The following Management's Discussion and Analysis ("MD&A") is dated April 22, 2015 and should be read in conjunction with the audited consolidated financial statements and accompanying notes of Alvopetro Energy Ltd. ("Alvopetro" or the "Company") as at and for the years ended December 31, 2014 and 2013. 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 mature fields and 12 exploration blocks comprising 127,670 gross acres onshore Brazil.

Strategy

Alvopetro Energy Ltd.'s vision is to be the premier independent exploration and production company in Brazil, maximizing shareholder value by applying innovation to underexploited opportunities, while maintaining our focus on being a low cost operator. Our strategy is to pursue development of our highly prospective land base with a three-pronged approach targeting lower risk development drilling on our mature fields, shallow conventional exploration opportunities, and the development of the significant hydrocarbon potential present in our deep Gomo resource play. Alvopetro's strong financial position, along with our exceptionally talented technical team, local operating capabilities, and highly prospective land base, position us to successfully develop our assets.

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 of the Brazil Properties previously carried on by Petrominerales.

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 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.

SELECTED QUARTERLY AND ANNUAL RESULTS

	Q4	2014	2013
Financial			
($000s, except where noted)			
Oil sales	**212**	**1,106**	1,239
Funds flow from operations (1)	**(1,482)**	**(7,722)**	(4,836)
Per share – basic and diluted ($)(2)	**(0.02)**	**(0.09)**	(0.06)
Net loss	**(24,662)**	**(31,709)**	(8,671)
Net loss attributable to common shareholders	**(24,662)**	**(31,709)**	(7,398)
Per share – basic and diluted ($)(2)	**(0.29)**	**(0.37)**	(0.09)
Capital and other asset expenditures	**16,239**	**44,366**	7,709
Total assets	**124,557**	**124,557**	155,456
Debt	**-**	**-**	-
Net working capital surplus (1) (3)	**35,844**	**35,844**	98,507
Common shares outstanding, end of year (000s)			
Basic	**85,167**	**85,167**	85,167
Diluted (2)	**89,734**	**89,734**	88,162
Operations			
Operating netback ($/bbl) (1)			
Brent benchmark price	**76.98**	**99.51**	108.52
Sales price	**62.35**	**90.67**	97.01
Transportation expenses	**(2.65)**	**(3.61)**	(2.92)
Realized sales price	**59.70**	**87.06**	94.09
Royalties and production taxes	**(4.71)**	**(8.77)**	(9.58)
Production expenses	**(141.18)**	**(117.47)**	(99.19)
Operating netback	**(86.19)**	**(39.18)**	(14.68)
Average daily crude oil production (bopd)	**37**	**33**	35

Notes:

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

(2) Consists of outstanding common shares and stock options of the Company as at December 31, 2014.

(3) Includes current restricted cash of $3.4 million (December 31, 2013 - $nil) but excludes non-current restricted cash of $9.7 million.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE FOURTH QUARTER OF 2014

- In December 2014, we completed drilling our 197(2) well on Block 197, which reached a total depth of 1,669 metres, and based on logs encountered 78 metres of potential net natural gas pay.
- In October 2014, we completed drilling our 183(1) well, reaching a total depth of 3,550 metres, and based on logs encountered 189 metres of potential net hydrocarbon pay over several intervals.
- 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. We completed testing of our 197(1) well in October 2014 and the lowermost 6 metres of net pay was perforated and flowed natural gas, without stimulation, at a rate of 40 Mcfpd, with no water.
- In December 2014, Export Development Canada ("EDC") guaranteed $15.1 million of the Company's commitments in Brazil. Previously these commitments were supported by cash collateral held through a CAD $45.0 million facility with a Canadian chartered bank. EDC's guarantee allowed for the December 31st release of $15.1 million from restricted cash to cash and cash equivalents.
- We reported a net loss of $24.7 million in the fourth quarter as a result of a $22.6 million impairment charge to our exploration assets ($20.3 million) and our property, plant and equipment assets ($2.3 million). The impairment charge to our exploration assets was due to the decision to relinquish four exploration blocks and the impairment of an additional block due to limited identified prospectivity at this time. The impairment charge to our property, plant and equipment assets related to our Bom Lugar field and was largely as a result of declining commodity prices as well as increased projected capital costs.
- Capital expenditures in the fourth quarter include an estimated $4.6 million relating to performance guarantee payments to the National Agency of Petroleum, Natural Gas and Biofuels (the "ANP") in connection with the Company's relinquishment of four exploration blocks in April, 2015. Another $1.1 million was recorded for the performance guarantee associated with Block 196, for which the Company has not yet identified any suitable prospects. Additional capital expenditures in the fourth quarter related to drilling costs for our 197(2) and 183(1) wells, and completion and testing costs for our 197(1) well as well as inventory purchases, capitalized G&A costs, and civil works for future well sites.
- Our cash, restricted cash and working capital resources remain strong at $45.6 million, with a working capital surplus of $35.8 million (including $40.9 million of cash and cash equivalents and $3.4 million of current restricted cash) as well as non-current restricted cash of $9.7 million.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE 2014 YEAR

- Capital expenditures increased significantly in 2014 compared to 2013 as a result of our extensive capital program in 2014 which included drilling and testing our 197(1) well, drilling our 183(1) well, drilling our 197(2) well, inventory purchases for long-lead items for future wells and $5.7 million for anticipated performance guarantee payments.
- The Company's funds flow from operations decreased in 2014 compared to 2013, largely as a result of increased G&A expenses incurred as a stand-alone company for the full year in 2014 compared to only one month in 2013, decreased oil sales due to lower commodity prices, increased production expenses as a result of workover activities, and a realized foreign exchange loss on the conversion of Canadian dollar denominated balances to U.S. dollars.
- Total Assets decreased from 2014 primarily as a result of the $22.6 million impairment charge booked to exploration and evaluation assets and property, plant and equipment as well as the decline in Brazilian real denominated asset balances.

RECENT HIGHLIGHTS

- On April 10, 2015, the Company announced its relinquishment of Blocks 131, 132, 144, and 157 in accordance with the associated concession contracts. Extensive seismic and geotechnical work completed to date indicated limited prospectivity on these Blocks. Alvopetro will pay to the ANP Brazilian real ("BRL") of 12.2 million (approximately $4.6 million) in connection with the relinquishments. The relinquishment of these less prospective blocks and elimination of our four well commitment will allow us to focus capital on our higher impact and more prospective locations. In addition, of our remaining twelve exploration blocks, seven of these were acquired in the 11th and 12th Brazil Bid Rounds, providing us with a timeframe for completion of commitments on these blocks extending to August 2016 and May 2017, respectively.

- In April 2015, we tested the first two intervals of our 197(2) well. During the 72 hour test of each interval, the well flowed natural gas, on an unstimulated basis, at an average rate of 101,000 m3/d (3.6 MMcfpd or 600 boepd) from the first interval and 53,000 m3/d (1.9 MMcfpd or 310 boepd) from the second interval. The initial pressure transient analysis of the first interval alone forecasts potential post-stimulation rates at 261,000 m3/d (9.2 MMcfpd or 1,530 boepd) after three months of continuous production and 125,000 m3/d (4.4 MMcfpd or 730 boepd) after one year of continuous production, in both instances at 1,000 psi sandface pressure.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at December 31, 2014, 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. Subsequently, in April 2015, we informed the ANP of our intention to relinquish Blocks 131, 132, 144, and 157, in accordance with the associated concession contracts. Alvopetro acquired Blocks 131, 132, 144, and 157 in Brazil's 9th Bid Round and completed an aggregate of 199 km^2 of 3D seismic and 355 km of 2D seismic. Prior to the relinquishment, the Blocks represented 20,830 acres of Alvopetro's 148,500 acreage asset base. The relinquishment relieves Alvopetro of our commitment to drill four exploration wells on these blocks. Upon relinquishment, Alvopetro will pay to the ANP approximately BRL 12.2 million ($4.6 million based on the December 31, 2014 year-end foreign exchange rate of 2.656), representing the performance guarantee fees. The full amount is included in accounts payable and accrued liabilities at December 31, 2014. We retain a large asset base in Brazil following this relinquishment, with 127,670 gross acres comprised of 12 exploration blocks and three mature fields.

Exploration Blocks

The current exploration assets consist of Blocks, 182, 196, 197, 183, 170, 106, 107, 169, 198, 255 and 256 in the Recôncavo Basin and Block 177 in the Tucano Basin.

9th Brazil Bid Round

Block 182 was awarded in the 9th Brazil Bid Round. Work completed to date includes civil construction for a future well location, 20.9 km^2 of 3D seismic and 5.9 km of 2D seismic and one exploration well that was drilled to 1,400 metres depth on the boundary of Block 182 and Block 196 in November, 2012.

Block 196 was awarded in the 9th Brazil Bid Round. Work completed to date includes 23.5 km^2 of 3D and 2.9 km of 2D seismic and one exploration work commitment well which was drilled in November, 2012 on the boundary of Block 182 and Block 196, as discussed above.

Block 197 was awarded in the 9th Brazil Bid Round. Alvopetro completed drilling our first well (197(1)) on this block in April, 2014 and our second well (197(2)) in December, 2014. Prior to 2014, Alvopetro completed 5.9 km^2 of 3D seismic and 122.3 km of 2D seismic. In March 2015, the Company submitted a Discovery Assessment Plan to the ANP to assess the hydrocarbon deliverability of the reservoirs discovered and develop the necessary conditions for the assessment, production and commercialization.

Block 183 was awarded in the 9th Brazil Bid Round. This Block was acquired through a farm-in agreement with a third party signed in May 2013 for consideration of approximately US$0.7 million. Alvopetro drilled one well, 183(1), on this block in October 2014.

Block 170 was awarded in the 9th Brazil Bid Round. Alvopetro acquired Block 170 by way of farm-in agreement and owns 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).

In April 2015, Alvopetro relinquished Blocks 131, 132, 144, and 157. Alvopetro acquired these Blocks in the 9th Brazil Bid Round and had since completed 199 km^2 of 3D seismic and 355 km of 2D seismic on the Blocks. Prior to the relinquishment, the Blocks represented 20,830 acres of Alvopetro's 148,500 acreage asset base. As extensive seismic and geotechnical work indicated limited prospectivity on these Blocks, management decided to relinquish the Blocks to the ANP and terminate the associated concession contracts. See "*Petroleum and Natural Gas Properties and Outlook*".

11th Brazil Bid Round

Blocks 106 and 107 were acquired in the 11th Brazil Bid Round in 2013. These Blocks are adjacent to Alvopetro's Bom Lugar oil field.

Block 177 was acquired in the 11th Brazil Bid Round of 2013. Block 177 is in the up dip position in the Tucano Basin adjacent to the Recôncavo Basin.

12th Brazil Bid Round

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

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

Mature Fields

Bom Lugar

Alvopetro's current highest 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, 2014 of 30 bopd. The field consists of two producing wells and one active water disposal (injector) well. The field has a production battery which is equipped with testing, water separation and trucking facilities. The battery is connected to the two producing wells and the one injection well.

Jiribatuba

Alvopetro holds interests in the Camamu-Almada Basin in the Jiribatuba mature field of 563 gross acres. The Jiribatuba mature field produces from the Sergi formation, which consists of one producing well, one shut-in well and one active water disposal (injector) well. The producing wells and injector are flow line connected to a production battery which is equipped with testing, water separation and trucking facilities. In 2014, Alvopetro completed workovers of two wells in our Jiribatuba field, Jiribatuba(1) and Jiribatuba(9). Average daily production at our Jiribatuba field for the year ended December 31, 2014 was 3 bopd and average daily production post-workovers was 17 bopd in the month of December 2014.

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 assets consist of two suspended producing wells, one abandoned well, and one active water disposal (injector) well. The production battery is equipped with a testing tank, water separation and trucking facilities.

EXPLORATION BLOCK COMMITMENT SUMMARY

Block	Gross Acres	Working Interest	Net Acres	Bid Round Acquired	Exploration Phase Terms	Current Phase	Current Phase Expiry	Current Phase Commitment
182	5,239	100%	5,239	9th Bid Round (2007)	3 yrs + 2yr	2	May 27, 2015	1 exploration well
196	5,906	100%	5,906	9th Bid Round (2007)	3 yrs + 2yr	2	July 25, 2014 (Note 2)	1 exploration well
170	6,914	90%	6,222	Farm in – 9th Bid Round (2007)	3 yrs + 2yr	1	(Note 3)	1 exploration well
183	7,740	100%	7,740	Farm in – 9th Bid Round (2007)	3 yrs + 2yr	2	June 10, 2017	1 exploration well
197	7,339	100%	7,339	9th Bid Round (2007)	3 yrs + 2yr	2	January 1, 2017	1 exploration well (Phase 2 commitment met)
106	7,759	100%	7,759	11th Bid round (2013)	3 yrs + 2yr	1	August 29, 2016	11 km^2 of 3D seismic
107	7,561	100%	7,561	11th Bid round (2013)	3 yrs + 2yr	1	August 29, 2016	2 exploration wells
T-177	46,505	100%	46,505	11th Bid round (2013)	3 yrs + 2yr	1	August 29, 2016	1 exploration well and 31 km^2 of 3D seismic
169	5,280	100%	5,280	12th Bid round (2013)	3 yrs + 2yr	1	May 15, 2017	1 exploration well
198	7,739	100%	7,739	12th Bid round (2013)	3 yrs + 2yr	1	May 15, 2017	1 exploration well
255	7,734	100%	7,734	12th Bid round (2013)	3 yrs + 2yr	1	May 15, 2017	1 exploration well and 20 km 2D seismic
256	7,734	100%	7,734	12th Bid round (2013)	3 yrs + 2yr	1	May 15, 2017	27 km 2D Seismic

(1) As at December 31, 2014, Alvopetro held Blocks 131, 132, 144, and 157, acquired in Brazil's 9th Bid Round, on which we completed an aggregate of 199 km^2 of 3D seismic and 355 km of 2D seismic. In April 2015, we informed the ANP of our intention to relinquish these blocks, which, prior to the relinquishment, represented 20,830 acres of Alvopetro's 148,500 acreage asset base. This relinquishment relieves Alvopetro of the commitment to drill an aggregate of 4 exploration wells. Upon relinquishment, Alvopetro will pay to the ANP the aggregate amount of BRL 12.2 million (approximately US$4.6 million based on the December 31, 2014 exchange rate of 2.656), representing the performance guarantee fees required to be paid to the ANP under the associated concession contracts.

(2) The ANP has granted a temporary extension to the current phase expiry for Block 196, such extension expiring 130 days from the day on which we receive our environmental license.

(3) The ANP Concession Contract for Block 170 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.

FINANCIAL AND OPERATING REVIEW

Average Daily Production

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Total production (bbls)	**3,400**	3,958	**12,199**	12,775
Daily production (bopd)	**37**	43	**33**	35

The majority of the 2014 production was from one well on the Bom Lugar field which averaged 29 barrels per day in 2014. Crude oil production remained relatively consistent throughout the year. The increase in the fourth quarter of 2014 over the year-to-date production was as a result of workovers completed at our Jiribatuba field which averaged production of 6 barrels per day in the fourth quarter (17 barrels per day in the month of December).

Average Benchmark and Realized Prices

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Brent ($/bbl)	**76.98**	109.35	**99.51**	108.52
Discount	**(14.63)**	(17.47)	**(8.84)**	(11.51)
Sales Price ($/bbl)	**62.35**	91.88	**90.67**	97.01
Sales price discount as a % of Brent	**19%**	16%	**9%**	11%

Alvopetro currently has a sales contract for each of Bom Lugar and Jiribatuba. Pursuant to the terms of the Bom Lugar sales contract, a discount of $14.77 to $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 sales price. Under the terms of the Jiribatuba sales contract, a 5% discount is applied to average Brent prices. The higher discount to Brent in the three months ended December 31, 2014 is due to more revenues realized in the month of December when Brent prices averaged $63.27/bbl compared to the quarterly average of $76.98/bbl.

Oil Sales

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Oil Sales	**212**	363	**1,106**	1,239
Transportation	**(9)**	(10)	**(44)**	(37)
Total sales, net of transportation expense	**203**	353	**1,062**	1,202
Realized price ($/bbl)	**59.70**	89.13	**87.06**	94.09

(1) Sales price less transportation expenses

Oil sales and realized prices on a per barrel basis decreased from 2013 and from prior quarters in 2014 as a result of the decline in world-wide oil prices. The Company's production during the fourth quarter of 2014 was highest in the month of December (following a successful workover on the Jiribatuba field) but as Brent prices were lowest in this month ($63.27 in the month of December compared to the quarterly average of $76.98), total realized sales per barrel decreased.

Funds Flow from Operations

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Funds flow from operations	**(1,482)**	(1,690)	**(7,722)**	(4,836)

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 minimal cash flows from oil sales combined with an organizational structure that has been established to support the Company's future growth plans and associated capital program. 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. Funds flow from operations for the twelve months ended December 31, 2014 was also impacted by realized foreign exchange losses of $2.3 million related to the devaluation of the Canadian dollar relative to the U.S. dollar from December 31, 2013.

Royalties and production taxes

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Royalties and production taxes	**16**	73	**107**	122

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, royalties and production taxes include all Social Assistance Contribution ("COFINS") and Social Integration Program ("PIS") taxes paid on oil sales. 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 182, 196 and 197. No royalties have been paid on these, or any other, exploration blocks in 2014.

Production Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Production expenses	**480**	197	**1,433**	1,267

Production expenses on a per barrel basis of $117.47/bbl for the year-ended December 31, 2014 were higher than in 2013 ($99.19/bbl), largely as a result of workover activities in the fourth quarter of 2014. On a per barrel basis, production expenses for the three months ended December 31, 2014 were $141.18/bbl. For the year ended December 31, 2014 approximately 60% of operating costs were fixed in nature. As the Company has capacity for substantially more production, we expect to add future volumes of production with low incremental costs.

General and Administrative ("G&A") Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
G&A expenses	**1,282**	1,806	**5,313**	4,707

G&A expenses have increased approximately 13% over 2013 amounts. This is largely due to the fact that 2013 amounts included Brazil stand-alone expenses plus an allocation of Petrominerales' G&A expenses from January 1, 2013 to November 28, 2013. As Alvopetro operated as a stand-alone entity for the 2014 year, additional costs were incurred compared to the allocation of Petrominerales costs including additional personnel, professional fees and public company costs. Fourth quarter general and administrative expenses of $1.3 million are consistent with the third quarter of 2014 ($1.3 million). The three months ended December 31, 2013 included certain start-up costs related to office space, information technology and other corporate and public company expenses that were not recurring. 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.

G&A directly relating to exploration and development activities of $2.0 million (2013 - $0.5 million) were capitalized in the twelve months ended December 31, 2014.

Cash and Cash Equivalents

	As at December 31,	
	2014	**2013**
Cash and cash equivalents	**40,920**	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. During the year-ended December 31, 2014, a net amount of $13.1 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 December 31,	
	2014	**2013**
Restricted cash – current	**3,373**	-
Restricted cash – non-current	**9,749**	-
Total restricted cash	**13,122**	-

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. During 2014, the Company entered into a credit support facility (the "Facility") with a Canadian bank, for up to CAD$45.0 million. This Facility allows for the issuance of letters of credit ("LC's") and letters of guarantee in support of the financial guarantees required by the ANP. 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.

Under the initial terms of the Facility, the issuance of letters of credit and letters of guarantee had to be fully cash collateralized by Alvopetro. Cash collateral requirements are in excess of actual committed amounts as additional amounts are required to be deposited for foreign currency risk margins, in accordance with the terms of our Facility.

In December 2014, the Company obtained an Account Performance Security Guarantee ("PSG") from Export Development Canada ("EDC") in support of certain LC's previously supported by cash collateral of the Company. As a result, a total of $15.1 million was transitioned from the Facility to EDC's Account PSG and the cash collateral was released on December 31, 2014. Total fees of $0.5 million were paid to EDC as part of the transaction.

As at December 31, 2014, the total amount of irrevocable letters of credit issued was $27.9 million, with $15.1 million satisfied through EDC's Account PSG and $12.8 million satisfied through restricted cash deposits of Alvopetro. Of the $12.8 million restricted cash amount, $3.1 million was classified as current as it relates to LC's expiring within one year and $9.7 million was classified as non-current.

The Company earned interest income on the restricted cash deposits under the Facility at a rate of approximately 0.35% per annum in 2014.

At December 31, 2014 there is an additional $0.3 million of cash collateral posted with respect to corporate credit cards, classified as current.

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.

Other Income

	Three Months Ended December 31,		Year Ended December 31,	
	2014	2013	**2014**	2013
Interest income	**26**	100	**270**	100
Water disposal revenue	**6**	33	**112**	63
Total other income	**32**	133	**382**	163

Alvopetro earns interest income on cash and cash equivalents and restricted cash. Interest income for the year ended December 31, 2014 averaged 0.35% compared to an average rate of 1.25% per annum in 2013. The decrease was due to reduced cash balances, combined with the fact that the majority of cash is held in U.S. dollars which generates lower interest rates. Other income also includes revenue earned by the Company from third-party water disposal fees 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 ("BRL"). Substantially all costs incurred in Brazil are in BRL's 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		
	2014	**2013**	% Change
Rate at end of period:			
U.S. dollar / Brazilian real	**2.656**	2.342	**13.4**
U.S. dollar / Canadian dollar	**1.160**	1.064	**9.0**

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 a foreign exchange loss of $2.6 million in 2014 and $0.1 million in the fourth quarter. The foreign exchange loss in 2014 related mainly to Canadian dollars on hand early in 2014 and was lower in the fourth quarter despite the 3.5% decline in the CAD dollar as the majority of the Company's working capital and all of the Company's restricted cash is denominated in USD.

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 BRL depreciated 13.4% relative to the US dollar from December 31, 2013 to December 31, 2014 resulting in a $7.9 million other comprehensive loss.

The Brazilian real has declined significantly in 2015 (averaging 2.871 in the three months ended March 31, 2015 and 3.142 in the month of March 2015). This decline is expected to result in lower overall costs to the Company in Brazil and a reduction in the anticipated payment on the performance guarantees from the $5.7 million recorded at year-end (based on the December 31, 2014 exchange rate of 2.656) to $5.0 million (assuming an exchange rate of 3.05 on payment).

Share-Based Compensation Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Share-based compensation	**163**	175	**637**	476

Share-based compensation expense is a non-cash expense that is based on the fair value of stock options granted and amortized over the vesting period of the options. Under Alvopetro's Stock Option Plan there were 4.6 million stock options outstanding at December 31, 2014 compared to 3.0 million at December 31, 2013. Gross share-based compensation expense for the year ended December 31, 2014 was $0.9 million, of which $0.3 million related directly to personnel carrying out exploration and development activities and was capitalized. Share-based compensation from January 1, 2013 to November 28, 2013 was based on an allocation of Petrominerales share-based compensation, determined by the percentage of direct time charged to the Brazil Properties.

Depletion, Depreciation, and Accretion Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Depletion and depreciation (DD&A)	**184**	169	**441**	403
Accretion on decommissioning liabilities	**21**	23	**94**	79
Total	**205**	192	**535**	482

Included in the depletion computation for our producing fields was $12.0 million (2013 - $9.3 million) of estimated future development costs for undeveloped proved plus probable reserves.

Impairment

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Impairment loss recognized	**22,591**	47	**22,591**	6,314
Impairment reversal recognized	**-**	(5,883)	**-**	(5,883)
Total	**22,591**	(5,836)	**22,591**	431

In 2014, a $2.3 million impairment loss was recorded on PP&E resulting from a decline in the estimated value of the Bom Lugar field largely due to declining commodity prices in the fourth quarter of 2014 as well as increased projected capital costs. The impairment loss was calculated based on the difference between the net book value and the estimated recoverable amount. The 2013 impairment loss of $0.4 million largely related to the Aracaju property which was written down to $nil.

At December 31, 2014, the Company recorded E&E impairments of $17.0 million related to Blocks 131, 132, 144, and 157. These blocks were relinquished in April 2015 given minimal identified prospects on these blocks. Under the terms of the concession contracts, a total payment of BRL 12.2 million ($4.6 million based on the December 31, 2014 year-end foreign exchange rate of 2.656) is owed to the ANP in connection with this relinquishment. This amount is included in accounts payable and accrued liabilities as at December 31, 2014. The impairment expense recorded reduces the book value of these blocks to $nil as at December 31, 2014 and includes the performance guarantee amount owing to the ANP.

At December 31, 2014, the Company recorded an E&E impairment of $3.3 million related to Block 196. While this block has not yet reached the end of the phase expiry, the Company has not identified any prospects on this block. Under the terms of the concession contract for this block, BRL 3.0 million ($1.1 million) is owed to the ANP to the extent the Company does not meet its commitment to drill one exploration well. This amount is included in accounts payable and accrued liabilities as at December 31, 2014. The impairment expense recorded reduces the book value of this block to $nil as at December 31, 2014 and includes the $1.1 million work commitment amount.

Taxes

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2013**	**2014**	**2013**
Current income tax expense	**11**	11	**44**	31
Deferred income tax expense (recovery)	**6**	2,100	**(112)**	2,100
Total	**17**	2,111	**(68)**	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 under the presumed profit regime provided total revenues from the immediately preceding year were less than BRL 72.0 million 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 three percent on gross revenues. For the 2013 and 2014 taxation years, Alvopetro elected to compute Brazil corporate income tax under the presumed profit regime. For the 2015 taxation year, the Company has elected to transition to the actual profit regime.

Net Income

The Company reported a net loss of $24.7 million and $31.7 million for the three and twelve month respective periods in 2014. In 2013, the Company reported a net loss of $8.7 million for the year and net income of $1.3 million in the fourth quarter. Factors impacting the 2014 results were the impairment loss of $22.6 million recorded in the fourth quarter and, to a lesser extent, lower oil prices, higher production costs and higher foreign exchange losses. The net income in the fourth quarter of 2013 arose due to the reversal of an impairment loss recorded in the nine months ended September 30, 2013.

Capital Expenditures

	Three Months Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
E&E expenditures				
Drilling and completions	4,381	191	25,832	191
Performance guarantee payment	5,731	-	5,731	-
Inventory purchases	2,615	2,775	5,599	3,151
Facility & equipment	280	-	353	-
Land, lease, and similar payments	1,090	-	2,460	1,054
Capitalized G&A	581	271	1,777	271
Other	378	-	408	939
Total E&E expenditures	**15,056**	3,237	**42,160**	5,606
PP&E expenditures				
Drilling and completions	334	182	471	182
Land, lease and similar payments	10	71	15	212
Furniture and fixtures	-	193	89	319
Capitalized G&A	26	204	175	204
Other	26	300	27	300
Total PP&E expenditures	**396**	950	**777**	1,217
Other asset expenditures				
Advances for inventory	224	-	866	886
Advances for facilities	498	-	498	-
Other advances for E&E assets	65	-	65	-
Other asset expenditures	**787**	-	**1,429**	886
Total capital expenditures	**16,239**	4,187	**44,366**	7,709

The majority of the capital expenditures in 2014 and in the fourth quarter related to drilling and completions activity on our exploration blocks. During 2014, the Company drilled three wells: 197(1), 183(1), and 197(2) and completed and tested the 197(1) well. Drilling and completion costs include standby charges of $1.5 million between the 197(1) well and the 183(1) well.

For the three months ended December 31, 2014, the Company recorded performance guarantee payments for five exploration blocks, four of which were relinquished in April 2015. Under the terms of its concession contracts, the Company was required to drill one exploration well for each of these relinquished blocks. Because the Company relinquished Blocks 131, 132, 144, and 157, the full value of the associated performance guarantees were recorded at December 31, 2014 (estimated at $4.6 million based on the December 31, 2014 exchange rates) and is included in accounts payable and accrued liabilities as at December 31, 2014. The Company also recorded the performance guarantee amount on Block 196. Although this block has not been relinquished and is not yet expired, the full value of this block was impaired at December 31, 2014 and the associated performance guarantee was recorded, resulting in total anticipated performance guarantee costs of $5.7 million across all five of these blocks.

In 2014, the Company purchased a total of $6.5 million in long-lead inventory items for use on future exploration projects. Land, lease and similar payments include 12th Brazil Bid Round signing bonuses, farm-in payments for Block 183 and land purchases on Block 256.

PP&E expenditures largely relate to workover activities on the Jiribatuba(1) well and civil construction for a future well on the Bom Lugar field as well as miscellaneous office furniture and fixtures expenditures.

Total G&A of $2.0 million was capitalized in 2014 ($0.2 million to PP&E and $1.8 million to E&E).

Other Asset expenditures relate to advances paid to suppliers for capital activities, including inventory and facilities purchases.

SUMMARY OF QUARTERLY RESULTS

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Financial					
Oil sales	**212**	257	323	314	363
Funds flow from operations (1)	**(1,482)**	(1,331)	(1,893)	(3,016)	(1,690)
Per share – basic & diluted ($)	**(0.02)**	(0.02)	(0.02)	(0.04)	(0.02)
Net (loss) income	**(24,662)**	(1,722)	(1,304)	(4,021)	1,333
Net (loss) income attributable to common shareholders	**(24,662)**	(1,722)	(1,304)	(4,021)	398
Per share – basic & diluted ($)	**(0.29)**	(0.02)	(0.02)	(0.05)	-
Capital and other asset expenditures	**16,239**	14,663	6,093	7,371	4,187
Operations					
Operating netback ($/bbl) (1)					
Brent benchmark price	**76.98**	103.38	109.74	107.90	109.35
Sales price	**62.35**	100.82	103.91	99.94	91.88
Transportation expenses	**(2.65)**	(3.53)	(4.83)	(3.50)	(2.75)
Realized sales price	**59.70**	97.29	99.08	96.44	89.13
Royalties and production taxes	**(4.71)**	(9.42)	(10.62)	(10.82)	(18.71)
Production expenses	**(141.18)**	(104.35)	(116.78)	(103.12)	(49.81)
Operating netback	**(86.19)**	(16.48)	(28.32)	(17.50)	20.61
Average daily crude oil production (bopd)	**37**	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). Net income in this quarter arose due to the reversal of an impairment loss recorded in the nine months ended September 30, 2013.

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

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

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

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

COMMITMENTS AND CONTINGENCIES

The following is a summary of Alvopetro's contractual commitments as at December 31, 2014:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments[(1)]				
Block 182	1,146	-	-	1,146
Block 183	1,141	-	-	1,141
Block 170	-	1,130	-	1,130
Block 106	-	429	-	429
Block 107	-	2,862	-	2,862
Block 177	-	2,707	-	2,707
Block 169	-	1,431	-	1,431
Block 198	-	1,431	-	1,431
Block 255	-	1,713	-	1,713
Block 256	-	381	-	381
Bom Lugar	-	-	132	132
Jiribatuba	-	-	132	132
Aracaju	-	-	94	94
Total minimum work commitments	**2,287**	**12,084**	**358**	**14,729**
Office leases[(2)]	**341**	**35**	-	**376**
Total commitments	**2,628**	**12,119**	**358**	**15,105**

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. As the Company drilled its commitment well on Block 197 during the year ended December 31, 2014 and the associated LC was released by the ANP, this amount is no longer reflected in the table above. In addition, we completed drilling our first well on Block 183, which, subject to ANP approval, fulfils the majority of the well commitment amount for Block 183. An estimated shortfall of BRL 60,000 related to the Block 183 work commitment is included in accounts payable and accrued liabilities in the December 31, 2014 consolidated statement of financial position. Performance guarantees associated with Blocks 131, 132, 144, 157 and 196 have been included in accounts payable and accrued liabilities as at December 31, 2014, and are therefore excluded in the table above.

(2) The Company is committed to future minimum payments for office space in Canada and Brazil. In Brazil, the Company is required to provide a guarantee for certain office rental payments. The total amount of the guarantee provided as at December 31, 2014 was approximately $0.1 million.

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 and as of December 31, 2014, the potential estimated fine was $74,000, and is included in accounts payable and accrued liabilities.

LIQUIDITY AND CAPITAL RESOURCES

Our activities to-date and our plans for 2015 are focused on targeting: our mature fields, shallow conventional exploration, and proving the commercial potential of the Gomo tight hydrocarbon resource in the Recôncavo Basin. Our base 2015 capital plan of $17 million is expected to include:

- Drilling one oil development well on our Bom Lugar mature field;
- Drilling our 182(2) conventional oil exploration prospect;
- Drilling one additional conventional oil exploration prospect; and
- Advancing our Gomo resource play by completing and testing the 183(1) well and defining deliverability through the use of fracture stimulations and reservoir modelling.

Alvopetro currently does not derive positive cash flows from its operations. At December 31, 2014 the Company's working capital and restricted cash (current and non-current) of $45.6 million exceeded estimated outstanding commitments of $15.1 million by $30.5 million. Our current capital resources are expected to be more than adequate for our planned 2015 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. 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.

The liability for decommissioning obligations of Alvopetro was $3.5 million as at December 31, 2014. 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, 2014 the Company had $6.9 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 and foreign currency fluctuations.

At December 31, 2014, Alvopetro's cash and cash equivalents of $40.9 million and its restricted cash of $13.1 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	40,653	39,326	1,327	-
Cash held in Brazil	267	-	-	267
Restricted cash – current and non-current	13,122	13,122	-	-
Total	54,042	52,448	1,327	267

Notes:
(1) Amounts in the table above denote the U.S. dollar equivalent as at December 31, 2014

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.

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, 2015 was 90,506,807 (common shares – 85,166,871, stock options – 5,339,936). There are no preferred shares outstanding.

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 during 2014 due to common directors. These transactions include administrative consulting fees and office sub-lease expenses, summarized as follows:

	Three months ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
Office rent and related costs	**55**	39	**225**	39
Administration fees	**-**	2	**6**	2
Total	**55**	41	**231**	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; and f) market risk.

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

A. Exploration Risk

The Company is exposed to a high level of exploration risk. The business of exploring for, developing or acquiring reserves is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance 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. Alvopetro may utilize hydraulic fracturing in the wells it drills and completes. Alvopetro believes that the hydraulic fracturing that we may conduct, given the depth and location of the wells and our consistent utilization of good oilfield practices, will be environmentally sound in general and would not give rise to concerns raised respecting local aquifers. Alvopetro anticipates that there will be a trend towards changing and increased regulatory requirements concerning hydraulic fracturing in the future, in Brazil and internationally. Changes to, and the increase of, regulatory requirements may impact our business.

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

Federal Court clarified that Alvopetro could carry out all conventional activities relating to Alvopetro's 12th Bid Round Blocks (Blocks 169, 198, 255 and 256). Alvopetro is continuing its normal course operations on these blocks.

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.

F. Market Risk

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

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

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
IAS 32 *Financial Instruments: Presentation* - addresses inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify criteria required to be met in order to permit the offsetting of financial assets and financial liabilities as well as disclosure requirements.	January 1, 2014	Adoption of these amendments did not impact these consolidated financial statements.
IFRIC 21 *Levies* - clarifies the requirements for recognizing a liability for a levy imposed by a government.	January 1, 2014	Adoption of these amendments did not impact these consolidated financial statements.
IAS 36 *Impairment of assets* – requires additional disclosure on the recoverable amount of an impaired Cash Generating Unit.	January 1, 2014	The impact of adopting this standard can be found in Note 10 to the audited annual consolidated financial statements.

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* – As of July 2014, the IASB completed the final elements of IFRS 9 which supersedes IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new models for classification and measurement of financial instruments, hedge accounting and impairment of financial assets.	January 1, 2018	The Company is assessing the effect of this future pronouncement on its financial statements.
IFRS 11 *Joint Arrangements* – was amended regarding accounting for the acquisition of an interest in a joint operation that constitutes a business.	January 1, 2016	The Company is assessing the effect of these amendments on its financial statements.
IFRS 15 *Revenue from Contracts with Customers* – The new standard will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and other revenue related interpretations. The new standard clarifies the principles for recognizing revenue from contracts with customers and provides a model for the recognition and measurement of sales of certain non-financial assets.	January 1, 2017	The Company is assessing the effect of this future pronouncement on its financial statements.

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.*

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

Abbreviations:

m3	=	*cubic metre*
m3/d	=	*cubic metre per day*
Mcfpd	=	*thousand cubic feet per day*
MMcf	=	*million cubic feet*
MMcfpd	=	*million cubic feet per day*
Boepd	=	*barrels of oil equivalent per day*

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

Non-GAAP Measures. *This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), such as funds flow from operations, funds flow per share, net working capital surplus and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities. Net working capital surplus includes current assets (including current restricted cash) less current liabilities 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.*