The following Management's Discussion and Analysis ("MD&A") is dated April 6, 2016 and should be read in conjunction with the audited consolidated financial statements and accompanying notes of Alvopetro Energy Ltd. ("Alvopetro" or the "Company") as at and for the years ended December 31, 2015 and 2014. Additional information for the Company, including the Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com or at www.alvopetro.com. This MD&A contains financial terms that are not considered measures under International Financial Reporting Standards ("IFRS") and forward-looking statements. As such, the MD&A should be used in conjunction with Alvopetro's disclosure under the headings "*Non-GAAP Measures*" and "*Forward Looking Information*" at the end of this MD&A.

All amounts contained in this MD&A are in United States dollars ("USD"), unless otherwise stated and all tabular amounts are in thousands of United States dollars, except as otherwise noted.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Description of Business

Alvopetro Energy Ltd. ("Alvopetro" or "the Company") is engaged in the exploration, development and production of hydrocarbons in Brazil. Alvopetro is a publicly traded company listed on the TSX Venture Exchange and was incorporated under the *Business Corporations Act* (Alberta) on September 25, 2013 as 1774501 Alberta Ltd. and subsequently changed its name to Alvopetro Energy Ltd. on November 19, 2013. Alvopetro is engaged in the exploration for, and the acquisition, development and production of, hydrocarbons in the Recôncavo, Tucano and Camamu-Almada onshore Brazil. Alvopetro holds interests in two mature fields and 14 exploration blocks comprising 140,510 gross acres (130,496 net acres) onshore Brazil.

Strategy

Alvopetro Energy Ltd.'s vision is to be the premier independent exploration and production company in Brazil, maximizing shareholder value by applying innovation to underexploited opportunities. Our strategy is to focus on three core opportunities including lower risk development drilling on our mature fields, shallow conventional exploration, and the development of the significant hydrocarbon potential present in our deep Gomo tight-gas resource play.

SELECTED QUARTERLY RESULTS

	Three months ended December 31,		Twelve months ended December 31,	
	2015	**2014**	**2015**	**2014**
Financial				
($000s, except where noted)				
Oil sales	**116**	212	**535**	1,106
Funds flow from operations (1)	**(1,017)**	(1,482)	**(4,966)**	(7,722)
Per share – basic and diluted ($)(2)	**(0.01)**	(0.02)	**(0.06)**	(0.09)
Net loss	**(9,797)**	(24,662)	**(12,424)**	(31,709)
Per share – basic and diluted ($)(2)	**(0.12)**	(0.29)	**(0.15)**	(0.37)
Capital and other asset expenditures	**1,610**	16,239	**12,202**	44,366
Total assets	**84,284**	124,557	**84,284**	124,557
Debt	**-**	-	**-**	-
Net working capital surplus (1) (3)	**29,405**	35,844	**29,405**	35,844
Common shares outstanding, end of year (000s)				
Basic	**85,167**	85,167	**85,167**	85,167
Diluted (2)	**92,010**	89,734	**92,010**	89,734
Operations				
Operating netback ($/bbl) (1)				
Brent benchmark price	**44.71**	76.98	**53.64**	99.51
Discount	**(8.41)**	(14.63)	**(10.39)**	(8.85)
Sales price	**36.30**	62.35	**43.25**	90.66
Transportation expenses	**(2.50)**	(2.65)	**(2.99)**	(3.61)
Realized sales price	**33.80**	59.70	**40.26**	87.05
Royalties and production taxes	**(3.13)**	(4.71)	**(3.07)**	(8.77)
Production expenses	**(56.32)**	(141.18)	**(70.49)**	(117.47)
Operating netback	**(25.65)**	(86.19)	**(33.30)**	(39.19)
Average daily crude oil production (bopd)	**35**	37	**34**	33

Notes:

(1) Non-GAAP measure. See "*Non-GAAP Measures*" section within this MD&A.

(2) Consists of outstanding common shares and stock options of the Company.

(3) Includes current restricted cash of $2.3 million (December 31, 2014 - $3.4 million) but excludes non-current restricted cash of nil (December 31, 2014 - $9.7 million).

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE FOURTH QUARTER OF 2015

- In December 2015, the Company brought the 182(B1) well on production at an average rate of 28 bopd, contributing total production of 366 barrels in the fourth quarter of 2015.
- In Brazil's 13th Bid Round held on October 7, 2015, Alvopetro, in partnership with ENGIE (GDF SUEZ E&P Brasil Participações Limitada), was the successful bidder on four blocks, all located in the Recôncavo Basin, onshore Brazil. Alvopetro will operate all of the blocks acquired and holds a 65% participating interest, with ENGIE holding the remaining 35% participating interest. Alvopetro incurred total costs of $0.2 million in the three months ended December 31, 2015 in respect of bid round bonuses and fees to post the required letters of credit for work commitments. The concession contracts for these new blocks were signed in January 2016.
- On October 1, 2015, we sold our Aracaju field, eliminating all associated obligations and liabilities with respect to this mature field, which we viewed as having limited prospectivity. The Aracaju field was not included in any of our independent reserves or resource reports and the carrying amount of this field had been fully impaired. The agreement has an effective date of October 1, 2015 and will close on the date Brazil's National Agency of Petroleum, Natural Gas and Biofuels ("ANP") approves the transfer. In the three months ended December 31, 2015, the Company recorded a gain on this disposition of $0.4 million as a result of the release of the decommissioning liability.
- Capital and other asset expenditures of $1.6 million in the fourth quarter included $0.5 million for rig mobilization and site construction costs for our 170(B1) well which was drilled in early 2016, site construction for our 256(A1) well which Alvopetro plans to drill in 2016, $0.3 million in facilities costs to bring our 182(B1) well on production, bid round bonuses and other costs for the 13th Bid Round of $0.2 million, and capitalized G&A of $0.2 million.
- We reported a net loss of $9.8 million in the fourth quarter. Included in the net loss was an impairment charge of $12.1 million on our exploration assets ($11.5 million) and property, plant and equipment assets ($0.6 million), offset by a deferred tax recovery of $3.0 million. The impairment charge to our exploration assets was largely in respect of costs incurred to date on the 182(B1) well and the 170(B1) well. The impairment charge to our property, plant and equipment assets related to our Bom Lugar field and was due to the continued decline in commodity prices.
- Our cash, restricted cash and working capital resources total $29.4 million, including $28.7 million of cash and cash equivalents and $2.3 million of current restricted cash.

ADDITIONAL HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE 2015 YEAR

- We successfully tested three separate intervals in our significant 197(2) natural gas discovery. Pressure transient analysis forecasts potential post-stimulation rates with total deliverability averaging 15.9 MMcfpd (2,650 boepd) over the first three months of continuous production and averaging 10.2 MMcfpd (1,700 boepd) over the first year of continuous production.
- In 2015, the Company reduced its capital spending in light of declining commodity prices. Capital and other asset expenditures decreased to $12.2 million in 2015, compared to $44.4 million in 2014. The Company completed testing on its 197(2) gas discovery, drilled and tested the 182(B1) well, and began work on the 170(B1) well which was drilled in early 2016.
- The Company realized negative funds flow from operations in 2015, however funds flow improved compared to 2014 as a result of reduced realized foreign exchange losses in 2015 and savings on production and general and administrative expenses, offset by reduced oil sales in 2015.
- Total assets decreased from 2014 largely as a result of the $13.0 million impairment charge as well as the decline in Brazilian real ("BRL") denominated asset balances due to the 47% decline in the Brazilian real relative to the USD in 2015.
- Alvopetro strategically relinquished four non-prospective blocks in 2015 and one block in January 2016 eliminating the five well commitments associated with these blocks. The carrying value of these blocks had been fully impaired in the 2014 financial statements.

RECENT HIGHLIGHTS

- On March 17, 2016, Alvopetro completed drilling the 170(B1) well in satisfaction of the work commitment for the first exploration phase of Block 170. Due to the lack of commercial discovery of hydrocarbons, Alvopetro plans to relinquish this block following completion of all required abandonment and reclamation on the 170(B1) well and will not proceed to the second exploration phase.

- In the coming months, we plan to drill our 256(A1) well, which is a multi-zone prospect located on Block 256 and is our largest natural gas exploration prospect to-date. Block 256 is located near existing State gas transmission infrastructure and the drilling of 256(A1) will fulfil our Block 256 exploratory phase commitments with the ANP.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at December 31, 2015, Alvopetro held interests in two mature fields and 16 exploration blocks, including the four additional blocks awarded to Alvopetro in Brazil's 13th Bid Round, comprising 153,330 gross acres (143,316 net acres) onshore Brazil in three hydrocarbon basins: the Recôncavo, Tucano, and Camamu-Almada. Subsequent to December 31, 2015, the Company relinquished Block 196 and plans to relinquish Block 170 reducing its acreage to 140,510 gross acres (130,496 net acres). The current exploration assets consist of Blocks 182, 197, 183, 106, 107, 169, 198, 255, 256, 57, 62, 71, and 145 in the Recôncavo Basin and Block 177 in the Tucano Basin and two mature producing fields (Bom Lugar and Jiribatuba).

PETROLEUM AND NATURAL GAS PROPERTIES

Exploration and Evaluation ("E&E") Assets

9th Brazil Bid Round (Block 170, 182, 183, 196, and 197)

Block 170:

Alvopetro acquired Block 170 by way of a farm-in agreement with a 50% working interest in this block to the base of the Caruaçu member of the Maracangalha Formation, and a 90% working interest in deeper zones (which included the Gomo member of the Candeias Formation). In May 2015 we acquired the remaining interest in Block 170 for a total cost of $0.3 million. The Company commenced drilling the 170(B1) well in early 2016. On March 17, 2016, the Company announced plans to abandon this well as no commercial discovery had been made. Total E&E costs of $4.1 million have been incurred to December 31, 2015 on this block. Given the results from the 170(B1) well and limited additional prospectivity identified, the Company plans to relinquish this block following the completion of all abandonment and reclamation work on the 170(B1) well. Accordingly, the full carrying amount of this block was impaired in the 2015 financial statements.

Block 182:

In 2015, the Company drilled and tested the 182(B1) well and initiated facilities construction. Total E&E costs of $6.8 million have been incurred to December 31, 2015 on this well. In December 2015, the well commenced production at an average rate of approximately 28 bopd. Probable reserve volumes were assigned to the 182(B1) well in the Company's independent reserve report dated December 31, 2015 and this well was reclassified to property, plant and equipment ("PP&E") in accordance with the Company's accounting policies. Immediately prior to the reclassification, an accounting impairment of $6.8 million was booked in the 2015 financial statements to reduce the carrying amount of this well to $nil as at December 31, 2015.

Prior to 2015, work on this block included a well drilled in November 2012 on the boundary of Block 182 and Block 196, 20.9 km^2 of 3D seismic and 5.9 km of 2D seismic. Total E&E costs of $0.4 million have been incurred to December 31, 2015 in relation to the November 2012 well and an accounting impairment of $0.4 million was booked in 2015 to reduce the carrying amount to $nil as at December 31, 2015.

The Company has two additional prospects identified on this block. This block is currently in the Development Assessment Plan ("PAD") phase, and as part of the PAD, Alvopetro plans to drill at least one of these prospects. Total E&E costs remaining in Block 182 after the above impairments is $0.9 million as at December 31, 2015.

Block 183:

Block 183 was acquired through a farm-in agreement signed in May 2013 for consideration of approximately US$0.7 million. Alvopetro drilled one well, 183(1), on this block in October 2014. Total E&E of $10.8 million at December 31, 2015 relates to this block. In June 2015, Alvopetro elected to continue to the second exploration phase of this block which extends to June 2017 and requires the Company to drill one additional exploration well. In addition, Alvopetro plans to test the Gomo potential in the 183(1) well pending receipt of regulatory approval for the stimulation.

Block 196:

Work on Block 196 was completed prior to 2013 and included 23.5 km^2 of 3D and 2.9 km of 2D seismic and one exploration work commitment well which was drilled in November, 2012 on the boundary of Block 182 and Block 196, as discussed above. Total E&E costs of $3.3 million had been incurred on this block and the full carrying amount of this block was impaired for accounting purposes in the 2014 financial statements. This block was formally relinquished to the ANP in January 2016.

Block 197:

Alvopetro drilled and tested the 197(1) well in 2014 and drilled the 197(2) well in 2014, completing testing on this well in 2015. Prior to 2014, Alvopetro completed 5.9 km^2 of 3D seismic and 122.3 km of 2D seismic. Total E&E of $30.3 million at December 31, 2015 relates to Block 197. An independent contingent resource report of the 197(2) conventional natural gas pool located on Blocks 197 and 198 was completed by DeGolyer and MacNaughton ("D&M"), quantifying Alvopetro's contingent resources at June 30, 2015 with a "best estimate" (2C) of 5.8 million barrels of oil equivalent (mmboe), and a 10% discounted net present value (NPV10) of $91.3 million (2C). Block 197 is currently in the PAD phase which extends to January 31, 2018. The Company is actively working on securing a gas sales agreement with respect to the 197(2) discovery.

Blocks 131, 132, 144 and 157:

In April 2015, Alvopetro relinquished Blocks 131, 132, 144, and 157. Alvopetro acquired these blocks in the 9th Brazil Bid Round and had since completed 199 km^2 of 3D seismic and 355 km of 2D seismic. As extensive seismic and geotechnical work indicated limited prospectivity on these blocks, Alvopetro decided to relinquish the Blocks to the ANP and terminate the associated concession contracts. This relinquishment relieved Alvopetro of our commitment to drill an aggregate of four exploration wells on these blocks. The carrying value of these blocks was impaired to a value of $nil in the December 31, 2014 financial statements. No further obligations exist on these blocks.

11th Brazil Bid Round (Blocks 106, 107, and 177)

Blocks 106 and 107 are adjacent to Alvopetro's Bom Lugar oil field. Block 177 is in the up dip position in the Tucano Basin adjacent to the Recôncavo Basin. Total E&E of $1.0 million at December 31, 2015 relates to these blocks.

Each of the three 11th Brazil Bid Round blocks have initial expiry dates of August 29, 2016. In February 2016, Alvopetro applied for a six month extension to the first exploration phase of these blocks to allow for additional seismic interpretation following results from the 182(B1) well. Alvopetro has conventional prospects on all of these blocks which will meet the required work commitments.

12th Brazil Bid Round (Blocks 169, 198, 255, and 256)

Blocks 169, 198, 255 and 256 were awarded to Alvopetro in the 12th Brazil Bid Round in 2013 and executed in May 2014. All four blocks are located in Sector SREC-T4 of the Recôncavo Basin and have an initial three year exploratory phase which ends on May 15, 2017.

An injunction was issued by a Brazilian Federal Court in November 2014, as part of a legal proceeding filed by the Federal Prosecutor's Office against the ANP, the Federal Government and all operators of 12th Bid Round concession contracts, including Alvopetro. This injunction was aimed at preventing the ANP and operators from conducting unconventional operations on blocks acquired in ANP´s 12th Brazil Bid Round until further studies are carried out by ANP of the possible environmental impact of drilling of unconventional resources. Alvopetro filed a successful petition with the Brazilian Federal Court, and as result, in January 2015, the Brazilian Federal Court clarified that Alvopetro could carry out all conventional activities relating to Alvopetro's 12th Brazil Bid Round Blocks (Blocks 169, 198, 255 and 256).

Alvopetro has identified conventional exploration prospects on each of the blocks which will meet the minimum work commitments required under the terms of the concession contracts. Total E&E of $1.3 million at December 31, 2015 relates to these blocks. Alvopetro plans to drill its first well on Block 256, the 256(A1) well, in 2016.

13th Brazil Bid Round (Blocks 57, 62, 71, and 145)

In Brazil's 13th Bid Round held on October 7, 2015, Alvopetro, in partnership with ENGIE, was the successful bidder on four blocks (57, 62, 71 and 145), all located in the Recôncavo Basin, onshore Brazil. The initial exploration phase of each of these blocks extends to January 2016. Alvopetro will operate all of the blocks acquired and holds a 65% participating interest, with ENGIE holding the remaining 35% participating interest. Total E&E costs of $0.2 million have been incurred by Alvopetro to December 31, 2015, including $0.1 in bid round bonuses and $0.1 million in fees to post the required letters of credit for minimum work commitments within Brazil. Alvopetro is currently evaluating technical data to identify prospects on these blocks.

Mature Fields

Bom Lugar

The mature Bom Lugar field, consisting of 2,238 gross acres, had average daily production for the year ended December 31, 2015 of 27 bopd (December 31, 2014 – 30 bopd). The field consists of two producing wells and one active water disposal (injector) well. The field has a production battery which is equipped with testing, water separation and trucking facilities. The battery is connected to the two producing wells and the one injection well. The BL-1 well contributed the bulk of the production in 2015 (averaging 25 bopd). The second producing well (which averaged 2 bopd in 2015) was suspended in October 2015 to transfer equipment to the 182(B1) well. The Company has one oil development prospect on this field as well as an additional exploration prospect. As a result of the continued decline in commodity prices, the Company recorded an impairment of $1.5 million in the 2015 financial statements (three months ended December 31, 2015 - $0.5 million, three months ended September 30, 2015 - $1.0 million). The estimated recoverable amount of the Bom Lugar field is $4.6 million as at December 31, 2015.

Jiribatuba

Alvopetro holds interests in the Camamu-Almada Basin in the Jiribatuba mature field of 563 gross acres. The Jiribatuba mature field produces from the Sergi formation, which consists of one producing well, one shut-in well and one active water disposal (injector) well. The producing well and injector are flow line connected to a production battery which is equipped with testing, water separation and trucking facilities. In 2014, Alvopetro completed workovers of two wells in our Jiribatuba field, JI-01 and JI-09. Average daily production at our Jiribatuba field for the year ended December 31, 2015 was 6 bopd (December 31, 2014 – 3 bopd). A total of $0.3 million of PP&E costs have been incurred to date at the Jiribatuba field.

Aracaju

On October 1, 2015 we sold our Aracaju field, eliminating all associated obligations with respect to this mature field which we viewed as having limited prospectivity. The Aracaju field was not included in our independent reserves or resource reports in 2014 or 2015 and the Company had no production from this field in 2015. The full carrying amount of the Aracaju field had been impaired to $nil in prior years. A gain of $0.4 million was recognized in the three months ending December 31, 2015 due to the release of the decommissioning liability associated with this field.

EXPLORATION BLOCK ACTIVITY SUMMARY

Block	Gross Acres	Working Interest	Bid Round Acquired	Current Phase Expiry	Current Phase Activity (Note 1)
182	5,239	100%	9th Bid Round (2007)	October 31, 2016 (Note 2)	1 exploration well
170	6,914	100%	Farm in – 9th Bid Round (2007)	March 26, 2016 (Note 3)	1 exploration well
183	7,740	100%	Farm in – 9th Bid Round (2007)	June 11, 2017	1 exploration well
197	5,807	100%	9th Bid Round (2007)	January 31, 2018 (Note 3)	Testing of the 197(2) well and additional analysis of the 197(1) well.
106	7,759	100%	11th Bid round (2013)	August 29, 2016	11 km^2 of 3D seismic
107	7,561	100%	11th Bid round (2013)	August 29, 2016	2 exploration wells
T-177	46,505	100%	11th Bid round (2013)	August 29, 2016	1 exploration well and 31 km^2 of 3D seismic
169	5,280	100%	12th Bid round (2013)	May 15, 2017	1 exploration well
198	7,739	100%	12th Bid round (2013)	May 15, 2017	1 exploration well
255	7,734	100%	12th Bid round (2013)	May 15, 2017	1 exploration well and 20 km 2D seismic
256	7,734	100%	12th Bid round (2013)	May 15, 2017	27 km 2D Seismic
57	7,752	65%	13th Bid round (2015)	January 24, 2019	30 km of 2D Seismic
62	7,715	65%	13th Bid round (2015)	January 24, 2019	30 km of 2D Seismic
71	5,409	65%	13th Bid Round (2015)	January 24, 2019	21 km of 2D seismic
145	7,734	65%	13th Bid Round (2015)	January 24, 2019	30 km of 2D Seismic

(1) The Current Phase Activity represents the minimum work to be carried out under the terms of the existing exploration phase of the concession contract. The above seismic activities may be satisfied with exploration wells at the Company's discretion and as authorized by the ANP. At December 31, 2015, the Company held Block 196, acquired in the 9th Brazil Bid Round. In early 2016 Alvopetro relinquished this block and paid to the ANP the related performance guarantee fee of $0.8 million. This block is no longer held by Alvopetro and has been excluded from the table above.

(2) A Discovery Evaluation Plan ("PAD") was approved by the ANP on December 28, 2015. The PAD includes plans to drill one well prior to October 31, 2016. The PAD may be extended to August 31, 2018 if a second exploration well is drilled.

(3) Alvopetro commenced drilling the 170(B1) well in early 2016 in satisfaction of the above commitment. On March 17, 2016, the Company announced plans to abandon the well and will relinquish the block.

(4) The PAD for Block 197 was approved in May, 2015. The PAD, which is valid until January 31, 2018, includes plans to test the 197(2) well (which was completed in the three months ending June 30, 2015) and perform additional analysis of our 197(1) well.

FINANCIAL AND OPERATING REVIEW

Average Daily Production

	Three Months Ended December 31,		Year Ended December 31,	
	2015	**2014**	**2015**	**2014**
Total production (bbls)	**3,196**	3,400	**12,370**	12,199
Daily production (bopd)	**35**	37	**34**	33

Average daily production in the fourth quarter increased to 35 bopd compared to 27 bopd in the third quarter. The 182(B1) well commenced production on December 19, 2015 at an average rate of 28 bopd, contributing total production of 366 barrels in the fourth quarter (4 bopd). The Company's producing well at Jiribatuba was brought back on production on November 10, 2015 at an average overall rate of 6 bopd for the quarter. This well had been off line since May due to road access issues. The production increases from 182(B1) and Jiribatuba were offset by a reduction from one producing well in the Bom Lugar field that was shut-in to transfer equipment to the 182(B1) well. The main producing well at Bom Lugar continues to be on production and contributed 25 bopd in the fourth quarter and for the year ended December 31, 2015. Overall production levels were consistent in 2015 compared to 2014.

Oil Sales

	Three months ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
Brent ($/bbl)	**44.71**	76.98	**53.64**	99.51
Discount ($/bbl)	**(8.41)**	(14.63)	**(10.39)**	(8.85)
Sales Price ($/bbl)	**36.30**	62.35	**43.25**	90.66
Sales price discount as a % of Brent	**19%**	19%	**19%**	9%
Oil Sales	**116**	212	**535**	1,106
Transportation	**(8)**	(9)	**(37)**	(44)
Total sales, net of transportation expense	**108**	203	**498**	1,062
Realized price ($/bbl)	**33.79**	59.70	**40.26**	87.05

Alvopetro has sales contracts for the Bom Lugar and Jiribatuba fields and the 182(B1) well. Pursuant to the terms of these contracts, a discount is applied to the average Brent price as a fixed cost per barrel under the Bom Lugar contract and a fixed percentage of Brent for the Jiribatuba and 182(B1) contracts. As the majority of the Company's oil sales are from the Bom Lugar field with a fixed cost per barrel discount, the sales discount as a percentage of Brent has increased as Brent has declined. The sales discount of 19% in the fourth quarter is consistent with the fourth quarter of 2014 and the 2015 average.

Overall, total oil sales have declined 52% in the year ended December 31, 2015 from the same period in 2014 as a result of the 52% reduction in the sales price due to declining Brent prices. Oil sales increased 20% from the third quarter of 2015 despite a 6% reduction in the sales price due to increased production from the 182(B1) well and the Jiribatuba well.

Funds Flow from Operations

	Three Months Ended December 31,		Year Ended December 31,	
	2015	**2014**	**2015**	**2014**
Funds flow from operations	**(1,017)**	(1,482)	**(4,966)**	(7,722)

The Company currently has negative funds flow from operations, primarily due to minimal cash flows from oil sales. Alvopetro funds the Company's current capital and operating plans from existing cash balances on hand and is not currently dependent on cash flows from operations. The Company has achieved savings on general and administrative expenses in both the fourth quarter and for the year ended December 31, 2015 compared to the same periods in 2014, contributing to increased funds flow in 2015.

Negative funds flow from operations for the year ended December 31, 2014 was impacted by a realized foreign exchange loss of $2.3 million on Canadian dollar cash balances converted to U.S. dollars during the period. In comparison, the realized foreign exchange loss for the year ended December 31, 2015 was $0.1 million as the majority of the Company's cash is now held in U.S. dollars, thereby minimizing any foreign exchange losses in 2015.

Royalties and Production Taxes

	Three months ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
Royalties and production taxes	**10**	16	**38**	107
Percentage of sales (%)	**8.6**	7.5	**7.1**	9.7

All of the mature fields held by Alvopetro are subject to a base 5% government royalty plus an additional 0.5% royalty paid to landowners according to applicable Brazil petroleum laws. All of the exploration blocks held by Alvopetro are subject to a base 10% government royalty plus a 1% landowner royalty. There is an additional 2.5% gross-overriding royalty on Blocks 182 and 197.

All royalties are paid based on an ANP minimum reference price which is typically higher than the realized sales price. Royalties and production taxes include all Social Integration Program ("PIS") taxes and Social Assistance Contribution ("COFINS") paid on oil sales at a combined rate of 9.25% (December 31, 2014 – 3.65%), offset by credits on available expenses. The PIS and COFINS tax rate has increased from 2014 as the Company elected to transition to the actual profit regime as of January 1, 2015; however, given credits available under the actual profit regime, no PIS and COFINS taxes were paid on 2015 revenues.

The overall reduction in royalties in both the three and twelve months ended December 31, 2015 compared to 2014 is due to reduced oil sales revenue and increased PIS and COFINS credits available to reduce the overall production taxes owing. Royalties as a percentage of sales increased to 8.6% in the fourth quarter of 2015 compared to 7.2% in the third quarter of 2015 due to increased production from the 182(B1) which has higher overall royalty rates.

Production Expenses

	Three months ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
Production expenses by type:				
Personnel costs	**115**	155	**488**	504
Production facilities rental	**22**	-	**22**	-
Other fixed costs	**9**	-	**141**	363
Variable costs	**32**	60	**218**	274
Workover costs	**2**	265	**3**	292
Total production expenses	**180**	480	**872**	1,433
Production expenses per barrel:				
Personnel costs	**35.98**	45.59	**39.45**	41.31
Production facilities rental	**6.88**	-	**1.78**	-
Other fixed costs	**2.82**	-	**11.40**	29.76
Variable costs	**10.01**	17.65	**17.62**	22.46
Workover costs	**0.63**	77.94	**0.24**	23.94
Total production expenses per bbl ($)	**56.32**	141.18	**70.49**	117.47

Production expenses on a per barrel basis in 2015 represent a reduction of 40% compared to the twelve months ended December 31, 2014 due to reduced workover costs in 2015 and the decline in the BRL relative to the USD. As substantially all of the Company's production expenses are denominated in BRL, the expenses were reduced in 2015 as the BRL relative to the USD declined from an average rate of 2.54 in the fourth quarter of 2014 to an average rate of 3.84 in the fourth quarter of 2015 and from 2.35 for the year ended December 31, 2014 to 3.34 for the year ended December 31, 2015. The Company commenced production from the 182(B1) well in December 2015. Production costs per barrel for the 182(B1) well include fixed production facilities rental costs of approximately $0.04 million per month ($51.52 per barrel assuming monthly average production of 28 bopd).

General and Administrative ("G&A") Expenses

	Three months ended December 31,		Year ended December 31,	
G&A Expenses, by type:	**2015**	2014	**2015**	2014
Personnel	**642**	1,045	**3,345**	4,198
Travel	**84**	251	**396**	763
Office and IT costs	**138**	78	**602**	682
Professional fees	**185**	155	**741**	698
General corporate costs	**121**	360	**607**	924
Gross G&A	**1,170**	1,889	**5,691**	7,265
Capitalized G&A	**(225)**	(607)	**(1,130)**	(1,952)
G&A expenses	**945**	1,282	**4,561**	5,313

The majority of the Company's G&A relates to personnel costs, representing 55% of the total gross G&A in the three months ended December 31, 2015 (2014 – 55%) and 59% in the year ended December 31, 2015 (2014 – 58%). General corporate costs include such items as public company costs and insurance. Alvopetro is always prudent in its management of all G&A expenses and the Company's G&A has declined throughout 2015. The decrease from 2014 was largely as a result of the decline in both the BRL and the CAD relative to the USD, a reduction in staff discretionary bonuses, as well as cost reduction strategies implemented on travel costs and Canadian office costs.

G&A expenses directly relating to exploration and evaluation assets and property, plant and equipment assets totaling $1.1 million (2014 - $2.0 million) were capitalized in 2015.

Cash and Cash Equivalents and Restricted Cash

	As at	
	December 31, 2015	**December 31, 2014**
Cash and cash equivalents	**28,733**	40,920
Restricted cash – current	**2,288**	3,373
Restricted cash – non-current	**-**	9,749
Total cash and restricted cash	**31,021**	54,042

The Company has a credit support facility (the "Facility") with a Canadian bank for up to $45.0 million Canadian dollars ("CAD"). The Facility allows for the issuance of letters of credit ("LC's") and letters of guarantee in support of the financial guarantees required by the ANP for Alvopetro's work commitments. Letters of credit and letters of guarantee issued under the Facility are supported by either cash collateral posted by Alvopetro or through an Account Performance Security Guarantee the Company obtained from EDC in December 2014. EDC supports up to $15.5 million of Alvopetro's LC's issued under the Facility.

As at December 31, 2015, the total amount of LC's issued under the Facility was $17.6 million (December 31, 2014 - $27.9 million), with $15.3 million (December 31, 2014 - $15.1 million) satisfied through EDC and $2.3 million (December 31, 2014 - $12.8 million) satisfied through restricted cash deposits of Alvopetro. LC's supported by EDC include $1.2 million with respect to Block 170. This work commitment was satisfied in 2016, subject to ANP approval, with the 170(B1) well.

The entire restricted cash balance of $2.3 million at December 31, 2015 was classified as current (December 31, 2014 - $3.1 million) as it relates to LC's expiring within one year. LC's supported by restricted cash at December 31, 2015 include only the LC's for Block 182 and Block 196, both of which were released on March 31, 2016.

The reduction in the overall restricted cash balance from December 31, 2014 was as a result of a $3.0 million reduction in the LC collateral requirements due to the declining BRL relative to the USD, a transition of $6.3 million of LC's to EDC coverage throughout 2015, a release of $1.2 million of LC's for completed work commitments, and a release of $0.3 million related to cash collateral previously held for corporate credit cards.

During 2015 and 2014, the Company earned floating-rate interest income on the restricted cash deposits under the Facility.

Additional letters of credit and letters of guarantee, and any required accompanying cash collateralization, will be issued and posted, as applicable and as required, for any additional work commitments assumed by Alvopetro within Brazil. In addition, to the extent EDC coverage is limited in the future for any new LC's or for any existing LC's requiring extension to the expiry date, the Company would be required to post additional cash collateral to support existing work commitments in Brazil.

Other Income

	Three months ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
Interest income	**19**	26	**73**	270
Water disposal revenue	**-**	6	**19**	112
Total other income	**19**	32	**92**	382

Alvopetro earns interest income on cash and cash equivalents and restricted cash. The decrease in interest income from 2014 is due to reduced cash balances, combined with the fact that the majority of cash is now held in USD which generates lower interest rates. Other income also includes revenue earned by the Company from third-party water disposal fees. This revenue has decreased throughout 2015 due to reduced demand from third parties for this service.

Foreign Exchange

The Company's reporting currency is the USD and its functional currencies are the USD and the BRL. Substantially all costs incurred in Brazil are in BRL's and the Company incurs certain head office costs in both USD and CAD. In each reporting period, the change in the values of the BRL and the CAD relative to the Company's reporting currency are recognized. The period end rates used to translate the Company's BRL and CAD denominated financial statement items for the reporting periods as specified are as follows:

	As at			% Change in Period	
	December 31, 2015	September 30, 2015	December 31, 2014	**Q4 2015**	**2015**
Rate at end of period:					
U.S. dollar / Brazilian real	**3.904**	3.972	2.656	**-1.7%**	**47.0%**
U.S. dollar / Canadian dollar	**1.384**	1.335	1.160	**3.7%**	**19.3%**

Head office transactions in Canadian dollars are recognized at the rates of exchange prevailing at the date of the transactions. At the end of each reporting period, monetary assets and liabilities 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. Exchange gains or losses are included in the determination of net loss as foreign exchange gains or losses.

The assets and liabilities of Alvopetro's Brazilian subsidiaries are translated to USD at the exchange rate on the reporting period date. The income and expenses of our Brazil operations are translated to USD at the exchange rates on the date of the relevant transactions. All resulting foreign currency differences are recorded in other comprehensive income in our consolidated statements of operations and comprehensive loss. The BRL depreciated 47.0% relative to the USD from December 31, 2014 to December 31, 2015 resulting in a $15.1 million other comprehensive loss for the year ended December 31, 2015. In the fourth quarter of 2015, the BRL appreciated 1.7% from 3.972 resulting in a $0.9 million other comprehensive gain for the three months ended December 31, 2015.

Although the revaluation of the Company's assets and liabilities has resulted in a foreign exchange loss and an other comprehensive loss in 2015, as a significant portion of the Company's transactions are denominated in CAD and BRL, the Company has reported lower overall USD equivalent costs for general and administrative and production costs throughout 2015.

Share-Based Compensation Expense

	Three months ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
Share-based compensation	**100**	163	**367**	637

Share-based compensation expense is a non-cash expense that is based on the fair value of stock options granted and amortized over the vesting period of the options. Under Alvopetro's Stock Option Plan there were 6.8 million stock options outstanding at December 31, 2015 compared to 4.6 million at December 31, 2014. Gross share-based compensation expense for the three months and year ended December 31, 2015 was $0.1 million and $0.5 million, respectively (December 31, 2014 - $0.2 million and $0.9 million). Of this amount, $0.02 million and $0.1 million, respectively (December 31, 2014 - $0.1 million and $0.3 million) was capitalized to exploration and evaluation assets and property, plant and equipment. Overall, the share-based compensation has decreased despite increased options outstanding due to a decline in the Company's share price resulting in a lower estimated fair value of new stock options granted and a lower share-based compensation expense as higher valued grants are vested.

Depletion, Depreciation and Accretion

	Three months ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
Depletion and depreciation (DD&A)	**108**	184	**429**	441
Accretion on decommissioning liabilities	**16**	21	**72**	94
Total	**124**	205	**501**	535

Included in the depletion computation for our producing assets was $8.9 million (December 31, 2014 - $12.0 million) of estimated future development costs for undeveloped proved plus probable reserves. Depletion expense for the year ended December 31, 2015 is consistent with the 2014 depletion. The decrease in the three months ended December 31, 2015 compared to the same period in 2014 is due to a decrease in the depletable base which is primarily a function of the decline of the BRL to the USD and impairments recorded at December 30, 2014 and September 30, 2015.

Impairment

	Three months ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
Impairment losses – PP&E				
Bom Lugar	**556**	2,261	**1,524**	2,261
Total PP&E impairment loss	**556**	2,261	**1,524**	2,261
Impairment losses – E&E				
Block 182	**7,167**	-	**7,167**	-
Block 170	**4,096**	-	**4,096**	-
Block 131	-	4,938	-	4,938
Block 132	-	1,387	-	1,387
Block 144	-	5,789	-	5,789
Block 157	-	4,912	**-**	4,912
Block 196	-	3,304	**-**	3,304
Other	**251**		**251**	
Total E&E impairment loss	**11,514**	20,330	**11,514**	20,330
Total Impairment	**12,070**	22,591	**13,038**	22,591

An impairment is recognized when the carrying value of an asset or group of assets exceeds its estimated recoverable amount, defined as the higher of its value in use or fair value less costs of disposal. Any impairments that are recognized may be reversed in the future should there be any indication that the recoverable amount of the asset has increased in value since the time of recording the initial impairment. The impairment reversal is limited to the original value less any associated DD&A that would have been otherwise applied during the period the asset was impaired.

The impairment at Bom Lugar recognized in 2015 was primarily attributable to the decline in forecasted commodity prices. Forecasted oil prices (2016 and later) have decreased 19% since December 31, 2014. At December 31, 2015, the Bom Lugar asset has been impaired to $4.6 million which is the estimated recoverable amount.

At Block 170, the Company drilled the 170(B1) well in early 2016 but failed to discover commercial quantities of hydrocarbons and plans to abandon this well and relinquish the block in 2016. The full carrying amount of this block was reduced to $nil at December 31, 2015. With respect to Block 182, all costs associated with the 182(B1) well were impaired to the estimated recoverable amount based on discounted cash flows as prepared by the Company's external reserve evaluator. This resulted in an impairment of $6.8 million. There was an additional impairment on Block 182 of $0.4 million recognized in respect of costs attributable to a well drilled prior to 2013. Other impairment charges relate primarily to inventory write-offs for obsolete and/or damaged materials on hand for future exploration projects.

2014 E&E impairment charges relate to five blocks that were fully impaired as at December 31, 2014 due to limited prospectivity identified on these blocks. Four of these blocks (Blocks 131, 132, 144 and 157) were relinquished to the ANP in April 2015 and one block (Block 196) was relinquished in January 2016.

Taxes

	Three months ended December 31,		Year ended December 31,	
	2015	**2014**	**2015**	**2014**
Current income tax expense	**-**	11	**-**	44
Deferred income tax (recovery) expense	**(3,002)**	6	**(6,135)**	(112)
Total income tax (recovery) expense	**(3,002)**	17	**(6,135)**	(68)

The statutory corporate tax rate in Brazil is 34%. This is comprised of a basic 15% corporate income tax, plus 10% surtax and 9% social contribution on net profit tax. Prior to 2015 the Company elected to compute Brazil corporate taxes under the presumed profit regime where current tax is computed based on a percentage of gross revenues. For the 2015 taxation year, the Company elected to transition to the actual profit regime. As the Company is currently in an overall loss position, no current tax expense is realized in the three months or year ended December 31, 2015 under the actual profit regime.

The deferred tax recovery recognized for the three months and year ended December 31, 2015 is largely as a result of losses realized in Brazil from ongoing operations, impairments booked for accounting purposes with no reduction in tax pools, as well as previously unrecognized losses relating to blocks that were relinquished earlier in 2015. Under the actual profit regime these losses are available for carryforward and the associated tax benefit has been recognized. In prior years, any losses realized while under the presumed profit regime were not eligible for carryforward.

The deferred tax recovery recognized on Brazil operations is offset to some extent by a reduction in the estimated tax pools available for use in Canada and the recognition of an overall deferred tax liability in Canada on anticipated foreign exchange gains on USD cash balances. The $0.3 million deferred tax liability at December 31, 2015 relates solely to Canada. An overall deferred tax asset attributable to Brazil operations of $4.3 million exists as at December 31, 2015, the benefit of which has not been recognized for accounting purposes.

Net Loss

The Company reported a net loss for the three and twelve months ended December 31, 2015 of $9.8 million and $12.4 million, respectively, compared to a loss of $24.7 million and $31.7 million for the three and twelve months ended December 31, 2014. The Company realized a lower net loss in both periods largely due to increased cash flows, reduced impairment charges and increased deferred tax recoveries recognized. The year-to-date 2014 net loss included a $2.6 million foreign exchange loss compared to a foreign exchange loss of $0.1 million for the year ended December 31, 2015.

Capital Expenditures

Capital Expenditures by Type	Three months ended December 31, 2015	2014	Year ended December 31, 2015	2014
E&E expenditures				
Drilling and completions	**580**	4,381	**7,868**	25,832
Performance guarantee payment	**-**	5,731	**-**	5,731
Inventory purchases	**116**	2,615	**389**	5,599
Facility & equipment	**314**	280	**547**	353
Land, lease, and similar payments	**246**	1,090	**1,014**	2,460
Capitalized G&A	**223**	581	**1,013**	1,777
Other	**90**	378	**390**	408
Total E&E expenditures	**1,569**	15,056	**11,221**	42,160
PP&E expenditures				
Drilling and completions	**24**	334	**310**	471
Land, lease, and similar payments	**(3)**	10	**4**	15
Furniture, fixtures, and equipment	**10**	-	**416**	89
Capitalized G&A	**2**	26	**117**	175
Other	**(4)**	26	**39**	27
Total PP&E expenditures	**29**	396	**886**	777
Other asset expenditures				
Advances for inventory	**-**	224	**-**	866
Advances for facilities	**-**	498	**-**	498
Other advances for E&E assets	**12**	65	**95**	65
Other asset expenditures	**12**	787	**95**	1,429
Total capital expenditures by type	**1,610**	16,239	**12,202**	44,366

Capital Expenditures by Property	Three months ended December 31, 2015	2014	Year ended December 31, 2015	2014
E&E expenditures				
9th Brazil Bid Round blocks	**1,299**	11,823	**10,204**	34,957
11th Brazil Bid Round blocks	**38**	341	**203**	183
12th Brazil Bid Round blocks	**94**	277	**220**	1,421
13th Brazil Bid Round blocks	**206**	-	**206**	-
Inventory	**116**	2,615	**388**	5,599
Costs to be allocated to blocks (allocated to blocks)	**(184)**	-	**-**	-
Total E&E expenditures	**1,569**	15,056	**11,221**	42,160
PP&E expenditures				
Bom Lugar	**7**	162	**387**	432
Jiribatuba	**4**	232	**15**	253
Aracaju	**-**	2	**-**	3
Corporate	**18**	-	**484**	89
Total PP&E expenditures	**29**	396	**886**	777
Other asset expenditures	**12**	787	**95**	1,429
Total capital expenditures by property	**1,610**	16,239	**12,202**	44,366

E&E expenditures in the fourth quarter of 2015 included $0.5 million for site construction and rig mobilization costs with respect to the 170(B1) well which was drilled in early 2016 and $0.1 million in site construction costs for the 256(A1) well which the Company expects to drill in 2016. The Company incurred $0.3 million for initial facilities construction costs in the fourth quarter to bring the 182(B1) well on production. Additional E&E expenditures included capitalized G&A of $0.2 million and 13th Brazil Bid round bonus payments and LC fees of $0.2 million.

PP&E expenses in 2015 primarily related to directional survey work performed for a future Bom Lugar well to be drilled, operational equipment purchases, and Brazil office renovation costs.

Alvopetro's 2015 capital plan focused on the 9th Brazil Bid Round blocks, including drilling and testing the 182(B1) well, testing our 197(2) discovery as well as the acquisition of the remaining interest in Block 170 and initial work for the 170(B1) well. In light of continued low commodity prices, the Company elected to implement a prudent capital plan for 2015 in order to manage capital spending and its financial resources without impairing its ability to grow and its plans for the future.

Summary of Annual Results

	2015	**2014**	**2013**
Financial			
Oil sales	**535**	1,106	1,239
Funds flow from operations (1)	**(4,966)**	(7,722)	(4,836)
Per share – basic & diluted ($)	**(0.06)**	(0.09)	(0.06)
Net loss income attributable to common shareholders	**(12,424)**	(31,709)	(7,398)
Per share – basic & diluted ($)	**(0.15)**	(0.37)	(0.09)
Total assets	**84,284**	124,557	155,456
Total liabilities	**3,552**	16,732	8,874
Debt	**-**	-	-
Average daily crude oil production (bopd)	**34**	33	35

(1) Non-GAAP measure. See "*Non-GAAP Measures*" section within this MD&A.

The Company's oil sales have decreased over the past three years, despite consistent production levels, due to decreased commodity prices. The Company generated negative funds flow from operations in all three years due to minimal cash flows from oil sales. Negative funds flow from operations in 2014 was higher than in 2015 or 2013 due to a realized foreign exchange loss of $2.3 million. The net loss was higher in both 2014 and 2015 due to impairment losses on the Company's E&E and PP&E assets recorded in both of those years.

Total assets have decreased over the past three years primarily due to impairments on both E&E and PP&E as well as reductions in the USD equivalent balances of BRL denominated assets due to the declining BRL relative to the USD.

Total liabilities were higher as at December 31, 2014 compared to 2013 and 2015 with the inclusion of $5.7 million in performance guarantee amounts for four blocks that were relinquished in 2015 and one block that was relinquished in 2016. In addition, the Company had completed drilling the 197(2) well immediately prior to year-end, resulting in additional accounts payable and accrued liabilities relating to costs associated with this well.

Summary of Quarterly Results

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Financial								
Oil sales	**116**	97	150	172	212	257	323	314
Funds flow from operations (1)	**(1,017)**	(1,240)	(1,352)	(1,357)	(1,482)	(1,331)	(1,893)	(3,016)
Per share – basic & diluted ($)	**(0.01)**	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.04)
Net loss	**(9,797)**	(84)	(980)	(1,563)	(24,662)	(1,722)	(1,304)	(4,021)
Per share – basic & diluted ($)	**(0.12)**	-	(0.01)	(0.02)	(0.29)	(0.02)	(0.02)	(0.05)
Capital and other asset expenditures	**1,610**	2,636	6,602	1,354	16,239	14,663	6,093	7,371
Operations								
Operating netback ($/bbl) (1)								
Brent benchmark price	**44.71**	51.17	63.50	55.16	76.98	103.38	109.74	107.90
Sales price	**36.30**	38.52	52.14	45.51	62.35	100.82	103.91	99.94
Transportation expenses	**(2.50)**	(3.18)	(1.74)	(4.23)	(2.65)	(3.53)	(4.83)	(3.50)
Realized sales price	**33.80**	35.34	50.40	41.28	59.70	97.29	99.08	96.44
Royalties and production taxes	**(3.13)**	(2.78)	(2.09)	(3.97)	(4.71)	(9.42)	(10.62)	(10.82)
Production expenses	**(56.32)**	(71.49)	(91.76)	(65.63)	(141.18)	(104.35)	(116.78)	(103.12)
Operating netback	**(25.65)**	(38.93)	(43.45)	(28.32)	(86.19)	(16.48)	(28.32)	(17.50)
Average daily crude oil production (bopd)	**35**	27	32	42	37	28	34	35

Notes:

(1) Non-GAAP measure. See "Non-GAAP Measures" section within this MD&A.

Q4 2015 – The Company realized a 30% increase in its average daily production due to the 182(B1) well, which commenced production in December 2015 contributing 4 bopd in the fourth quarter, and the Jiribatuba field, which was brought back on production in November 2015, contributing 6 bopd in the fourth quarter. These production increases were offset by a small decline from the Bom Lugar field as one producing well was shut-in to transfer equipment to the 182(B1) well. Despite the 30% increase in production, oil sales increased only 20% from the third quarter due to the 13% decline in Brent. Capital expenditures of $1.6 million in the fourth quarter included $0.5 million in site construction and rig mobilization costs for the 170(B1) well and $0.3 million in initial facilities construction costs for the 182(B1) well. The net loss of $9.8 million realized in the fourth quarter was largely as a result of the $12.1 million impairment loss recognized on E&E and PP&E assets and negative funds flow from operations of $1.0 million offset by a deferred tax recovery of $3.0 million.

Q3 2015 – The Company completed testing the 182(B1) well. Total capital and other asset expenditures were $2.6 million, including $1.7 million for testing and facilities costs for this well and capitalized G&A of $0.2 million. Production decreased 16% from the second quarter as the Jiribatuba well continued to be offline due to road access issues. The lack of production from the Jiribatuba field and the 19% decline in Brent from the second quarter resulted in a 35% decrease in oil sales. As a result of the continued decline in Brent prices, the Company recognized a $1.0 million impairment loss on the Bom Lugar field. This was more than offset by the recognition of a deferred tax recovery of $2.5 million, resulting in an overall net loss of $0.1 million in the quarter.

Q2 2015 – The Company completed drilling the 182(B1) well and completed testing the 197(2) well. Total capital and other asset expenditures were $6.6 million, including $5.2 million relating to these projects, $0.3 million for the acquisition of the remaining working interest in Block 170, and $0.4 million in capitalized G&A. Production decreased 24% from the first quarter of 2015 due to road access issues at the Jiribatuba field and maintenance on our Bom Lugar well, resulting in a 13% decrease in oil sales, despite the 15% increase in Brent during the quarter. This maintenance work also contributed to higher production expenses and higher production costs per barrel in the quarter.

Q1 2015 – The Company's daily production increased 14% from the previous quarter as a result of workover activities at Jiribatuba late in 2014. The incremental sales from these volumes were more than offset by the decline in Brent oil prices, resulting in lower oil sales. Total capital and other asset expenditures were $1.4 million. In March 2015, Alvopetro commenced testing the 197(2) well and incurred costs related to civil works in preparation of the Company's next well on Bom Lugar. During the quarter, the USD strengthened quite substantially over the CAD (9%) and the BRL (21%). As a result, the Company recorded a $0.2 million foreign exchange loss on the Canadian operations (included in net income) and a $6.7 million loss on the Brazil operations (included in other comprehensive loss).

Q4 2014 –The Company completed drilling 183(1), completed testing 197(1), drilled 197(2) and performed workovers on two wells at Jiribatuba. Total capital and other asset expenditures for the quarter were $16.2 million which included these activities as well as $5.7 million related to performance guarantees on blocks impaired at December 31, 2014, inventory purchases and advances of $2.8 million and capitalized G&A of $0.6 million. The net loss for the quarter was $24.7 million, primarily due to an impairment loss of $22.6 million as well as lower oil prices and higher production expenses from workover activities. In December, EDC agreed to guarantee up to $15.5 million of the Company's LC's issued in relation to work commitments in Brazil and prior to year-end, a total of $15.1 million of LC's were transitioned to EDC's coverage, allowing for the release of this amount from restricted cash. The BRL and the CAD declined relative to the USD by 8.4% and 3.5%, respectively. The Company reported a foreign exchange loss of $0.1 in net income related to the change in the USD relative to the CAD and a loss of $5.0 million in other comprehensive income related to the change in the USD relative to the BRL.

Q3 2014 – The Company commenced drilling the 183(1) well (spud in late July) and incurred costs of $7.4 million on this well during the quarter. Other capital activities included completion and testing of 197(1) for $3.4 million, $0.3 million in standby charges, as well as costs incurred for future drilling activities, including inventory purchases and construction of the 197(2) location which was spud in early November. The Company's main producing well at Bom Lugar was offline for most of the month of September for a pumpjack repair, resulting in reduced oil sales revenue as well as associated royalties and transportation. Production expenses were less overall in the quarter but per barrel costs remained high at $104.35 due to lower production levels.

Q2 2014 – Capital expenditures included rig standby charges of $1.2 million, $1.0 million related to Block 183 (including the final farm-in payment and lease construction costs for the 183(1) well), $0.6 million in bid round bonuses, $1.1 million in additional drilling costs and initial completion and testing costs on the 197(1) well, as well as inventory and other purchases. Second quarter production expenses of $116.78 per barrel represented a 13% increase over the previous quarter largely due to Jiribatuba turnaround costs. G&A of $1.7 million was $0.6 million higher than the first quarter as a result of increased operational activities as well as several annually occurring costs related to year end reporting, filing and printing.

Q1 2014 – The majority of capital expenditures of $7.4 million in the quarter were related to drilling the 197(1) well. Net loss and funds flow were impacted by an increased realized sales price compared to the prior quarter, offset by higher production and G&A costs and a foreign exchange loss of $2.5 million due to the depreciation of the Canadian dollar relative to the U.S. dollar.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at December 31, 2015:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments(1)				
Block 182(2)	780	-	-	780
Block 183	-	854	-	854
Block 170(3)	768	-	-	768
Block 106	292	-	-	292
Block 107	1,947	-	-	1,947
Block 177	1,842	-	-	1,842
Block 169	-	973	-	973
Block 198	-	973	-	973
Block 255	-	1,165	-	1,165
Block 256	-	259	-	259
Block 57(4)	-	-	227	227
Block 62(4)	-	-	227	227
Block 71(4)	-	-	155	155
Block 145(4)	-	-	227	227
Bom Lugar	-	-	90	90
Jiribatuba	-	-	90	90
Total minimum work commitments	**5,629**	**4,224**	**1,016**	**10,869**
Production facilities contract(5)	**361**	**-**	-	**361**
Office leases(6)	**117**	**53**	-	**170**
Total commitments	**6,107**	**4,277**	**1,016**	**11,400**

Notes:

(1) Under the terms of the ANP concession contracts for each of our exploration blocks, the Company has commitments which must be completed prior to the applicable phase expiry date. The Company is required to post a performance guarantee with the ANP for all commitments in the table above. The performance guarantee associated with Block 196 has been included in accounts payable and accrued liabilities as at December 31, 2015 and is therefore excluded from the table above.

(2) The Company completed drilling the first well on Block 182 in 2015, which, subject to ANP approval, fulfils the commitment included in the table above. ANP approved the fulfilment of the commitment in early 2016.

(3) Subsequent to December 31, 2015, the Company completed drilling the 170(B1) well in satisfaction of the work commitment in the table above, subject to ANP approval. Due to the lack of a commercial discovery, the Company plans to relinquish this block in 2016.

(4) In October 2015, in partnership with ENGIE, Alvopetro was awarded four additional blocks in the Recôncavo Basin in Brazil's 13th Bid Round (Blocks 57, 62, 71, and 145). The concession contracts were signed in January 2016. Alvopetro will operate these four additional blocks and hold a 65% participating interest in each block with the remaining 35% held by ENGIE. The amounts provided in the table above represent Alvopetro's share of the commitments for these blocks.

(5) The Company is committed to future payments under the terms of an equipment rental contract for production facilities in respect of the 182(B1) well.

(6) The Company is committed to future minimum payments for office space in Canada and Brazil. In Brazil, the Company is required to provide a guarantee for certain office rental payments. The total amount of the guarantee provided as at December 31, 2015 was approximately $0.1 million.

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.

The Company currently has no contingent liabilities recorded; however, in the normal course of operations, we may have disputes with industry participants for which we currently cannot determine the ultimate results. The Company has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.

Alvopetro's activities in Brazil are subject to minimum local content requirements with respect to materials and supplies utilized. The specific local content requirements for the exploration phase were determined during the bidding process for each particular block and are assessed at the phase expiry date. Management undertakes considerable effort to adhere to these requirements; however, there may be circumstances when it is not advantageous or reasonably possible for the Company to do so. If the Company does not meet the local content requirements for a particular phase as specified according to the respective concession contract, a fine, which varies by concession depending on exploration phase and type of cost, will be incurred. The Company is continually monitoring its local content compliance and actual or potential fines and, as of December 31, 2015, the potential estimated fine was $0.1 million (December 31, 2014 - $0.1 million), which is included in accounts payable and accrued liabilities in the respective consolidated statements of financial position.

LIQUIDITY AND CAPITAL RESOURCES

Our activities since inception have focused on targeting: our mature fields, shallow conventional exploration, and proving the commercial potential of the Gomo tight hydrocarbon resource in the Recôncavo Basin. As a result of the decline in oil prices, we have taken steps to preserve our financial resources through a disciplined capital program and G&A cost reductions.

At December 31, 2015, Alvopetro's cash and cash equivalents of $28.7 million and its restricted cash of $2.3 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	**28,353**	28,156	197	-
Cash held in Brazil	**380**	-	-	380
Restricted cash – current	**2,288**	2,288	-	-
Total	**31,021**	**30,444**	**197**	**380**

Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as at December 31, 2015

Alvopetro currently does not derive positive cash flow from its operations. Capital expenditures and ongoing G&A and production expenses are funded from existing cash balances. At December 31, 2015 the Company's working capital and current restricted cash of $29.4 million exceeded estimated outstanding commitments of $11.4 million by $18.0 million. Work commitments in Brazil are supported by total LC's of $17.6 million as at December 31, 2015, $15.3 million of which are currently satisfied through EDC with the remaining LC's supported by Alvopetro's $2.3 million restricted cash balance. EDC coverage is reviewed annually. Typically, LC's supported by EDC will continue to be supported until the expiry date of each LC; however, to the extent LC's are amended for block extensions or other changes, EDC support could be revoked. To the extent some or all of EDC coverage were limited in the future, the Company would be required to post the requisite amount from its cash balance which may impact its ability to fund future capital and operational expenditures.

Alvopetro plans to continue its disciplined and balanced capital approach through 2016. Our $9.0 million capital plan for 2016 includes:

- Drilling the 170(B1) well which was completed in March 2016;
- Drilling the 256(A1) well which is a multi-zone prospect on Block 256 and is our largest natural gas exploration prospect to date.
- Advancing our Gomo resource play by testing the 183(1) well and defining deliverability through the use of fracture stimulations and reservoir modeling, pending receipt of regulatory approval.

The 2016 capital plan is expected to be funded with existing cash balances on hand. Future capital expenditures may be funded through a combination of cash on hand, cash flow from successful operations, assets sales, joint ventures, farmouts, debt, or equity.

The liability for decommissioning obligations of Alvopetro was $1.1 million as at December 31, 2015. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. A $1.1 million revision to the obligation was recognized in the December 31, 2015 as a result of a reduction in the future estimated costs associated with the abandonment and reclamation of existing wells and facilities.

At December 31, 2015 the Company had $4.0 million of equipment inventory to be utilized for future operations which is included in exploration and evaluation assets in the consolidated statement of financial position.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and preferred shares in one or more series. The aggregate number of Alvopetro common shares and stock options outstanding at April 6, 2016 was 91,288,307 (common shares – 85,166,871, stock options – 6,121,436). There are no preferred shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

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

	Three months ended December 31,		**Year ended December 31,**	
	2015	2014	**2015**	2014
Office rent and related costs	**39**	55	**190**	225
Administration fees	**-**	-	**-**	6
Total	**39**	55	**190**	231

RISKS AND UNCERTAINTIES

Alvopetro is exposed to a variety of risks including, but not limited to: a) exploration risk; b) liquidity and financing risks; c) competitive risks within the oil and gas industry; d) operational risks; e) foreign operations risk; f) government regulations, approvals and permitting risks; and g) market risk.

This section presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout the consolidated financial statements. Investors should carefully consider the following risk factors and the risk factors set forth under the heading "Risk Factors" in our Annual Information Form that can be found on SEDAR at www.sedar.com.

A. Exploration Risk

The Company is exposed to a high level of exploration risk. The business of exploring for, developing or acquiring reserves is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance that Alvopetro will be able to generate and sustain revenue or net income in the future or that the Company's future exploration, development and acquisition activities will result in additional proved reserves. To manage this risk, Alvopetro employs highly experienced geologists and geophysicists, uses technology and 3D seismic as primary exploration tools and focuses exploration efforts in known hydrocarbon producing basins. The long-term commercial success of Alvopetro depends on its ability to find, acquire, develop and commercially produce and sell petroleum reserves. To date, the activities relating to the majority of Alvopetro's assets have been exploratory only, which increases the degree of risk substantially as compared to projects in the production stage. The value of Alvopetro's assets will be dependent on discovering hydrocarbon deposits with commercial potential and the ability to market its discoveries. Alvopetro will have nominal earnings to support it should its properties prove not to be commercially viable or if it is unable to negotiate sales contracts on terms that are acceptable to Alvopetro.

B. Liquidity and Financing Risk

The Company currently funds all capital and operational expenditures with cash balances on hand. The Company's existing properties do not have significant production and the Company has a history of operating losses. Significant capital expenditures may be required for future projects in excess of current cash balances. Moreover, to the extent EDC coverage were limited in the future, existing cash balances may be required in support of LC's for current or future work commitments. There can be no assurance that debt or equity financing, a bank loan facility or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Alvopetro. The inability of Alvopetro to access sufficient capital for its operations could have a material adverse effect on

Alvopetro's business, financial condition, results of operations and prospects, and could result in the delay or indefinite postponement of further exploration, evaluation and development of Alvopetro's properties.

C. Competitive Risks within the Oil and Gas Industry

The oil and gas industry is highly competitive. Competition is particularly intense in the acquisition of prospective oil and gas properties and reserves. Alvopetro's competitive position depends on its geological, geophysical and engineering expertise, its financial resources and its ability to efficiently acquire and develop its reserves. Alvopetro competes with a substantial number of other companies having larger technical staffs and greater financial and operational resources. In Brazil particularly, Petrobras dominates the majority of the industry, including all aspects of oil and gas exploration, development, transportation and sales. Petrobras, and many other companies in Brazil, not only engage in the acquisition, exploration, development and production of oil and gas reserves, but also carry on refining operations and market refined products. Alvopetro competes with Petrobras and other major and independent oil companies and other industries supplying energy and fuel in the marketing and sale of oil and gas to transporters, distributors and end users, including industrial, commercial and individual consumers. Due to Petrobras' position in all aspects of Brazil's energy market, Alvopetro may encounter challenges with respect to transporting and marketing crude oil and natural gas. Access to pipelines and other transportation infrastructure may be limited and/or the terms on which such access is provided may not be favourable to the Company.

Alvopetro also competes with other oil and gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time or may not meet the technical specifications required by Alvopetro in its operations. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply. Local content requirements in Brazil greatly reduce the control the Company has with respect to choice of service providers for its exploration and development activities. Finally, companies not previously investing in the oil and gas industry may choose to acquire reserves providing additional competition for Alvopetro.

D. Operational Risk

Alvopetro is exposed to a number of operational risks inherent in the industry including accidents, well blowouts, uncontrolled flows, labour strikes and environmental risks. Operational risks are managed using prudent field operating procedures. The Company has an emergency response plan to deal with potential incidents and maintains a comprehensive insurance program to reduce the risk of significant economic loss; however, not all risks can be eliminated. Losses resulting from the occurrence of these risks could have a material adverse impact on the Company's operations.

E. Foreign Operations Risk

Alvopetro currently has operations in Brazil and from time to time may evaluate additional projects internationally, consequently Alvopetro will be subject to certain risks, including currency fluctuations and possible political or economic instability. Alvopetro believes that the state and federal governments in Brazil support the exploration and development of its oil properties by foreign companies. Nevertheless, there is no assurance that future political conditions will not result in the state or federal governments adopting different policies respecting foreign development and ownership of oil and gas, environmental protection and labour relations. Exploration and production activities may be affected in varying degrees by political stability and government regulations relating to the industry.

To help mitigate the risks associated with operating in foreign jurisdictions, the Company seeks to operate in regions where the petroleum industry is a key component of the economy. Alvopetro believes that management's experience operating in other international jurisdictions helps reduce these risks. Brazil has a long history of democracy and an established legal framework that, in Alvopetro's opinion, minimizes political risks.

F. Government Regulations, Approvals and Permitting Risks

The Company is subject to extensive governmental and environmental approvals and regulations in its operating jurisdictions. Delays in obtaining regulatory approvals could result in project delays and our inability to meet contractual obligations and commitments. Changes to these regulations could increase the costs of conducting business in these jurisdictions. Environmental risks inherent in the oil and gas industry are subject to increasingly stringent legislation and regulation. The Company operates in accordance with all relevant environmental legislation and strives to minimize the environmental impact of its operations by providing for safety and environmental issues in all of its business plans.

The expanded use of hydraulic fracturing as a recovery technique employed in oil and natural gas drilling has given rise to increased public scrutiny of its environmental aspects, particularly with respect to its potential impact on local aquifers. Alvopetro may utilize hydraulic fracturing in the wells it drills and completes. Alvopetro believes that the hydraulic fracturing that we may conduct, given the depth and location of the wells and our consistent utilization of good oilfield practices, will be environmentally sound in general and would not give rise to concerns raised respecting local aquifers. Alvopetro anticipates that there will be a trend towards changing and increased regulatory requirements concerning hydraulic fracturing in the future, in Brazil and internationally. Changes to, and the increase of, regulatory requirements may impact our business.

Alvopetro must fulfill certain minimum work commitments on projects in Brazil. There are no assurances that all of these commitments will be fulfilled within the time frames permitted. As such, Alvopetro may lose certain exploration rights on the blocks affected and may be subject to certain financial penalties that would be levied by the applicable governmental authority. From time to time Alvopetro may request extensions to the timeframe allotted for work commitments. Alvopetro has requested extensions on certain blocks with expiries in 2016. There is no assurance that such extensions will be granted.

Alvopetro's existing 197(2) discovery requires unitization with the adjacent resource owner as well as government approval of the unitization agreement or agreements. Future discoveries may also require unitization. To the extent the Company is unable to negotiate a unitization agreement under acceptable terms or is unable to obtain government approval for the unitization, the Company may be unable to commercialize the discovery which will impact the Company's ability to generate future cash flows and could result in a delay or indefinite postponement of the exploration, evaluation and development of Alvopetro's properties.

G. Market Risk

The Company is exposed to normal financial risks inherent within the oil and gas industry, including commodity price risk, exchange rate risk, interest rate risk and credit risk. Crude oil and natural gas prices are influenced by global supply and demand, OPEC policy and worldwide political events. Fluctuations in crude oil and natural gas prices not only affect the Company's cash flows, but may also affect ability and capacity of future financings for the Company. Management believes it is neither appropriate nor possible to eliminate 100 percent of the Company's exposure to fluctuations in crude oil and natural gas prices. The Company monitors market conditions and may selectively use derivative instruments to reduce exposure to commodity price movements.

Cash and cash equivalents consist of balances on deposit at banks and short term deposits maturing in less than 90 days. Restricted cash consists of cash and cash equivalents and short-term deposits maturing in one year or less. Alvopetro manages credit risk related to short term deposits by investing only in term deposits of investment grade credit rating, and therefore the Corporation considers these assets to have negligible credit risk. Management believes it is neither appropriate nor possible to eliminate 100 percent of the Company's exposure to these risks. The Board of Directors periodically reviews the results of all risk management activities and all outstanding positions.

All of Alvopetro's expenditures are subject to the effects of inflation and foreign currency fluctuations. Alvopetro is exposed to exchange rate risk as a significant portion of the Company's expenditures will be paid in foreign currencies. Should such foreign currencies strengthen relative to the USD or should the inflation rates increase within Canada or Brazil, Alvopetro could experience a material decrease in its funds flow.

SENSITIVITIES

The Company's earnings and cash flow are sensitive to changes in the price of crude oil. As the Company is in the early stage of its operations and has significant cash on hand, it does not depend on its cash flows from oil sales and fluctuations in the price of crude oil are not currently significant to the Company.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New and revised accounting standards

There were no new or revised accounting pronouncements that were adopted by the Company for the year ended December 31, 2015.

Standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company.

Standard and Description	***Date of Adoption***	***Expected Adoption Impact on Consolidated Financial Statements***
IFRS 11 *Joint Arrangements* – was amended regarding accounting for the acquisition of an interest in a joint operation that constitutes a business.	January 1, 2016	The Company does not expect a material impact as a result of adopting this standard in 2016.
IFRS 15 *Revenue from Contracts with Customers* – The new standard will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and other revenue related interpretations. The new standard clarifies the principles for recognizing revenue from contracts with customers and provides a model for the recognition and measurement of sales of certain non-financial assets.	January 1, 2017	The Company is assessing the effect of this future pronouncement on its financial statements.
IFRS 9 *Financial Instruments* – As of July 2014, the IASB completed the final elements of IFRS 9 which supersedes IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new models for classification and measurement of financial instruments, hedge accounting and impairment of financial assets.	January 1, 2018	The Company is assessing the effect of this future pronouncement on its financial statements.
IFRS 16 *Leases* - IFRS 16 was issued January 2016 and replaces IAS 17 *Leases.* The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases.	January 1, 2019	The Company is assessing the effect of this future pronouncement on its financial statements.

Management's Report on Internal Control over Financial Reporting. In connection with National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company are required to file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

Forward-Looking Statements. Certain information provided in this MD&A constitutes forward-looking statements. Specifically, this MD&A contains forward-looking statements relating to future results from operations, projected financial results, future capital and operating costs, future production rates, proposed exploration and development activities, sources of capital, dividend levels, and capital spending levels. Forward-looking statements are necessarily based upon assumptions and judgments with respect to the future including, but not limited to, the success of future drilling, completion, recompletion and development activities, the outlook for commodity markets and capital markets, the performance of producing wells and reservoirs, well development and operating performance, general economic and business conditions, weather and access to drilling locations, the availability and cost of labour and services, environmental regulation, including regulation relating to hydraulic fracturing and stimulation, the ability to monetize hydrocarbons discovered, the regulatory and legal environment and other risks associated with oil and gas operations. Although we believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward looking statements because we can give no assurance that they will prove to be correct. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, reliance on industry partners, availability of equipment and personnel, uncertainty surrounding timing for drilling and completion activities resulting from weather and other factors, changes in applicable regulatory regimes and health, safety and environmental risks), commodity price and exchange rate fluctuations and general economic conditions. Certain of these risks are set out in more detail in this MD&A and in our Annual Information Form which has been filed on SEDAR and can be accessed at www.sedar.com. Except as may be required by applicable securities laws, Alvopetro assumes no obligation to publicly update or revise any forward looking statements made herein or otherwise, whether as a result of new information, future events or otherwise.

Test Results. Any references in this MD&A to test results, production from testing and performance rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such well will continue production and decline thereafter. Test results are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons.

Abbreviations:

MMcf	=	million cubic feet
MMcfpd	=	million cubic feet per day
Boepd	=	barrels of oil equivalent per day

BOE Disclosure. The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet per barrel (6Mcf/bbl) of natural gas to barrels of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this MD&A are derived from converting gas to oil in the ratio mix of six thousand cubic feet of gas to one barrel of oil.

Non-GAAP Measures. This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), such as funds flow from operations, funds flow per share, net working capital surplus and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities. Net working capital surplus includes current assets (including current restricted cash) less current liabilities (excluding the current portion of decommissioning obligations) and is used to evaluate the Company's financial leverage. Operating netback is determined by dividing oil sales less royalties and production taxes, transportation and operating expenses by sales volume of produced oil. Management considers operating netback important as it is a measure of profitability per barrel sold and reflects the economic quality of production. Funds flow from operations, funds flow per share, net working capital surplus and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with GAAP.