreciation and impairment, beginning of year	(26,342)	(26,954)
Depletion and depreciation	(11,779)	(6,406)
Impairment	(1,859)	-
Transfer to Assets Held for Sale (Note 6)	12,977	-
Foreign currency translation	(3,917)	7,018
<b>Accumulated depletion, depreciation and impairment, end of year</b>	<b>(30,920)</b>	<b>(26,342)</b>
<b>Net book value, end of year</b>	<b>77,475</b>	<b>52,985</b>

Impairment for the year ended December 31, 2025 relates to the Company's Bom Lugar and Mãe-da-lua assets which were transferred to held for sale (note 6). Prior to transfer, the carrying values of these properties were reduced to the recoverable amounts, based on the estimated disposal proceeds, resulting in impairment expense of \$1.9 million.

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

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At the end of each reporting period the Company assesses impairment and impairment reversal indicators for each CGU. With the exception of Bom Lugar and Mãe da Lua, there were no indications of impairment or impairment reversal on any other properties held in PP&E as at and during the year ended December 31, 2025.

General and administrative costs totaling \$1.6 million (December 31, 2024 - \$1.0 million) that were directly related to property, plant, and equipment activities have been capitalized.

Future development costs of \$83.9 million (December 31, 2024 – \$49.7 million) were included in the depletion calculation.

**NOTE 9 – 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, 2025	December 31, 2024
Net book value, beginning of year	5,623	8,240
Additions	159	114
Depreciation	(1,184)	(1,186)
Foreign currency translation	873	(1,545)
Net book value, end of year	5,471	5,623
<b>Net Book Value by Asset Class</b>		
Natural gas facility	5,289	5,515
Office space	149	64
Surface land access	33	44
Total net book value	5,471	5,623

The Company’s lease liabilities are as follows:

	As at	
	December 31, 2025	December 31, 2024
Lease liabilities, beginning of year	7,863	8,681
Additions	159	114
Finance expense	1,232	1,370
Lease payments	(2,262)	(2,278)
Foreign currency translation	37	(24)
Lease liabilities, end of year	7,029	7,863
Current	1,247	1,069
Non-current	5,782	6,794
Total	7,029	7,863

Substantially all of the right-of-use assets and the lease liabilities are related to the lease component contained in Alvo Petro’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 warrants 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.

## ALVOPETRO ENERGY LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The right-of-use assets are depreciated over the lease term. The present value of future minimum lease payments were discounted using a weighted-average rate of 16.8%.

#### NOTE 10 – BANK DEBT

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 Alvo Petro'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), with interest payable quarterly beginning February 27, 2026.

Under the terms of the Loan agreement, Alvo Petro 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 Alvo Petro 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, Alvo Petro 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 the dividend declared in December 2025 and is in compliance with all loan covenants at December 31, 2025. 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 11 – 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, 2025	December 31, 2024
Balance, beginning of year	1,298	1,147
Liabilities incurred	198	128
Revisions to obligations	123	197
Obligations settled - cash	(216)	-
Obligations settled – non cash	(2)	-
Transfer to Assets Held for Sale (Note 6)	(297)	-
Accretion	127	100
Foreign currency translation	179	(274)
Balance, end of year	1,410	1,298
Current	243	234
Non-current	1,167	1,064
Total	1,410	1,298

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

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Total undiscounted cash flows, escalated at 3.6% (December 31, 2024 - 3.9%) for inflation, required to settle the Company's decommissioning liabilities are estimated to be \$8.7 million (December 31, 2024 - \$9.3 million). These estimated cash flows are discounted using an average risk-free rate of 9.5% (December 31, 2024 - 9.1%).

Revisions are recorded annually whenever there is a material change in estimated costs, market rates or estimated timing of abandonment of properties. For the year ended December 31, 2024, the revision also included the incremental provision related to the increase in the Company's working interest in the Caburé natural gas field (see Note 2).

**NOTE 12 – 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,			
	2025		2024	
	Number of Shares	Amount (\$000)	Number of Shares	Amount (\$000)
Balance, beginning of year	36,473,896	43,269	36,617,940	43,461
Exercise of stock options	58,570	20	44,956	32
Exercise of Deferred Share and Restricted Share Units	350,631	553	-	-
Repurchase and cancellation of shares	(151,000)	(186)	(189,000)	(224)
Balance, end of year	36,732,097	43,656	36,473,896	43,269

On August 13, 2024, Alvopetro launched a normal course issuer bid (the "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 NCIB is completed or terminated by Alvopetro. During the year ended December 31, 2025, 151,000 (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.

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

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**b) Options to Purchase Common Shares**

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

	Number of Options	Weighted Average Exercise Price (CAD\$)
Balance as at December 31, 2023	1,801,440	6.07
Granted	352,000	4.75
Exercise of options	(77,777)	2.31
Options forfeited	(66,000)	7.52
Options expired	(5,555)	2.25
<b>Balance as at December 31, 2024</b>	<b>2,004,108</b>	<b>5.95</b>
<b>Granted</b>	<b>50,000</b>	<b>5.59</b>
<b>Exercise of options</b>	<b>(94,444)</b>	<b>2.46</b>
<b>Options forfeited</b>	<b>(90,750)</b>	<b>6.84</b>
<b>Balance as at December 31, 2025</b>	<b>1,868,914</b>	<b>6.07</b>
<b>Percentage of common shares outstanding</b>		<b>5.1%</b>

Options Outstanding at December 31, 2025				Options Exercisable at December 31, 2025			
Exercise Price	Number of Options	Weighted Average Exercise Price (CAD\$)	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Exercise Price (CAD\$)	Weighted Average Remaining Contractual Life (Years)	
CAD\$2.40 - \$3.99	196,665	2.43	0.8	196,665	2.43	0.8	
CAD\$4.00 - \$5.99	635,916	4.85	2.6	260,666	4.84	1.1	
CAD\$6.00 - \$7.99	479,333	6.94	1.9	479,333	6.94	2.2	
CAD\$8.00 - \$8.01	557,000	8.01	2.9	211,998	8.01	2.9	
<b>CAD\$2.40 - \$8.01</b>	<b>1,868,914</b>	<b>6.07</b>	<b>2.2</b>	<b>1,148,662</b>	<b>5.89</b>	<b>1.9</b>	

**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, 2025	December 31, 2024
Balance, beginning of year	1,236,580	881,541
Granted	80,551	355,039
Exercised	(350,631)	-
Forfeited	(21,549)	-
<b>Balance, end of year</b>	<b>944,951</b>	<b>1,236,580</b>
<b>Percentage of common shares outstanding</b>	<b>2.6%</b>	<b>3.4%</b>
<b>Weighted average remaining contractual life (years)</b>	<b>3.3</b>	<b>3.3</b>

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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,	
	2025	2024
Risk free interest rate (%)	3.0	3.1
Expected term (years)	4.7	4.2
Expected volatility (%)	30.0	30.0
Expected annual dividend per share (CAD\$)	0.56	0.49
Weighted average forfeiture rate (%)	7.5	5.0
Weighted average fair value (CAD\$)	0.51	0.42

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. 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,	
	2025	2024
Weighted average basic	37,269,615	37,289,043
Dilutive securities		
Stock options	159,955	119,643
RSUs	236,202	149,063
Weighted average diluted	37,665,772	37,557,749

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Dividends declared and paid were as follows:

Period Declared	Dividend per share (\$)	Year Ended December 31, 2025		Date Paid
		Total Declared	Total 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	3,660	July 15, 2025
Three months ended September 30, 2025	0.10	3,673	3,673	October 15, 2025
Three months ended December 31, 2025	0.12	4,408	-	January 15, 2026
<b>Total</b>		<b>15,384</b>	<b>14,259</b>	

Period Declared	Dividend per share (\$)	Year Ended December 31, 2024		Date Paid
		Total Declared	Total 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
<b>Total</b>		<b>13,170</b>	<b>15,014</b>	

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 13 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

	Year ended December 31,	
	2025	2024
Natural gas – Brazil	51,868	42,442
Condensate – Brazil	3,998	2,785
Oil – Brazil & Canada	2,088	290
<b>Total</b>	<b>57,954</b>	<b>45,517</b>

Throughout 2024 the Company's natural gas price was set semi-annually using a trailing weighted average basket of USD benchmark prices with floor and ceiling provisions. Beginning January 1, 2025, the price is recalculated on a quarterly basis incorporating average USD benchmark prices for Brent and Henry Hub, with no floor and ceiling provisions. For both years, the calculated natural gas price is then converted to BRL based on historical average foreign exchange rates and billed monthly in BRL until the next price reset. With all invoices issued in BRL, actual receipts and revenue recognized in equivalent USD are subject to exchange rate variations. See "Foreign Exchange" discussion below.

The Company's oil and condensate sales revenues in Brazil 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

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and, in the case of condensate sales, typically at fixed premiums to Brent. Oil sales in Canada are sold pursuant to contracts based on Canadian dollar Western Canadian Select (“WCS”) prices, adjusted for quality discounts relative to the benchmark price.

Contracted payment terms are on or before the 25<sup>th</sup> 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, 2025 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 in 2025 and 2024. Amounts receivable from contracts with customers by commodity are as follows:

	As at December 31,	
	2025	2024
Natural gas	5,553	3,720
Condensate	69	-
Oil	238	19
Total	5,860	3,739

**NOTE 14 – NATURE OF OTHER INCOME AND EXPENSES****a) Other Income**

	Year Ended December 31,	
	2025	2024
Interest income	1,121	1,241
Tax recoveries from operations & other	919	491
Total other income	2,040	1,732

**b) Production Expenses**

	Year Ended December 31,	
	2025	2024
Personnel	1,476	792
Facility and pipeline	1,676	1,668
Other fixed	967	959
Variable	1,105	610
Workover	36	127
Total production expenses	5,260	4,156

**c) General and Administrative (“G&A”) Expenses**

	Year Ended December 31,	
	2025	2024
Personnel	5,100	4,199
Travel	149	180
Office and IT costs	443	310
Professional fees	1,019	1,110
General corporate	1,884	1,829
Gross G&A expenses	8,595	7,628
Capitalized to E&E (Note 7)	(60)	(225)
Capitalized to PP&E (Note 8)	(1,636)	(1,014)
Net G&A expenses	6,899	6,389

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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**

	Year Ended December 31,	
	2025	2024
Lease interest (Note 9)	1,232	1,370
Accretion of decommissioning liabilities (Note 11)	127	100
Interest accrued on Bank Debt (Note 10)	132	-
Other	185	-
<b>Total finance expenses</b>	<b>1,676</b>	<b>1,470</b>

**NOTE 15 – TAXES**

All current tax expense and substantially all deferred tax expense relates to the Company's Brazil operations (see Note 5). Alvo Petro 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 condensate earned by Alvo Petro until December 31, 2030.

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 in Brazil to reverse in the SUDENE period, the Company has measured its deferred tax assets and liabilities relating to Brazil 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,	
	2025	2024
Income before taxes	27,079	19,147
Statutory income tax rate	34%	34%
Expected income tax expense	9,207	6,510
(Decrease) increase resulting from:		
Effect of tax incentives and lower local tax rates	(6,984)	(5,120)
Non-deductible amounts for tax purposes	476	1,274
Share-based compensation	413	422
Change in unrecognized deferred tax asset	940	(353)
Impact of foreign exchange fluctuations and other	(71)	119
<b>Income tax expense</b>	<b>3,981</b>	<b>2,852</b>

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The components of income tax expense are as follows:

	Year ended December 31,	
	2025	2024
Current tax expense	2,751	1,983
Deferred tax expense	1,230	869
Total income tax expense	3,981	2,852
Effective tax rate <sup>(1)</sup>	14.7%	14.9%

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

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

	Year ended December 31,	
	2025	2024
Deferred tax asset, beginning of the year	791	1,993
Recognized in deferred income tax expense	(1,230)	(869)
Recognized in other comprehensive income ("OCI")	88	(333)
Deferred tax (liability) asset, end of year	(351)	791

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 Decommissioning				Other tax pools	Unrecognized deferred tax asset	Total
	ROU assets	liabilities	Tax loss carryforwards				
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
Deferred tax recovery (expense)	22	42	(411)		57	(940)	(1,230)
Recognition in OCI	(105)	25	73		95	-	88
<b>As at December 31, 2025</b>	<b>(950)</b>	<b>266</b>	<b>1,972</b>		<b>645</b>	<b>(2,284)</b>	<b>(351)</b>

An unrecognized deferred tax asset of \$2.3 million exists at December 31, 2025 (December 31, 2024 - \$1.3 million), all of which relates to Canada. Total tax loss carry-forwards include \$7.8 million attributable to Canada which expire between 2033 and 2045.

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The Company's capital consists of the following:

	As at December 31,	
	2025	2024
Cash and cash equivalents	32,372	21,697
Working capital <sup>(1)</sup> deficit, excluding cash and cash equivalents	(13,922)	(8,516)
Working capital <sup>(1)</sup>	18,450	13,181
Bank debt, non-current	(16,000)	-
Working capital, net of debt	2,450	13,181
Lease liabilities – non-current	(5,782)	(6,794)
Shareholders' equity	95,374	79,362

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

Alvopetro has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its 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, except as to certain requirements under the terms of the debt agreement with respect to the payment of dividends (see Note 10).

**NOTE 17 – 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, dividends payable and bank debt.

**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 uncertainty associated with international conflicts, trade wars and tariff disputes, financial institution instability and geopolitical factors 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 in Brazil 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, is invoiced 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:

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	Year Ended December 31,	
	2025	2024
Increase (decrease) to natural gas revenues from:		
5% Appreciation of BRL to USD	2,730	2,234
10% Appreciation of BRL to USD	5,763	4,716
5% Depreciation of BRL to USD	(2,470)	(2,021)
10% Depreciation of BRL to USD	(4,715)	(3,858)

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, 2025		December 31, 2024	
	CAD\$ (000's)	BRL (000's)	CAD\$ (000's)	BRL (000's)
Cash and cash equivalents	147	51,812	461	20,527
Restricted cash – current	-	123	-	-
Trade and other receivables	645	32,630	71	26,228
Accounts payable and accrued liabilities	(6,047)	(34,930)	(1,864)	(43,248)
Net exposure in foreign currency	(5,255)	49,635	(1,332)	3,507
Net exposure in USD (\$000s)	(3,834)	9,021	(926)	566

Based on financial instruments held at December 31, 2025 and 2024, 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,	
	2025	2024
Effect of 5% appreciation in CAD and BRL to USD		
Decrease to net income	(192)	(46)
Decrease to other comprehensive income	(475)	30
Effect of 5% depreciation in CAD and BRL to USD		
Increase to net income	192	46
Increase to other comprehensive income	430	(27)

*Commodity Price Risk*

For the year ended December 31, 2025 approximately 89% (December 31, 2024 – 93%) of natural gas, oil and condensate sales was related to natural gas sales in Brazil. Fluctuations in natural gas prices may have a significant impact on the carrying value of Alvopetro's natural gas properties 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, 2025 and 2024 but may consider such in the future to protect cash flows and manage this risk.

## ALVOPETRO ENERGY LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 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. The bank debt bears interest at a fixed rate of 7%.

#### 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 Alvo Petro primarily pertaining to trade and other receivables.

Alvo Petro is subject to credit risk by virtue of having only one customer for its natural gas production throughout 2024 and 2025, creating economic dependence on this counterparty. At December 31, 2025, \$5.5 million of accounts receivable (December 31, 2024 - \$3.7 million) or 94% (2024 - 85%) is related to natural gas production sold to this counterparty (see Note 13), the full balance of which was received subsequent to December 31, 2025. Alvo Petro 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 Alvo Petro'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 Alvo Petro'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 2025 or 2024. 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. The Company's cash balances and cash flows from operating activities were sufficient to satisfy all obligations in 2025 and 2024. In the event the Company experiences a decline in cash flows, the Company's cash balances and Loan funds are available and dividend payments are at the discretion of the Board of Directors and, with the exception of any work commitments, Alvo Petro has flexibility with respect to capital activities planned.

#### NOTE 18 – CHANGES IN NON-CASH WORKING CAPITAL

	Year ended December 31,	
	2025	2024
Change in:		
Restricted cash	(23)	-
Trade and other receivables	(1,281)	1,250
Prepaid expenditures	479	(319)
Accounts payable and accrued liabilities	1,276	3,841
	451	4,772
Changes relating to:		
Operating activities	208	1,626
Financing activities	(146)	(24)
Investing activities	389	3,170
	451	4,772

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**NOTE 19 – RELATED PARTY TRANSACTIONS**

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

	Year ended December 31,	
	2025	2024
Short-term benefits	2,097	1,748
Share-based compensation	1,078	1,031
<b>Total</b>	<b>3,175</b>	<b>2,779</b>

The following table lists the Company’s subsidiaries and their respective countries of incorporation, each owned 100% directly and indirectly at December 31, 2025:

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

**NOTE 20 – COMMITMENTS AND CONTINGENCIES**

The following is a summary of Alvo Petro’s contractual commitments as at December 31, 2025:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Gas Treatment Agreement <sup>(1)</sup>	1,521	3,042	2,281	6,844
<b>Total Commitments</b>	<b>1,521</b>	<b>3,042</b>	<b>2,281</b>	<b>6,844</b>

(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, 2025. 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 Alvo Petro’s 11-kilometre transfer pipeline, not considered to constitute a lease (see Note 9).

Subsequent to December 31, 2025 the Company entered into an expansion agreement with Enerflex to optimize plant performance and increase processing capacity from 500,000 m<sup>3</sup>/d to 600,000 m<sup>3</sup>/d. The cost to Alvo Petro will be an upfront fee of \$120,000 plus an incremental \$73,000 of monthly rental and operating and maintenance fees. The portion of monthly fees attributable to the rental portion of the agreement (\$63,000) will be included in the right-of-use asset and lease liability calculations once the expanded facility is available for use, anticipated to be the third quarter of 2026.

The Company has abandonment guarantees that are required to be posted for the Bom Lugar, Mãe-da-lua, Caburé and Murucututu fields under the terms of the concession contract for each field. Alvo Petro 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. 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. See Note 2 regarding the Company’s GORR dispute.