The following Management's Discussion and Analysis ("MD&A") is dated April 22, 2014 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 periods ended December 31, 2013 and 2012. 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, 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, Camamu-Almada and Sergipe-Alagoas basins onshore Brazil. Alvopetro holds interests in three producing fields and 16 exploration blocks comprising 148,500 gross acres onshore Brazil. Alvopetro intends to develop producing hydrocarbons by appraising and developing existing discoveries and exploring in areas considered by management to be prospective for hydrocarbon resources.

Strategy

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 opportunities. Our activities are targeting: i) mature fields; ii) shallow exploration on our asset base; and, iii) the Gomo member of the Candeias Formation in the Recôncavo Basin. Supporting our strategy, Alvopetro's experienced team brings: i) developed basin expertise to Brazil's underexploited resource opportunities; and ii) efficient, cost-effective and innovative operating capabilities.

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

Petrominerales entered Brazil in 2012 with the 75 percent acquisition of AOGI (defined herein) and subsequently acquired additional assets in Brazil, including two blocks acquired through farm-in agreements, the remaining 25 percent interest in AOGI held by the former minority partner, and seven additional blocks in the 11^{th} and 12^{th} Brazil Bid Rounds.

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. The financial information from December 12, 2012 to November 28, 2013 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.

SUMMARY OF Q4 2013 AND ANNUAL RESULTS

This summary of annual and quarterly results represents a comparison of the 20-day period from December 12, 2012 to December 31, 2012, the year ended December 31, 2013 and the three months ended December 31, 2013. Readers are cautioned that the 20 day period data for 2012 below has not been annualized for comparison purposes, and as a result, this management's discussion and analysis will focus primarily on our results in the fourth quarter and year-to-date 2013.

	Q4	2013	2012
Financial			
($000s, except where noted)			
Oil sales	**363**	**1,239**	73
Funds flow from operations (1)	**(1,690)**	**(4,836)**	(234)
Per share – basic and diluted ($)(2)	**(0.02)**	**(0.06)**	-
Net income (loss)	**1,333**	**(8,671)**	(282)
Net income (loss) attributable to common shareholders	**398**	**(7,398)**	(246)
Per share – basic and diluted ($)(2)	**-**	**(0.09)**	-
Capital expenditures	**4,187**	**7,709**	18
Total assets	**155,456**	**155,456**	50,312
Debt	**-**	**-**	-
Net working capital surplus (1)	**98,507**	**98,507**	1,086
Common shares outstanding, end of year (000s)			
Basic (2)	**85,167**	**85,167**	85,167
Diluted (3)	**88,162**	**88,162**	85,167
Operations			
Operating netback ($/bbl) (1)			
Brent benchmark price	**109.35**	**108.52**	111.44
Sales price	**91.88**	**97.01**	110.04
Transportation expenses	**(2.75)**	**(2.92)**	(2.85)
Realized sales price	**89.13**	**94.09**	107.19
Royalties and production taxes	**(18.71)**	**(9.58)**	(7.78)
Production expenses	**(49.81)**	**(99.19)**	(56.35)
Operating netback	**20.61**	**(14.68)**	43.06
Average daily crude oil production (bopd)	**43**	**35**	33

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 December 31, 2012. However, for comparison purposes and for all per share computations, the December 31, 2013 common share balance is assumed for December 31, 2012.

(3) Consists of outstanding common shares and stock options of the Company as at December 31, 2013.

Total Assets increased during the year ended December 31, 2013 primarily as a result of cash received on the closing of the Arrangement on November 28, 2013 and the acquisition of additional interests and blocks in Brazil throughout the period.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS

- On December 11, 2012, Petrominerales entered Brazil through the acquisition of 75 percent of the shares of Alvopetro Oil and Gas Investments Inc., ("AOGI"), a non-publicly traded Canadian company that held certain of the Brazil Properties, for cash consideration of $36.9 million.
- In May 2013, we entered into farm-in agreements with third parties to acquire Blocks 170 and 183.
- In May 2013, Blocks 106 and 107 in the Recôncavo Basin, and Block 177 in the Tucano Basin were acquired through the 11th Brazil Bid Round.
- On November 19, 2013, we acquired the remaining 25 percent interest in AOGI.
- On November 28, 2013, Pacific Rubiales acquired all of Petrominerales' outstanding shares, with former shareholders of Petrominerales receiving, for each Petrominerales share held, cash consideration of CAD$11.00 per share and one share of Alvopetro.
- On closing of the Arrangement, Petrominerales transferred its entire interest in the Brazil Properties to Alvopetro Energy Ltd. and $85.6 million (CAD$91.0 million) in cash.
- Alvopetro Energy Ltd., with its current management team and Board of Directors, commenced operations as a new resource company on November 28, 2013.
- In November 2013, Alvopetro was awarded Blocks REC-T 169, REC-T 198, REC-T 255 and REC-T 256 in the Recôncavo Basin in the 12th Brazil Bid Round.

RECENT HIGHLIGHTS

- Alvopetro's independent reserve evaluation reported before tax net present value of our proved plus probable reserves, discounted at 10 percent, of $22.8 million for the year ended December 31, 2013.
- Based on the results of mud-logging and open-hole logs, we have filed a Notice of Discovery with the National Agency of Petroleum, Natural Gas and Biofuels (the "ANP") for our 1ALV5BA well located on Block 197.
- Based on open-hole logs, the 1ALV5BA well encountered 43 meters of potential net hydrocarbon pay over several separate intervals, with an average porosity of 9.5 percent, using an 8.0 percent porosity cut-off. Additional technical work and testing is required to determine the extent, if any, of potential commercial hydrocarbons associated with the 1ALV5BA well. The 1ALV5BA well was not evaluated as part of our year-end 2013 independent reserves evaluation.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at December 31, 2013, Alvopetro held interests in three producing fields and 16 exploration blocks comprising 148,500 gross acres onshore Brazil in four hydrocarbon basins: the Recôncavo, Tucano, Camamu-Almada and Sergipe-Alagoas.

Producing Fields – Bom Lugar and Jiribatuba

Alvopetro's primary producing asset in the Recôncavo Basin is the mature Bom Lugar field, consisting of 2,238 gross acres, and having an average daily production for the year ended December 31, 2013 of 33 bopd. The field consists of two producing wells and one active water disposal well. The field has a production battery which is equipped with testing, water separation and trucking facilities. In 2013, Alvopetro completed two workovers in Bom Lugar, one in September 2013 and the second in December 2013.

Alvopetro plans to drill up to four wells in our Bom Lugar field, the first location expected to be drilled in 2014, and with success we have identified up to three additional locations to be drilled in 2014 and 2015.

Alvopetro holds interests in the Camamu-Almada Basin in the Jiribatuba mature field of 563 gross acres and having an average daily production for the year ended December 31, 2013 of 2 bopd. The Jiribatuba mature field produces from the Sergi formation, and consists of one producing well, one abandoned well and one active water disposal well. The wells are flow line connected to a production battery which is equipped with testing, water separation and trucking facilities. Alvopetro is reviewing our plans with respect to the Jiribatuba mature field and may pursue a field re-activation, workovers or the drilling of a well.

Non-Producing Field – Aracaju

Alvopetro's interest consists of the onshore Aracaju field, a 1,418 acre block located on the northern edge of the City of Aracaju. The field includes two suspended producing wells, one abandoned well, and one active water disposal well. The production battery is equipped with a testing tank, water separation and trucking facilities. Alvopetro plans to review its strategy with respect to the Aracaju mature field and may pursue a field re-activation.

Exploration Blocks - Recôncavo Basin

The current exploration assets of Alvopetro in the Recôncavo Basin consist of Blocks 131, 132, 144, 157, 182, 196, 197, 183, 170, 106, 107, 169, 198, 255 and 256.

9th Brazil Bid Round

Blocks 131, 132, 144, 157, 182, and 196 were awarded in the 9th Brazil Bid Round. Work completed to date on these blocks includes seismic and the drilling of one exploration well on the boundary of Block 182 and Block 196 in November, 2012. This well qualified as an earning work commitment for both Block 182 and Block 196. Alvopetro expects to drill one well on each of these blocks in 2015 or 2016.

On Block 197, Alvopetro has completed 5.9 km^2 of 3D seismic and 122.3 km of 2D seismic. Alvopetro drilled our first well on this block in the first quarter of 2014 and plans to complete a multi-zone testing program. One additional surface location is licensed and two additional locations are being permitted to allow for accelerated development activity, dependent on the results from our testing program. Alvopetro expects to drill up to three wells on Block 197 during 2014 and 2015.

Block 183 was acquired through a farm-in agreement with a third party signed in May 2013, for consideration of approximately $0.6 million. Alvopetro plans to drill one well on this block starting in the second quarter of 2014.

On Block 170, Alvopetro acquired 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 includes the Gomo member of the Candeias Formation). Alvopetro acquired Block 170 by way of farm-in agreement, pursuant to which we: (i) purchased $0.7 million in well equipment from the farmor; and (ii) committed to carrying the farmor for 100% of the drilling and casing costs for one exploration well that penetrates the formation below the Caruaçu member of the Maracangalha Formation. We plan to drill one well on this block in 2014 or 2015.

Alvopetro has applied to the ANP for an extension to the phase expiry deadline for our 9th Brazil Bid Round blocks with phase commitment deadlines in 2014. While we expect such extension to be granted, the Company cannot guarantee that the ANP will grant the extension requested and may be adversely affected.

11th Brazil Bid Round

Blocks 106 and 107 are adjacent to Alvopetro's Bom Lugar oil field and management interprets potential in the Gomo on these blocks. On Block 106, Alvopetro has a commitment to acquire 11 km^2 of 3D seismic by August 2016. In 2014, Alvopetro plans to evaluate geological and geophysical information on these blocks to develop exploration targets, and subject to that evaluation, we expect to drill two wells on Block 107 between 2015 and 2016. In addition to resource potential of the Gomo, these blocks have the Caruaçu and Agua Grande present as secondary targets.

12th Brazil Bid Round

Blocks 169, 198, 255 and 256 were each awarded to Alvopetro in the 12th Brazil Bid Round of 2013 with the applicable concession contracts expected to be signed in May 2014. All four blocks are located in Sector SREC-T4 of the Recôncavo Basin and have an initial three year exploratory phase. Alvopetro's first phase work commitment on each block consists of one well on Block 169, one well on Block 198, one well plus the acquisition of 20 km of 2D seismic for Block 255 and the acquisition of 27 km 2D seismic for Block 256.

Exploration Block - Tucano Basin

Block 177 was acquired in the 11th Brazil Bid Round of 2013. Alvopetro's interest in the Tucano basin consists of Block 177, a 46,505 acre block located on the southern edge of the Tucano Basin. Alvopetro's first phase work commitment consists of drilling one well and the acquisition of seismic. Alvopetro plans to begin permitting this seismic program in 2014.

EXPLORATION BLOCK COMMITMENT SUMMARY

Block	Gross Acres	Exploration Term	Current Phase	Phase Expiry(1)	Phase Commitments
131	5,016	3 years + 2 years	2	18-Oct-14	1 exploration well
132	6,301	3 years + 2 years	2	18-Oct-14	1 exploration well
144	4,843	3 years + 2 years	2	18-Oct-14	1 exploration well
157	4,670	3 years + 2 years	2	18-Oct-14	1 exploration well
182	5,239	3 years + 2 years	2	25-Jul-14	1 exploration well
196	5,906	3 years + 2 years	2	25-Jul-14	1 exploration well
197	7,339	3 years + 2 years	2	29-Apr-14	1 exploration well
183	7,740	3 years + 2 years	1	See Note 2	1 exploration well
170	6,914	3 years + 2 years	1	See Note 3	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	28-Nov-16	1 exploration well
198	7,739	3 years + 2 years	1	28-Nov-16	1 exploration well
255	7,734	3 years + 2 years	1	28-Nov-16	1 exploration well and 20 km 2D seismic
256	7,734	3 years + 2 years	1	28-Nov-16	27km 2D seismic

Notes:

(1) Alvopetro has applied to the ANP for an extension to the applicable phase commitment deadlines for all of our blocks with commitments in 2014. While we expect such extension to be granted, the Company cannot guarantee that the ANP will grant the extension requested and may be adversely affected.

(2) Block 183 was acquired by Alvopetro pursuant to a farm-in agreement. The phase commitment deadline date for the first phase commitment is expected to be August 1, 2015, however, as this deadline is adjusted by the ANP to provide Alvopetro additional time to complete the commitment to account for regulatory approval of the transfer of the interest from the farmor to the farmee, this phase commitment deadline date is an estimate.

(3) The time for completion of the first phase commitment on Block 170 will be approximately 18 months after the contract is operative. The contract is currently in suspension, meaning additional time is granted to the Company to complete our commitment, pending transfer of environmental permits.

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

FINANCIAL AND OPERATING REVIEW

Comparative Analysis and Cautionary Note

The comparative period for both the quarter and year ended December 31, 2012 is the 20 day period following the acquisition of 75 percent of AOGI (from December 12, 2012 to December 31, 2012). The differences in financial and operational information between current and comparative periods are not annualized due to this short timeframe in 2012. In addition, the prior period financial statements do not necessarily reflect what the results of our operations, financial position, and cash flows would have been had the Brazil Properties been a stand-alone entity. Furthermore, such results may not be comparable to future results due to differences between the corporate, financial structure, and management of the Company compared to Petrominerales. 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 December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
Total production (bbls)	**3,958**	666	**12,775**	666
Daily production (bopd)	**43**	33	**35**	33
Oil sales ($000's)	**363**	73	**1,239**	73

In 2013, Alvopetro had a total of three producing wells; two in Bom Lugar and one in Jiribatuba. Crude oil production remained relatively consistent throughout the year with incremental production additions from our two workovers completed at Bom Lugar.

Alvopetro currently has a sales contract for each of Bom Lugar and Jiribatuba and transports production for both of these fields by truck. Pursuant to the terms of the Bom Lugar sales contract, a discount of $15.47-$20.75 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 sales price. Under the terms of the Jiribatuba sales contract, a five percent discount is applied to average Brent prices.

Funds Flow from Operations

	Three Months Ended December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
Funds flow from operations	**(1,690)**	(234)	**(4,836)**	(234)

Alvopetro is not dependent on cash flows from its production to fund its capital and operating plans. The Company currently has negative funds flow from operations, primarily due to low production volumes combined with increased operating and general and administrative costs associated with our expanding operations. Alvopetro's current staffing levels are anticipated to be sufficient to manage our exploration and development operations for higher activity levels, without significant increases to G&A expenses.

Royalties and production taxes

	Three Months Ended December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
Royalties and production taxes	**73**	5	**122**	5

All of the producing fields held by Alvopetro are subject to a base 5% 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 realized sales price. Consistent with the practice in Brazil, in 2013, we have included as royalties 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 base 10% royalty plus a 1% landowner royalty. Certain previous shareholders of Alvopetro are entitled to a 2.5% gross-overriding royalty on Blocks 131, 132, 144, 157, 182, 196 and 197. No royalties have been paid on these, or any other, exploration blocks in 2013.

Production Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
Production expenses	**197**	38	**1,267**	38

Production expenses on a per barrel basis of $99.19 for the year-ended December 31, 2013 were significantly higher than 2012 ($56.35 per barrel), largely as a result of increased workover activities in 2013. As the Company has capacity for substantially more production, we expect to add future volumes of production with low incremental costs.

General and Administrative Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
G&A expenses	**1,806**	262	**4,707**	262

G&A expenses from December 12, 2012 to November 28, 2013 include actual general and administrative costs incurred in Brazil, plus an allocation of Petrominerales' general and administrative costs determined based on actual time charges by Petrominerales employees to the Brazil Properties. In addition, the Company's G&A expenses in the fourth quarter of 2013 includes post-Arrangement costs related to establishing office space, information technology, public-company related costs, and other corporate related items. Alvopetro has capacity for increased activity and production levels, which we anticipate will enable us to grow production with limited increases to G&A expenses.

Cash and Cash Equivalents

	As at December 31, 2013	2012
Cash at end of period	**100,268**	1,129

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.

Other Income

	Three Months Ended December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
Interest income	**100**	-	**100**	-
Water disposal revenue	**33**	-	**63**	-
Total other income	**133**	-	**163**	-

In 2013, Alvopetro earned interest income on cash and cash equivalents, specifically in the fourth quarter following completion of the Arrangement. Interest income for the year ended December 31, 2013 includes income earned from deposits at an average rate of 1.25% per annum. Other income also includes revenue earned by the Company from third-party water disposal fees.

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 ("BRL"). 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 for the reporting periods as specified are as follows:

	Year ended December 31		
	2013	**2012**	% Change
Rate at end of period:			
U.S. dollar / Brazilian real	**2.3420**	2.0516	14.2
U.S. dollar / Canadian dollar	**1.0636**	0.9949	6.9

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 Company reported an unrealized foreign exchange loss of $0.3 million in the fourth quarter of 2013, primarily due to the decline of the Canadian dollar during the period.

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 income in our consolidated statements of operations and comprehensive loss. The Brazilian real depreciated 14.2% relative to the US dollar from December 31, 2012 to December 31, 2013 resulting in a $2.8 million other comprehensive loss.

As at December 31, 2013, the majority of the Company's cash and cash equivalents were denominated in Canadian dollars. Subsequent to year end 2013, we converted a significant portion of our Canadian cash and cash equivalents to U.S. dollars, in order to effectively mitigate our currency risk (see 'Liquidity and Capital Resources').

Share-Based Compensation Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
Share-based compensation	**175**	22	**476**	22

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. Share-based compensation recorded by Petrominerales up to the date of closing of the Arrangement has been allocated to Alvopetro based on the percentage of the direct time charged to the Brazil Properties by the Petrominerales Calgary office for the relevant time period.

Share-based compensation expense recorded post-Arrangement is based on Alvopetro's grant of 2,995,436 stock options with an exercise price of CAD$1.02 on December 16, 2013.

Depletion, Depreciation, Impairment and Accretion Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
Depletion and depreciation (DD&A)	**169**	26	**403**	26
Accretion on decommissioning liabilities	**23**	-	**79**	-
Impairment loss recognized	**47**	-	**6,314**	-
Impairment reversal recognized	**(5,883)**	-	**(5,883)**	-
Total	**(5,644)**	26	**913**	26

Included in the depletion computation for our producing fields was $21.9 million of estimated future development costs for proved plus probable reserves and excluded from the computation was $0.2 million related to land purchased by the Company in the Bom Lugar field.

During the nine months ended September 30, 2013 the Company recognized an impairment loss of $6.3 million (2012 - $nil) resulting from a decline in the value of the assets at each of its mature field properties - Bom Lugar ($5.6 million), Jiribatuba ($0.3 million), and Aracaju ($0.3 million). These properties were written down to their value-in-use as estimated at that time. During the three months ended December 31, 2013, an additional impairment loss of $0.1 million was recognized at Aracaju based on the same rationale as the original impairment.

During the three months ended December 31, 2013, the impairment booked at each of Bom Lugar and Jiribatuba, less the depletion that would have been recognized had the impairment not been recorded, was reversed. This reversal was recognized as a result of changes in future cost estimates from September 30, 2013, specifically a reduction of estimated future operating costs, estimated future capital cost estimates, and an increase in future sales price estimates.

Taxes

	Three Months Ended December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
Current income tax expense	**11**	**-**	**31**	-
Deferred income tax expense	**2,100**	**-**	**2,100**	-
Total	**2,111**	-	**2,131**	-

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 in Brazil under the presumed profit regime provided total revenues from the immediately preceding year were less than BRL 48.0 million (increasing to BRL 72.0 million in 2014) 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.

Deferred income tax expense was recognized in the fourth quarter of 2013 as a result of a reclassification of $6.0 million of deferred acquisition costs to exploration and evaluation assets. As no additional tax pools arise on this reclassification, there is a resulting deferred tax liability.

Net Income

The Company reported a net loss of $8.7 million for 2013, net income of $1.3 million for the fourth quarter of 2013 and a net loss of $0.3 million in 2012. The net income in the fourth quarter of this year is largely related to the impairment reversal, partially offset by increased deferred tax expense.

Capital Expenditures

	Three Months Ended December 31,		Year Ended December 31,	
	2013	**2012**	**2013**	**2012**
E&E expenditures	**3,237**	18	**5,606**	18
PP&E expenditures	**950**	-	**1,217**	-
Other expenditures	**-**	-	**886**	-
Total capital expenditures	**4,187**	18	**7,709**	18

E&E expenditures for the fourth quarter of 2013 represent approximately $0.3 million related to construction of the well pad for our 1ALV5BA well spud on Block 197 in early January, as well as $3.1 million of inventory purchased for use on this and future exploration wells. The year-to-date total for 2013 also includes $0.9 million for seismic acquisition, $0.5 million in signing bonuses for the three blocks acquired by the Company in the 11th Brazil Bid Round and $0.4 million for performance bonds and the 12th Brazil Bid Round participation fee. Capitalized G&A expenses for the year ended December 31, 2013 were $0.3 million.

PP&E expenditures for the year ended December 31, 2013 comprise $0.2 million for workover activities at Bom Lugar, $0.3 million for seismic reprocessing related to Bom Lugar, $0.3 million of corporate assets, and $0.2 million to acquire 78 acres within the Bom Lugar field that is expected to be used primarily for storage and possible future drilling operations. Capitalized G&A expenses were $0.2 million.

Expenditures on other assets for the year ended December 31, 2013 include $0.9 million of advance payments on tubulars. Upon receipt of the tubulars, the costs were transferred to exploration and evaluation assets as these will be used on future exploration wells.

SUMMARY OF QUARTERLY RESULTS

	Q4, 2013
Financial	
Oil sales	363
Funds flow from operations (1)	(1,690)
Per share – basic & diluted ($)	(0.02)
Net income	1,333
Net income attributable to common shareholders	398
Per share – basic & diluted ($)	-
Capital expenditures	4,187
Operations	
Operating netback ($/bbl) (1)	
Brent benchmark price	109.35
Sales price	91.88
Transportation expenses	(2.75)
Realized sales price	89.13
Royalties and production taxes	(18.71)
Production expenses	(49.81)
Operating netback	20.61
Average daily crude oil production (bopd)	43

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

Significant factors influencing quarterly results were:

- Purchase of inventory for future drilling operations;
- Construction costs related to our 1ALV5BA well on Block 197 which was spud in early January 2014; and
- Two workovers completed in Bom Lugar in September and December in the year.

COMMITMENTS AND CONTINGENCIES

The following is a summary of Alvopetro's contractual commitments as at December 31, 2013:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Commitments				
Minimum work commitments(1)	9,094	9,376	6,025	24,495
Leases(2)	234	215	-	449
Total commitments	**9,328**	**9,591**	**6,025**	**24,944**

Notes:

(1) Under the terms of the ANP concession contracts for each of our exploration blocks, the Company has work commitments which must be completed prior to the applicable phase expiry date. The work commitments are normal course commitments for companies operating in Brazil and typically include, among other things, acquisition and processing of seismic data and drilling wells. Work commitments noted above include amounts for all of Alvopetro's blocks, including the four blocks awarded in Brazil's 12th Bid Round for which concession contracts are expected to be signed in May 2014, and two blocks acquired in 2013 pursuant to farm-in agreements. Alvopetro has applied to the ANP for an extension to the phase expiry deadline for seven of its blocks that are expiring in 2014. While we expect such extension to 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 and Alvopetro may be required to pay to the ANP an amount representing the value pursuant to the contract of the unfulfilled portion of the related work commitments (up to a maximum of $9.1 million for the Company's 9th Brazil Bid Round blocks for which the extension has been requested).

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

The ANP requires all operators in Brazil to provide financial guarantees for all work commitments, upon execution of the associated concession contract. The Company is required to provide a financial guarantee to the ANP with respect to our above-noted work commitments, as the applicable concession contracts are executed. As at December 31, 2013, the financial guarantees were satisfied by guarantee insurance provided to the Company's Brazilian subsidiary through certain insurance companies in Brazil. After December 31, 2013, this guarantee insurance was replaced as discussed in further detail under "Financial Guarantees for Work Commitments".

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 potential fines as of December 31, 2013 are not material.

LIQUIDITY AND CAPITAL RESOURCES

Our activities to-date and our plans for 2014 are focused on targeting: our mature fields, shallow conventional exploration, and proving the commercial potential of the Gomo tight oil play in the Recôncavo Basin. Our initial 2014 capital plan of $40 to $55 million is expected to include, up to: two workovers, three vertical Gomo wells, two Bom Lugar development wells and facilities, and one conventional exploration well. We expect to spud our next well on Block 183 later in the second quarter 2013.

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 were the primary source of funds for activities subsequent to the Arrangement.

At December 31, 2013 the Company's working capital of $98.5 million exceeded estimated outstanding commitments of $24.9 million by $73.6 million. Our current capital resources are expected to be more than adequate for our planned 2014 expenditures and commitments, while providing financial flexibility to pursue future strategic opportunities. In addition, cash flows realized from successful drilling and production activities will provide additional sources of funding for future capital programs.

The liability for decommissioning obligations of Alvopetro was $2.8 million as at December 31, 2013. 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. At December 31, 2013 the Company had $5.4 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. All of Alvopetro's expenditures are subject to the effects of inflation.

At December 31, 2013, Alvopetro's cash and cash equivalents of $100.3 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	99,382	14,080	85,302	-
Cash held in Brazil	886	-	-	886
Total	**100,268**	**14,080**	**85,302**	**886**

Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as at December 31, 2013

While the Company has not entered into any derivative instruments to manage its foreign exchange fluctuations, subsequent to December 31, 2013, we converted CAD$71.3 million of our Canadian cash deposits to U.S. dollar deposits of $65.0 million, in order to effectively mitigate our currency risk (see '*Risks and Uncertainties*').

Financial Guarantees for Work Commitments

The ANP requires all operators in Brazil to provide financial guarantees for work commitments. The Company is required to provide a financial guarantee to the ANP with respect to our work commitments, as the applicable concession contracts are executed by, or transferred to, Alvopetro.

In 2014, the Company entered into a new credit support facility for up to CAD $30.0 million which allows for the issuance of letters of credit and letters of guarantee in support of the financial guarantees required by the ANP. Any issued letters of credit or guarantee must be cash collateralized by Alvopetro in full with an additional deposit for foreign currency risk margins. In 2014, the Company issued irrevocable letters of credit for a total of BRL 51.3 million and, accordingly, posted cash collateral of approximately $26.7 million. The Company considers that it has sufficient cash balances on hand to collateralize all existing guarantees and planned future guarantees, and to fund future planned capital expenditures and other ongoing cash requirements. 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.

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 22, 2014 was 88,162,307 (common shares – 85,166,871, stock options – 2,995,436). There are no preferred shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Alvopetro is party to non-material office-related administrative transactions with Petrobank Energy and Resources Ltd., a related party of the Company during 2013 due to common directors. These transactions include administrative consulting fees and office sub-lease expenses, summarized as follows:

	Three months ended Dec. 31,		Years ended Dec. 31,	
	2013	2012	**2013**	2012
Office rent and related costs	**39**	-	**39**	-
Administration fees	**2**	-	**2**	-
Total	**41**	-	**41**	-

RISKS AND UNCERTAINTIES

Alvopetro is exposed to a variety of risks including, but not limited to: a) exploration risk; b) competitive risks within the oil and gas industry; c) operational risks; d) foreign operations risk; e) government regulations, approvals and permitting risks; f) financial and credit risk; and g) crude oil price 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 volume of production from oil and natural gas properties generally declines as reserves are produced, with the rate of decline depending on reservoir characteristics. The Company's proved reserves will decline as reserves are produced from its properties unless it is able to acquire or develop new reserves. 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 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.

B. 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. 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.

C. 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.

D. Foreign Operations Risk

Alvopetro currently has operations in Brazil and from time to time may evaluate additional projects internationally. 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.

E. 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. In the future, Alvopetro may utilize hydraulic fracturing in the wells it drills and completes. Alvopetro believes that the hydraulic fracturing that we may conduct, given our consistent utilization of good oilfield practices, will be environmentally sound in general and should not give rise to concerns regarding local aquifers. Alvopetro anticipates that there will be a trend towards increased regulatory requirements concerning hydraulic fracturing in Brazil and internationally, and there is no guarantee that the potential or occurrence of increased regulatory requirements and regulations concerning hydraulic fracturing may not adversely 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. Alvopetro has applied to the ANP for extensions to certain of its work commitments on its blocks. There can be no assurance that such extensions will be granted.

F. Financial and Credit 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. Cash and cash equivalents consist of balances on deposit at banks and short term deposits maturing in less than 90 days. 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.

Crude oil prices are influenced by global supply and demand, OPEC policy and worldwide political events. Fluctuations in crude oil 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 prices. The Company monitors market conditions and may selectively use derivative instruments to reduce exposure to crude oil price movements.

G. Foreign Currency Risk

To the extent that revenues and expenditures denominated in, or strongly linked to, the U.S. dollar are not equivalent, Alvopetro is exposed to exchange rate risk. Alvopetro is exposed to the extent U.S. dollar revenues do not equal U.S. dollar expenditures. In addition, the majority of expenditures in Brazil are denominated in Brazilian reais, which are difficult to hedge.

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

The Company has reviewed new and revised accounting pronouncements that came into effect and determined the following have an impact on the Company:

Standard and Description	Date of Adoption	Adoption Impact on Consolidated Financial Statements
IFRS 10: "Consolidated Financial Statements" - The standard provides a single model to be applied in control analysis for all investees including special purpose entities.	January 1, 2013	No material impact.
IFRS 11: "Joint Arrangements" - presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method.	January 1, 2013	No material impact.
IFRS 12: "Disclosure of Interests in Other Entities" - requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities.	January 1, 2013	No material impact.
IFRS 13: "Fair Value Measurement" - provides comprehensive guidance for instances where IFRS requires fair value to be used and on determining fair value and required measurement disclosures.	January 1, 2013	No material impact.
IAS 27: "Separate Financial Statements" - establishes the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity prepares separate financial statements and replaces the current IAS 27 "Consolidated and Separate Financial Statements" as the consolidation guidance is included in IFRS 10 "Consolidated Financial Statements".	January 1, 2013	No material impact.
IAS 28, "Investments in Associates and Joint Ventures" - establishes the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures.	January 1, 2013	No material impact.
IFRS 7, "Financial Instruments: Disclosures" - relates to the requirements of the offsetting of a financial asset and financial liability when offsetting is permitted under IFRS.	January 1, 2013	No material impact.

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 9: "Financial Instruments" - The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.	January 1, 2018	The Company is assessing the effect of this future pronouncement on its financial statements.
IAS 32 "Financial Instruments: Presentation" - addresses inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities.	January 1, 2014	No material impact expected.
IFRIC 21 "Levies" - clarifies the requirements for recognizing a liability for a levy imposed by a government.	January 1, 2014	The Company is assessing the effect of this future pronouncement on its financial statements.
IAS 36 – "Impairment of assets" – requires additional disclosure on the recoverable amount of an impaired Cash Generating Unit.	January 1, 2014	No material impact expected.

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 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.*

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 less 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 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.*