The following Management's Discussion and Analysis ("MD&A") is dated November 19, 2014 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of Alvopetro Energy Ltd. ("Alvopetro" or the "Company") as at and for the three and nine months ended September 30, 2014, MD&A for the year ended December 31, 2013, and the audited consolidated financial statements as at and for the periods ended December 31, 2013 and 2012. Additional information for the Company, including our 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" or "GAAP") 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, except as 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 the Recôncavo, Tucano, Camamu-Almada and Sergipe-Alagoas basins, onshore 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.

Strategy

Our three pronged strategy targets: i) mature fields; ii) shallow conventional exploration; and, iii) the Gomo member of the Candeias Formation resource play in the Recôncavo Basin. Supporting our strategy, Alvopetro's experienced team brings developed basin expertise to Brazil's underexploited resource opportunities.

Alvopetro's vision is to be the premier independent exploration and production company in Brazil, maximizing shareholder value by being the lowest cost operator and applying innovation to underexploited opportunities. Alvopetro aims to implement a large-scale, repeatable, low-risk, multi-well development program, utilizing advanced technology and completion techniques. Alvopetro's strong financial position, along with our experienced team of professionals, local operating capabilities and highly prospective land base, will enable us to efficiently develop our resource play opportunities.

History and Formation of the Company

The Company was established effective November 28, 2013 as a result of an agreement among Petrominerales Ltd. ("Petrominerales"), Pacific Rubiales Energy Corp. ("Pacific Rubiales") and Alvopetro Energy Ltd. (formerly 1774501 Alberta Ltd.) whereby the parties agreed to complete an arrangement (the "Arrangement") under section 193 of the *Business Corporations Act* (Alberta). Under the Arrangement, Pacific Rubiales acquired Petrominerales, with each Petrominerales shareholder receiving cash consideration of CAD$11.00 and one common share of Alvopetro for each Petrominerales share held. The Arrangement was completed on November 28, 2013.

In connection with the Arrangement, Petrominerales transferred to Alvopetro its entire interest in the Recôncavo, Tucano, Camamu-Almada and Sergipe-Alagoas basins in onshore Brazil consisting of three producing fields and 16 exploration blocks comprising 148,500 gross acres (the "Brazil Properties") and $85.6 million (CAD$91.0 million) cash. Post-Arrangement, Alvopetro began carrying on the exploration, development and production previously carried on by Petrominerales with respect to the Brazil Properties.

Financial Information

With respect to the financial information presented in this management's discussion and analysis, transactions occurring prior to the Arrangement (which closed November 28, 2013) were derived from the accounting records of Petrominerales. All revenue, royalties and production taxes, production expenses and transportation expenses contained within the interim condensed consolidated statements of operations and comprehensive loss are directly attributable to the Brazil Properties now owned by Alvopetro. General and administrative expenses recorded prior to the Arrangement have been determined based on actual Brazil general and administrative expenses and time charges by Petrominerales' employees to the Brazil Properties. Share-based compensation recorded by Petrominerales up to the Arrangement date has been allocated to Alvopetro based on the percentage of the direct time charged to the Brazil Properties divided by total general and administrative costs for the Petrominerales Calgary office. The financial information for this period is intended to be representative of the Brazil Properties had Alvopetro been operating them as a stand-alone entity, subject to Petrominerales' control, during this time.

The financial information related to this period has been prepared by Alvopetro's management in accordance with IFRS and requires the use of significant judgments made in the allocation of reported amounts related to the Brazil Properties. In the opinion of management of Alvopetro, this financial information reflects all adjustments necessary to present fairly the statement of the financial position and the results of operations in accordance with IFRS, however such information may not reflect Alvopetro's financial position, results of operations and cash flows had Alvopetro been operating in its current structure during the reporting periods presented. Further, such results may not be comparable to future results due to differences between the corporate and financial structure and management of Petrominerales and Alvopetro.

FINANCIAL AND OPERATING SUMMARY

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Financial				
($000s, except where noted)				
Oil sales	**257**	177	**894**	876
Funds flow from operations (1)	**(1,331)**	(997)	**(6,240)**	(3,146)
Per share – basic and diluted ($)(2)	**(0.02)**	(0.01)	**(0.07)**	(0.04)
Net loss	**(1,722)**	(7,439)	**(7,047)**	(10,004)
Net loss attributable to common shareholders	**(1,722)**	(5,793)	**(7,047)**	(7,796)
Per share – basic and diluted ($)(2)	**(0.02)**	(0.07)	**(0.08)**	(0.09)
Capital expenditures	**14,898**	1,836	**27,485**	2,636
Total assets	**151,779**	47,363	**151,779**	47,363
Debt	**-**	-	**-**	-
Net working capital surplus (deficit) (1)(3)	**45,104**	(56)	**45,104**	(56)
Common shares outstanding, end of year (000s)				
Basic (2)	**85,167**	85,167	**85,167**	85,167
Diluted (4)	**88,264**	85,167	**88,264**	85,167
Operations				
Operating netback ($/bbl) (1)				
Brent benchmark price	**103.38**	109.71	**107.02**	108.24
Sales price	**100.82**	76.75	**101.60**	99.35
Transportation expenses	**(3.53)**	(2.94)	**(3.98)**	(3.06)
Realized sales price	**97.29**	73.81	**97.62**	96.29
Royalties and production taxes	**(9.42)**	(6.54)	**(10.34)**	(5.56)
Production expenses	**(104.35)**	(178.55)	**(108.31)**	(121.36)
Operating netback	**(16.48)**	(111.28)	**(21.03)**	(30.63)
Average daily crude oil production (bopd)	**28**	25	**32**	32

Notes:

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

(2) All Alvopetro common shares currently outstanding were issued in connection with the Arrangement and there were no shares of Alvopetro Energy Ltd. outstanding at September 30, 2013. However, for comparison purposes and for all per share computations, the December 31, 2013 common share balance is assumed for September 30, 2013.

(3) Includes current restricted cash of $11.1 million (September 30, 2013 - $nil) but excludes non-current restricted cash of $18.6 million (September 30, 2013 - $nil).

(4) Consists of outstanding common shares and stock options of the Company as at September 30, 2014.

Net working capital surplus and total assets are significantly higher at September 30, 2014 compared to September 30, 2013 primarily as a result of the $85.6 million received on closing of the Arrangement on November 28, 2013 and capital expenditures in Brazil throughout 2014.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE THIRD QUARTER OF 2014

- During the third quarter of 2014, we commenced drilling our 183(1) well and testing our 197(1) well.
- Our cash, restricted cash and working capital resources remain strong at $63.7 million, with a working capital surplus of $45.1 million (including $40.8 million of cash and $11.1 million of current restricted cash) as well as non-current restricted cash of $18.6 million.

RECENT HIGHLIGHTS

- On October 3, we completed drilling our 183(1) well, reaching a total depth of 3,550 metres. Based on open-hole logs, the 183(1) well encountered 189 metres of potential net hydrocarbon pay over several intervals.
- We completed testing of our 197(1) well in October 2014. The 197(1) well was drilled to a total depth of 3,275 metres and encountered 43 metres of potential net hydrocarbon pay over several separate intervals.
- On November 4, we commenced drilling our third well, 197(2), on Block 197, a shallow conventional exploration target offsetting an existing natural gas discovery.

EXPLORATION BLOCK COMMITMENT SUMMARY

Block	Gross Acres	Exploration Term	Current Phase	Phase Expiry	Phase Commitments
131	5,016	3 years + 2 years	2	18-Oct-14 (Note 1)	1 exploration well
132	6,301	3 years + 2 years	2	18-Oct-14 (Note 1)	1 exploration well
144	4,843	3 years + 2 years	2	18-Oct-14 (Note 1)	1 exploration well
157	4,670	3 years + 2 years	2	18-Oct-14 (Note 1)	1 exploration well
182	5,239	3 years + 2 years	2	25-Jul-14 (Note 1)	1 exploration well
196	5,906	3 years + 2 years	2	25-Jul-14 (Note 1)	1 exploration well
197	7,339	3 years + 2 years	2	29-Apr-14	1 exploration well (Note 2)
183	7,740	3 years + 2 years	1	11-Jun-15	1 exploration well (Note 3)
170	6,914	3 years + 2 years	1	(Note 4)	1 exploration well
106	7,759	3 years + 2 years	1	29-Aug-16	11 km^2 of 3D seismic
107	7,561	3 years + 2 years	1	29-Aug-16	2 exploration wells
T-177	46,505	3 years + 2 years	1	29-Aug-16	1 well and 31 km^2 of 3D seismic
169	5,280	3 years + 2 years	1	15-May-17	1 exploration well
198	7,739	3 years + 2 years	1	15-May-17	1 exploration well
255	7,734	3 years + 2 years	1	15-May-17	1 exploration well + 20 km 2D seismic
256	7,734	3 years + 2 years	1	15-May-17	27km 2D seismic

Notes:

(1) Alvopetro has applied to the ANP for an extension to the current phase expiry of these Blocks. While we expect an extension to be granted, Alvopetro cannot guarantee the outcome of the extension application process. The ANP has granted a temporary extension to the current phase expiry for Blocks 131, 132, 144, 157, 182 and 196, valid pending the ANP's determination of our application for extension.

(2) Alvopetro drilled our 197(1) well in fulfillment of its commitment of one exploration well in exploratory phase 2, subject to ANP approval, with a temporary extension granted from the ANP valid pending the ANP's determination of our application for extension.

(3) The Company completed drilling our first well on Block 183 subsequent to September 30, 2014 which, subject to ANP approvals, fulfills the work commitment for Block 183 in the table above.

(4) The contract is currently in suspension, meaning additional time is granted to Alvopetro to complete our commitment, pending customary landowner documentation and subsequent receipt of environmental permits. The time for completion of the first phase commitment on Block 170 is expected to be approximately 18 months after the contract is resumed.

Alvopetro has the financial resources necessary to complete all of its work commitments. Alvopetro has the capacity to grow our operations and production levels and is not dependent on cash flows from existing production to fund our capital and operating plans.

FINANCIAL AND OPERATING REVIEW

Comparative Analysis and Cautionary Note

Readers are cautioned that the September 30, 2013 comparative financial data does not necessarily reflect what the results of our operations, financial position, and cash flows would have been had the Brazil Properties been operated as a stand-alone entity. Furthermore, such results may not be comparable to future results due to differences between the corporate and financial structure and management of the Company compared to Petrominerales. For the three and nine months ended September 30, 2013, the Brazil Properties were not operated as a stand-alone entity and there is no assurance that had they been, the results would have been the same.

Production and Oil Sales

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2013**	**2013**
Total production (bbls)	**2,549**	2,300	**8,799**	8,817
Daily production (bopd)	**28**	25	**32**	32
Oil sales ($000's)	**257**	177	**894**	876
Realized sales price ($/bbl) (1)	**97.29**	73.81	**97.62**	96.28

(1) Sales price less transportation expenses

Substantially all of Alvopetro's current production is from one well on our Bom Lugar property. Alvopetro currently has a sales contract for each of its mature fields. Pursuant to the terms of the Bom Lugar sales contract, a discount of $14.77 - $21.16 per barrel is applied to average monthly Brent prices, with the discount reduced by a gross up for certain taxes of approximately 9.25 percent of the overall sales price. Under the terms of the Jiribatuba and Aracaju sales contracts, a five percent discount is applied to average Brent prices. The Company's main producing well was offline for 23 days in September, significantly impacting production, oil sales, royalties and transportation.

Funds Flow from Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Funds flow from operations	**(1,331)**	(997)	**(6,240)**	(3,146)

The Company currently has negative funds flow from operations; however, Alvopetro is not dependent on cash flows from oil sales to fund its capital and operating plans. Fund flow from operations for the third quarter of 2014 is $0.6 million more than the previous quarter mainly due to reduced general and administrative and production expenses.

Royalties and Production Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Royalties and production taxes	**24**	15	**91**	49

All of the producing fields held by Alvopetro are subject to a 5% government royalty plus an additional 0.5% royalty paid to landowners according to applicable Brazil petroleum laws. All royalties are paid based on an ANP minimum reference price which is typically higher than the sales price. Consistent with the practice in Brazil, royalties and production taxes for the three and nine months ended September 30, 2014 includes all Social Assistance

Contribution ("COFINS") and Social Integration Program ("PIS") taxes paid on revenues. COFINS and PIS represent social contribution taxes and currently approximate 3.65% of revenues.

All of the Concession Contracts for the exploration blocks held by Alvopetro are subject to a 10% government royalty plus a 1% landowner royalty. Blocks 131, 132, 144, 157, 182, 196 and 197 are also subject to a 2.25% gross-overriding royalty and, with respect to Block 170, the Company will be required to pay a 2.5% gross-overriding royalty. No royalties have been paid on these, or any other, exploration blocks to date.

Production Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Production expenses	**266**	411	**953**	1,070

For the three months September 30, 2014 production costs were $104.35 per barrel, representing an 11% decrease from the previous quarter which included costs for turnaround activities in Jirabatuba. The Company's current operational structure includes a significant portion of fixed costs (over 54%) for the three months ended September 30, 2014, which results in increased per barrel costs at low production levels but also positions the Company for future growth with low incremental fixed costs. Overall, net revenues from production exceed variable operating expenses and the Company expects that per barrel costs will decline as production levels increase, pending future results of our exploration and development activities.

Transportation

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Transportation expenses	**9**	7	**35**	27

Alvopetro currently has a sales contract for each of its mature fields and transports production by truck to the sales point. Transportation costs decreased in the third quarter as a result of lower production and sales volumes due to downtime at our Bom Lugar well.

General and Administrative Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
G&A expenses	**1,274**	739	**4,031**	2,901

General and administrative (G&A) expenses for the three and nine months ended September 30, 2013 include G&A costs incurred in Brazil, plus an allocation of Petrominerales' general and administrative costs determined based on actual time charges to the Brazil properties by Petrominerales' employees. G&A expenses for the three and nine months ended September 30, 2014 are representative of actual G&A costs incurred by Alvopetro and are higher overall than in 2013 because of the increase in activity and staff levels. G&A for the three months ended September 30, 2014 were $0.4 million (23%) less than the three months ended June 30, 2014 largely due to the second quarter including numerous annual costs related to professional services and public company requirements.

Cash and Cash Equivalents

	As at	
	September 30, 2014	**December 31, 2013**
Cash and cash equivalents	**40,823**	100,268

In connection with the Arrangement, Petrominerales transferred its entire interest in the Brazil Properties and approximately $85.6 million (CAD$91.0 million) in cash to Alvopetro, resulting in significantly higher cash balances as at September 30, 2014 and December 31, 2013 compared to September 30, 2013 ($0.8 million). During the nine months ended September 30, 2014, a net amount of $29.7 million was posted as cash collateral for work commitments in Brazil (see "Restricted Cash"). This amount is not included as part of cash and cash equivalents in the table above.

Restricted Cash

	As at	
	September 30, 2014	**December 31, 2013**
Restricted cash – current	**11,072**	**-**
Restricted cash – non-current	**18,637**	**-**
Total restricted cash	**29,709**	**-**

The ANP requires all operators in Brazil to provide financial guarantees for work commitments as the applicable concession contracts are executed by, or transferred to, Alvopetro. In the first quarter of 2014, the Company entered into a credit support facility (the "Facility") for up to CAD $30.0 million which allows for the issuance of letters of credit ("LCs") and letters of guarantee in support of these financial guarantees. The Facility was increased to CAD $45.0 million during the three months ended September 30, 2014. Pursuant to the terms of the Facility, the issuance of letters of credit and letters of guarantee must be fully cash collateralized by Alvopetro. Cash collateral amounts posted by Alvopetro may at times be in excess of actual committed amounts due to additional amounts required to be deposited for foreign currency risk margins, in accordance with the terms of our Facility.

During the six months ended June 30, 2014, the Company issued irrevocable LCs through the Facility for a total of Brazilian real ("BRL") 51.3 million and, accordingly, posted cash collateral of approximately $26.7 million. During the three months ended September 30, 2014, $0.5 million related to our mature fields was released and the Company issued additional LCs of BRL 6.1 million, posting cash collateral of approximately $3.1 million. Of the $29.7 million September 30, 2014 balance, $10.7 million relates to LCs expiring within one year and is therefore classified as current. The Company earns interest income on these cash deposits under the Facility at rates of between 0.20 and 0.35 percent per annum based on current terms. 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 future blocks acquired by Alvopetro in Brazil.

Restricted cash balances at September 30, 2014 include $1.5 million of (current) cash collateral posted in respect of work commitments on Block 197 and $1.5 million of (non-current) cash collateral posted in respect of work commitments on Block 183. Both of these work commitments have been satisfied by wells drilled on these blocks. Subject to customary ANP approval of these wells in satisfaction of the associated work commitment, the corresponding LC will be released.

At September 30, 2014 there is an additional cash collateral amount posted of $0.3 million with respect to Canadian corporate credit cards, classified as current.

Other Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Interest income	**44**	-	**244**	**-**
Water disposal revenue	**40**	-	**106**	30
Total other income	**84**	-	**350**	30

Interest income for the three and nine months ended September 30, 2014 includes income earned from restricted cash deposits at rates ranging from 0.20 to 0.35 percent per annum and cash deposits at rates ranging from 0.10 to 1.05 percent per annum. The Company also earns third-party revenue from water disposal on its Bom Lugar field.

Foreign Exchange

The Company's reporting currency is the U.S. dollar and its functional currencies are the U.S. dollar and the Brazilian real. Substantially all costs incurred in Brazil are in Brazilian reais and the Company incurs certain head office costs in both U.S. and Canadian dollars. In each reporting period, the change in the values of the Brazilian real and the Canadian dollar relative to the Company's reporting currency are recognized. The period end rates used to translate the Company's Brazilian real and Canadian dollar denominated financial statement items are as follows:

	As at		
	September 30, 2014	**December 31, 2013**	**% Change**
Rate at end of period:			
U.S. dollar / Brazilian real	**2.4504**	2.3420	**4.6%**
U.S. dollar / Canadian dollar	**1.1208**	1.0636	**5.4%**

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 income as foreign exchange gains or losses. The decline of the Canadian dollar relative to the U.S. dollar in 2014 resulted in foreign exchange losses of $0.1 million and $2.5 million, respectively, for the three and nine months ended September 30, 2014.

The assets and liabilities of Alvopetro's Brazilian subsidiaries are translated to U.S. dollars at the exchange rate on the reporting period date. The income and expenses of our Brazil operations are translated to U.S. dollars at the exchange rates on the date of the relevant transactions. All resulting foreign currency differences are recorded in other comprehensive loss in our consolidated statements of operations and comprehensive loss. As the Brazilian real had strengthened relative to the U.S. dollar at June 30, 2014 (from 2.3420 at December 31, 2013 to 2.2019 at June 30, 2014), the exchange loss of $4.8 million reported for the third quarter of 2014 is higher overall than the year-to-date exchange loss of $3.0 million.

Share-Based Compensation Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Share-based compensation	**158**	100	**474**	301

Share-based compensation expense is a non-cash expense that is based on the fair value of stock options on the date of grant and amortized over the vesting period of the options. Share-based compensation for the three and nine months ended September 30, 2013 is based on an allocation of Petrominerales share based compensation during the same time period.

Depletion, Depreciation and Accretion Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Depletion and depreciation	**77**	25	**257**	234
Accretion on decommissioning liabilities	**21**	50	**73**	56
Total	**98**	75	**330**	290

Included in the depletion computation for our producing fields was $9.3 million of estimated future development costs for proved plus probable reserves (September 30, 2013 – $19.9 million).

Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Current income tax expense	**8**	2	**33**	20
Deferred income tax (recovery)	**179**	-	**(118)**	-
Total income tax expense (recovery)	**187**	2	**(85)**	20

The statutory tax rate in Brazil applicable to corporate income is 34%. This is comprised of a basic 15% corporate income tax, plus 10% surtax and 9% social contribution on net profit tax. In Brazil, companies may elect to compute corporate taxes under the presumed profit regime provided total revenues from the immediately preceding year were less than BRL 72.0 million (previously BRL 48.0 million for 2013 and prior years) and certain other conditions have been met. Presumed profit is computed by applying a predetermined percentage to gross revenues, which varies depending on the nature of the revenues earned. Under the presumed profit regime, the combined inherent rate applicable to Alvopetro's Brazil activities is expected to be approximately two percent on gross revenues. Although the Company is in an overall loss position, the presumed profit regime is anticipated to provide lower indirect and other tax costs to the Company compared to the actual profit system and therefore higher overall tax savings within Brazil.

The deferred income tax for the three and nine months ended September 30, 2014 arose largely due to the impact of foreign currency fluctuations on BRL denominated tax pools. No deferred income tax expense or recovery was recognized for the three or nine months ended September 30, 2013.

Capital Expenditures

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Expenditures on exploration & evaluation assets	**14,859**	1,752	**27,104**	2,369
Expenditures on property, plant & equipment	**39**	84	**381**	267
Total capital expenditures	**14,898**	1,836	**27,485**	2,636

For the three months ended September 30, 2014 $7.1 million of the exploration & evaluation ("E&E") expenditures related to drilling the 183(1) well which commenced in late July and ended in October. E&E expenditures also include $3.4 million for completion and testing of the 197(1) well, standby charges of $0.4 million and $3.5 million of costs for future projects, including long-lead inventory purchases and location preparation. The year-to-date capital expenditures also include approximately $7.7 million for drilling the 197(1) well. Capitalized G&A expenses for the three and nine months ended September 30, 2014 were $0.5 million and $1.3 million respectively, the majority of which was booked to E&E.

Capital expenditures in the third quarter of 2013 included $1.0 million for signing bonuses associated with the 11th Brazil Bid Round, performance bond guarantees and the participation fee for the 12th Brazil Bid Round, as well as $0.7 million for seismic reprocessing.

SUMMARY OF QUARTERLY RESULTS

	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Financial				
Oil sales	**257**	323	314	363
Funds flow from operations (1)	**(1,331)**	(1,893)	(3,016)	(1,690)
Per share – basic & diluted ($)	**(0.02)**	(0.02)	(0.04)	(0.02)
Net (loss) income	**(1,722)**	(1,304)	(4,021)	1,333
Net (loss) income attributable to common shareholders	**(1,722)**	(1,304)	(4,021)	398
Per share – basic & diluted ($)	**(0.02)**	(0.02)	(0.05)	-
Capital expenditures	**14,898**	5,216	7,371	4,187
Operations				
Operating netback ($/bbl) (1)				
Brent benchmark price	**103.38**	109.74	107.90	109.35
Sales price	**100.82**	103.91	99.94	91.88
Transportation expenses	**(3.53)**	(4.83)	(3.50)	(2.75)
Realized sales price	**97.29**	99.08	96.44	89.13
Royalties and production taxes	**(9.42)**	(10.62)	(10.82)	(18.71)
Production expenses	**(104.35)**	(116.78)	(103.12)	(49.81)
Operating netback	**(16.48)**	(28.32)	(17.50)	20.61
Average daily crude oil production (bopd)	**28**	34	35	43

Notes:

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

Q4 2013 – In connection with the Arrangement involving Petrominerales and Pacific Rubiales, Petrominerales transferred to Alvopetro its entire interest in the Recôncavo, Tucano, Camamu-Almada and Sergipe-Alagoas basins in onshore Brazil consisting of three producing fields and 16 exploration blocks comprising 148,500 gross acres and $85.6 million (CAD$91.0 million) cash. Alvopetro then took over the exploration, development and production previously carried on by Petrominerales with respect to these properties. Substantially all capital expenditures in the quarter were related to the purchase of inventory for future drilling operations and the construction of the well pad for the Company's first well, 197(1).

Q1 2014 – The majority of capital expenditures in the quarter were related to drilling 197(1). The Company spudded its first well on Block 197, the costs for which represented $7.4 million of capital expenditures in the quarter. 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.

Q2 2014 – Capital expenditures included rig standby charges, 183(1) well construction costs, bid round bonuses and final farm-in fees, as well as additional drilling costs and initial completion and testing costs on the 197(1) well. 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.

Q3 2014 – The Company commenced drilling the 183(1) well (which was spud in late July) and incurred costs of $7.1 million on this well during the quarter. Other capital activities included completion and testing of 197(1) for $3.4 million, $0.4 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.

COMMITMENTS AND CONTINGENCIES

The following is a summary of Alvopetro's contractual commitments as at September 30, 2014:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments[1]				
Block 131[2]	1,242	-	-	1,242
Block 132[2]	1,242	-	-	1,242
Block 144[2]	1,242	-	-	1,242
Block 157[2]	1,242	-	-	1,242
Block 182[2]	1,242	-	-	1,242
Block 196[2]	1,242	-	-	1,242
Block 197[2]	1,239	-	-	1,239
Block 183	1,237	-	-	1,237
Block 170	-	1,224	-	1,224
Block 106	-	465	-	465
Block 107	-	3,102	-	3,102
Block 177	-	2,934	-	2,934
Block 169	-	-	1,551	1,551
Block 198	-	-	1,551	1,551
Block 255	-	-	1,856	1,856
Block 256	-	-	412	412
Bom Lugar	-	-	143	143
Jiribatuba	-	-	143	143
Aracaju	-	-	102	102
Total minimum work commitments	**9,928**	**7,725**	**5,758**	**23,411**
Office leases[3]	**245**	**39**	-	**284**
Total commitments	10,173	7,764	5,758	23,695

Notes:

(1) Under the terms of the ANP concession contracts for each of our exploration blocks and each of our mature fields, the Company has work commitments which must be completed prior to the applicable phase expiry date. Amounts above include the one well commitment required under the current exploratory phase of Block 197, fulfilled by our 197(1) well drilled on this block during the three months ended March 31, 2014, subject to ANP approval. In addition, we completed drilling our first well on Block 183 subsequent to September 30, 2014 which, subject to ANP approval, fulfils the well commitment amount for Block 183 in the table above.

(2) Alvopetro has applied to the ANP for an extension to the work commitment phase deadline for our 9th Brazil Bid Round blocks (Blocks 131, 132, 144, 157, 182, 196, 197). While we expect that this will be granted, the Company cannot guarantee that the ANP will grant the requested extension. To the extent the extension is not granted on one or more of the requested blocks, the associated concession contract(s) may be revoked, amounts recognized as exploration and evaluation assets with respect to these blocks may be subject to impairment at that time, and Alvopetro may be required to pay to the ANP an amount representing the value, calculated pursuant to the contract, of the unfulfilled portion of the related work commitments, estimated as up to a maximum of $8.7 million for all of our 9th Brazil Bid Round blocks.

(3) The Company is committed to future minimum payments for office space in Canada and Brazil.

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, may be incurred. The Company is continually monitoring its local content compliance and any actual or potential fines as of September 30, 2014 are not material.

LIQUIDITY AND CAPITAL RESOURCES

Our activities to date and our plans for the remainder of 2014 and for 2015 are focused on targeting: our mature fields, shallow conventional exploration, and proving the commercial potential of the Gomo resource play in the Recôncavo Basin.

Alvopetro currently does not derive positive cash flows from its operations. Activities prior to the Arrangement were funded by Petrominerales as part of its normal course business operations and Alvopetro's existing cash balances are the primary source of funds for activities subsequent to the Arrangement.

At September 30, 2014 the Company's working capital of $45.1 million (including current restricted cash of $11.1 million) exceeded estimated outstanding commitments of $23.7 million by $21.4 million. In addition, the Company has non-current restricted cash of $18.6 million as at September 30, 2014. Management expects our current capital resources to be adequate for our planned 2014 and 2015 expenditures and commitments and to provide financial flexibility for pursuing future opportunities as they arise. Furthermore, the Company considers that it has sufficient cash balances on hand to collateralize all existing guarantees and planned future guarantees. 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 future blocks acquired by Alvopetro in Brazil.

At September 30, 2014, the Company had $4.6 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.

At September 30, 2014, Alvopetro's cash and cash equivalents of $40.8 million and restricted cash of $29.7 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	39,044	36,560	2,484	-
Cash held in Brazil	1,779	-	-	1,779
Total cash and cash equivalents	40,823	36,560	2,484	1,779
Restricted cash held in Canada	29,709	29,394	315	-
Restricted cash held in Brazil	-	-	-	-
Total restricted cash	29,709	29,394	315	-

Notes:
(1) Amounts in the table above denote the U.S. dollar equivalent as September 30, 2014.

TRANSACTIONS WITH RELATED PARTIES

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

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Office rent and related costs	**$ 57**	$ -	**$ 170**	$ -
Administrative consulting fees	**$ -**	$ -	**$ 7**	$ -

The Company did not have an amount owing to Touchstone Exploration Inc. as at September 30, 2014 or 2013.

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 November 19, 2014 was 88,264,307 (common shares – 85,166,871, stock options – 3,097,436). There are no preferred shares outstanding.

RISKS AND UNCERTAINTIES

There have been no significant changes in the nine months ended September 30, 2014 to the risks and uncertainties identified in the MD&A for the year ended December 31, 2013.

An investment in Alvopetro should be considered speculative due to the nature of our activities and the stage of our development. Alvopetro is exposed to a variety of risks, including but not limited to competitive, operational, political, environmental and financial risks. Investors should carefully consider the risk factors set forth under the heading "Risk Factors" in our Annual Information Form available on SEDAR at www.sedar.com.

SENSITIVITIES

The Company's earnings and cash flow are sensitive to changes in crude oil prices, exchange rates and interest rates. 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 therefore not currently significant to the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

On January 1, 2014, the Company adopted new accounting standards with respect to the presentation of financial instruments (IAS 32), the recognition of liabilities on government levies (IFRIC 21), and the disclosure of recoverable amounts of an impaired cash generating unit (IAS 36). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2014 or on the comparative periods.

The Company monitors the impact of adopting new standards as described in the 2013 annual consolidated financial statements as well as any new pronouncements from the International Accounting Standards Board including the following:

- IFRS 9 *Financial Instruments* which provides requirements for the classification and measurement of financial assets. This standard does not yet have a mandatory effective date but early adoption is allowed.
- IFRS 15 *Revenue from Contracts with Customers* which supersedes IAS 18 *Revenue*, IAS 11, *Construction Contracts* and certain revenue-related interpretations. This standard will be effective for annual periods beginning on or after January 1, 2017.

The Company's management made judgments, assumptions and estimates in the preparation of these financial statements. Actual results may differ from those estimates, and those differences may be material. The basis of presentation and the Company's significant accounting policies can be found in the notes to the consolidated financial statements for the year ended December 31, 2013.

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, expectations and assumptions concerning testing results on our wells drilled to date, 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 judgements 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.*

Cautionary statements regarding well testing. *There is no representation by Alvopetro that the data contained in this MD&A relating to our wells drilled to date is necessarily indicative of long-term performance or ultimate recovery. The reader is cautioned not to unduly rely on such data as such data may not be indicative of future performance of the well or of expected production or operational results for Alvopetro in the future.*

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) and current liabilities 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 production 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.*