INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTICE TO READER

Management has compiled the unaudited interim consolidated financial information of Alvopetro Energy Ltd. consisting of the Interim Condensed Consolidated Statements of Financial Position at September 30, 2019 and December 31, 2018 and the Interim Condensed Consolidated Statements of Operations and Comprehensive Loss and the Interim Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2019 and 2018. Please note the interim financial statements have not been reviewed or audited by external auditors.

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ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, thousands of United States dollars)

	Note	September 30, 2019	December 31, 2018
ASSETS			
Current			
Cash and cash equivalents		**1,386**	7,070
Restricted cash		**262**	135
Trade and other receivables		**262**	284
Prepaid expenditures		**413**	330
Assets held for sale	3	**347**	202
Total current assets		**2,670**	8,021
Exploration and evaluation assets	4	**33,715**	35,340
Property, plant and equipment	5	**25,302**	22,011
Right-of-use assets	2,6	**217**	-
Other assets	7	**91**	-
Non-current assets		**59,325**	57,351
Total assets		**61,995**	65,372
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**2,975**	1,221
Lease liabilities	2,6	**171**	-
Decommissioning liabilities	8	**78**	71
Other liabilities	9	**2,810**	-
Total current liabilities		**6,034**	1,292
Lease liabilities	2,6	**46**	-
Other liabilities	9	**-**	2,348
Decommissioning liabilities	8	**1,529**	1,160
Total liabilities		**7,609**	4,800
Shareholders' equity			
Share capital	10	**155,731**	155,731
Contributed surplus	10	**1,926**	1,813
Deficit		**(75,792)**	(71,847)
Accumulated other comprehensive loss		**(27,479)**	(25,125)
Total shareholders' equity		**54,386**	60,572
Total liabilities and shareholders' equity		**61,995**	65,372

Basis of presentation (Note 1)
Commitments and contingencies (Note 16)
Subsequent event (Note 10, 17)

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited, thousands of United States dollars, except per share amounts)

	Note	Three Months Ended September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
Revenue					
Oil and condensate sales	14	**77**	125	**175**	457
Royalties and production taxes		**(11)**	(13)	**(24)**	(45)
Net oil and condensate revenue		**66**	112	**151**	412
Other income		**36**	29	**167**	95
Total revenue and other income		**102**	141	**318**	507
Expenses					
Production	15	**67**	187	**225**	602
Transportation		**-**	3	**-**	12
General and administrative	15	**739**	625	**2,062**	2,097
Depletion and depreciation	5,6	**65**	33	**171**	120
Impairment		**1,534**	-	**1,595**	196
Exploration and evaluation expenses		**8**	78	**95**	231
Finance expenses	15	**10**	11	**31**	31
Share-based compensation	10	**33**	27	**100**	54
(Gain) loss on disposition of assets		**(37)**	55	**(37)**	55
Foreign exchange loss		**4**	-	**1**	4
Total expenses		**2,423**	1,019	**4,243**	3,402
Loss before taxes		**(2,321)**	(878)	**(3,925)**	(2,895)
Income tax		**-**	-	**-**	-
Net loss		**(2,321)**	(878)	**(3,925)**	(2,895)
Exchange loss on translation of foreign operations		**(2,717)**	(1,133)	**(2,355)**	(6,144)
Comprehensive loss		**(5,038)**	(2,011)	**(6,280)**	(9,039)
Net loss per share	10				
Basic		**(0.02)**	(0.01)	**(0.04)**	(0.03)
Diluted		**(0.02)**	(0.01)	**(0.04)**	(0.03)

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited, thousands of United States dollars)

	Note	Nine Months Ended September 30, 2019	2018
Common Shares			
Balance, beginning of period		**155,731**	151,937
Net change		**-**	-
Balance, end of period		**155,731**	151,937
Contributed surplus			
Balance, beginning of period		**1,813**	1,662
Share-based compensation expense	10	**100**	54
Share-based compensation capitalized	10	**13**	10
Balance, end of period		**1,926**	1,726
Deficit			
Balance, beginning of period		**(71,847)**	(67,507)
IFRS 16 opening adjustment	2	**(20)**	-
Net loss		**(3,925)**	(2,895)
Balance, end of period		**(75,792)**	(70,402)
Accumulated Other Comprehensive Loss			
Balance, beginning of period		**(25,125)**	(19,952)
IFRS 16 opening adjustment	2	**1**	-
Other comprehensive loss		**(2,355)**	(6,144)
Balance, end of period		**(27,479)**	(26,096)

See accompanying notes to these interim condensed consolidated financial statements.

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, thousands of United States dollars)

	Note	Three Months Ended September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
Operating Activities					
Net loss		**(2,321)**	(878)	**(3,925)**	(2,895)
Adjustments for non-cash items:					
Depletion and depreciation	5,6	**65**	33	**171**	120
Impairment		**1,534**	-	**1,595**	196
Finance expenses	15	**10**	11	**31**	31
Share-based compensation	10	**33**	27	**100**	54
Gain on disposition of assets		**(37)**	55	**(37)**	55
Unrealized foreign exchange loss		**4**	(3)	**17**	(1)
Settlement of decommissioning liabilities	8	**(67)**	(4)	**(67)**	(5)
Funds flow from operations		**(779)**	(759)	**(2,115)**	(2,445)
Changes in non-cash working capital	13	**233**	(31)	**217**	(108)
		(546)	(790)	**(1,898)**	(2,553)
Financing Activities					
Lease liabilities payments		**(52)**	-	**(139)**	-
Changes in non-cash working capital	13	**71**	-	**-**	-
		19	-	**(139)**	-
Investing Activities					
Expenditures on exploration and evaluation assets	4	**(1,333)**	(176)	**(1,589)**	(1,744)
Expenditures on property, plant and equipment	**5**	**(1,715)**	(203)	**(3,455)**	(233)
Proceeds on disposition of assets		**177**	97	**177**	156
Change in other assets	**7**	**12**	-	**(99)**	-
Change in restricted cash		**(21)**	(44)	**(143)**	(44)
Changes in non-cash working capital	13	**1,607**	(167)	**1,574**	(41)
		(1,273)	(493)	**(3,535)**	(1,906)
Change in cash and cash equivalents		**(1,800)**	(1,283)	**(5,572)**	(4,459)
Effect of foreign exchange on cash balances		**(152)**	(29)	**(112)**	(203)
Cash and cash equivalents, beginning of period		**3,338**	5,839	**7,070**	9,189
Cash and cash equivalents, end of period		**1,386**	4,527	**1,386**	4,527
Cash and cash equivalents consist of:					
Cash		**1,386**	1,204	**1,386**	1,204
Cash equivalents		**-**	3,323	**-**	3,323
Supplemental information:					
Cash income taxes paid		**-**	-	**-**	-
Cash interest income received		**24**	25	**121**	83

See accompanying notes to these interim condensed consolidated financial statements.

NOTE 1 – CORPORATE INFORMATION AND BASIS OF PRESENTATION

Alvopetro Energy Ltd. ("Alvopetro" or "the Company") is engaged in the exploration for, and the acquisition, development and production of, hydrocarbons in the Recôncavo basin onshore Brazil. Alvopetro is incorporated under the Business Corporations Act (Alberta) and is a publicly traded company listed on the TSX Venture Exchange (TSX: ALV.V) and is also traded on the OTCQX® Best Market in the United States (OTCQX: ALVOF).

The Company's head office and records are located at 1700, 525 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1G1.

The interim condensed consolidated financial statements as at September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and September 30, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the presentation of interim financial statements, including International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2018, except as discussed in Note 2 below with respect to the adoption of IFRS 16. These statements do not contain all disclosures required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2018.

These interim condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors on November 12, 2019.

The interim condensed consolidated financial statements are presented in U.S. dollars ("USD") which is the parent Company's functional currency.

Basis of Presentation

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. While the Company had cash and cash equivalents of $1.4 million at September 30, 2019, it has not yet achieved commercial operations and had a net loss of $3.9 million and negative cash flows from operating activities of $1.9 million for the nine months ended September 30, 2019, and at September 30, 2019, had an accumulated deficit of $75.8 million. Furthermore, the Company has anticipated payments for the remainder of 2019 and early 2020 totaling $8.9 million on the Caburé natural gas field and related midstream infrastructure to ensure the Company is able to commence gas deliveries under its long-term gas sales agreement ("GSA") in 2020. Alvopetro's status as a going concern improved with the October 8, 2019 satisfaction of all funding conditions for the Company's $15 million credit facility which provides access to $13 million immediately, with the remaining $2 million available upon first production from the Caburé project, as discussed further in Note 17. Management believes the anticipated cash flows from this facility will be sufficient to fund the Caburé and Gomo development as planned and scheduled as well as Alvopetro's plans and commitments on its exploration blocks and mature fields and ongoing operating, administrative and finance expenses. However, in the event of unexpected cost overruns or significant delays in developing the Caburé natural gas field, which may also result in ship or pay penalties under the GSA and charges under the Gas Treatment Agreement prior to production commencement (as discussed further in Note 16), the Company's ability to continue as a going concern may depend on management's ability to secure additional sources of capital and there is no assurance that such financing initiatives will be successful. These conditions indicate the existence of material uncertainties that cast significant doubt regarding the applicability of the going concern assumption. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

Segmented Operations

All oil and condensate sales revenue is derived entirely from Brazilian operations. All exploration and evaluation assets and all material property, plant and equipment are located in Brazil. Cash and cash equivalents are held in both Canada and Brazil and all of the restricted cash at September 30, 2019 and December 31, 2018 is held in Brazil. The Company does not have any significant income in Canada other than interest earned on cash balances.

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

NOTE 2 – CHANGES IN ACCOUNTING STANDARDS

New and Revised Accounting Standards

Accounting for Leases

The interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the 2018 annual consolidated financial statements, with the exception of IFRS 16 *Leases*, adopted under the modified retrospective approach on January 1, 2019. IFRS 16 replaces IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* to provide one framework requiring the recognition of a right-of-use ("ROU") asset and corresponding lease liability on the statement of financial position for substantially all contracts that contain a lease.

Pursuant to IFRS 16, a contract where a party has the right to control the use of an identified asset in exchange for consideration is or contains a lease. At commencement, determined to be when the leased asset is available for use, a ROU asset and corresponding lease liability are recognized, measured at the present value of the remaining lease payments discounted using the rate implicit in the lease or the party's incremental borrowing rate if the implicit rate is not readily determinable. The ROU asset is depreciated over the shorter of: 1) the asset's useful life; and 2) the lease term on a straight-line basis. Lease payments are allocated between repayment of the lease liability and interest expense which is charged to the statement of comprehensive loss.

The modified retrospective approach does not require restatement of prior period financial information as the cumulative effect of adoption is recognized as an adjustment to the Company's opening accumulated deficit and the standard is applied prospectively. As such, comparative information in the Company's financial statements are not restated. The ROU assets and lease liabilities are measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate. The Company applied the optional practical expedients to not recognize certain short-term leases or leases of low value and has elected to separate non-lease components from lease components for all underlying asset classes at January 1, 2019.

The Company is required to make judgements and assumptions with respect to lease terms and incremental borrowing rates. Lease terms are based on management's assumptions with respect to extension and termination provisions. Incremental borrowing rates are based on the Company's estimated borrowing rate at the commencement date of the lease, the security of the asset, and market conditions and is difficult to estimate given the Company had no outstanding debt upon adoption of IFRS 16. The carrying balance of the ROU assets and lease liabilities as well as interest and depreciation expense amounts are impacted by these judgments and assumptions.

Upon adoption of IFRS 16 on January 1, 2019 the Company recognized ROU assets of $0.26 million, lease liabilities of $0.24 million, an increase to its accumulated deficit of $0.02 million and a nominal effect on accumulated other comprehensive loss. See Note 6 for further details with respect to the ROU assets and lease liabilities.

Standards Issued but not Yet Effective

The Company has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective and may have a potential impact on the consolidated financial statements of the Company:

Standard and Description	Date of Adoption	Expected Impact on Consolidated Financial Statements
IFRS 3 *Business Combinations* – IFRS 3 was amended to revise the definition of a business.	January 1, 2020	The Company is assessing the effect of this future pronouncement on its financial statements.
IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* have been amended to more effectively align the definition of materiality throughout all accounting standards.	January 1, 2020	The Company is assessing the effect of this future pronouncement on its financial statements.

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NOTE 3 – ASSETS HELD FOR SALE

	As at	
	September 30, 2019	December 31, 2018
Balance, beginning of period	**202**	236
Transferred from E&E assets	**351**	-
Impairment	**(26)**	-
Disposition	**(171)**	-
Foreign currency translation	**(9)**	(34)
Balance, end of period	**347**	202

The balance at September 30, 2019 consists of $0.2 million of land owned by the Company as well as equipment inventory transferred during the three months ended June 30, 2019. During the three months ended September 30, 2019, the Company sold a portion of this equipment inventory for total proceeds of $0.2 million and a nominal gain. The impairment loss reflects management's revised estimate of the value of the land for sale.

NOTE 4 – EXPLORATION AND EVALUATION ("E&E") ASSETS

	As at	
	September 30, 2019	December 31, 2018
Balance, beginning of period	**35,340**	54,585
Capital expenditures	**1,589**	1,904
Capital expenditures – non-cash(1)	**-**	313
Capitalized share-based compensation	**4**	3
Change in decommissioning liabilities	**139**	(31)
Transfer to PP&E (Note 5)	**(14)**	(15,527)
Other transfers	**(351)**	(4)
Asset dispositions	**31**	(426)
Impairment	**(1,569)**	(765)
Foreign currency translation	**(1,454)**	(4,712)
Balance, end of period	**33,715**	35,340

(1) Non-cash capital expenditures of $0.3 million in 2018 relate to costs initially funded by our partner under the terms of the UOA (Note 9).

General and administrative costs totaling $0.2 million (December 31, 2018 - $0.6 million) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets. During the three months ended September 30, 2019 the Company relinquished Block 57 and recorded an impairment loss of $1.5 million to bring the carrying value of the block to $nil at September 30, 2019. The Company also recognized impairment charges of $0.04 million in the three months ended June 30, 2019 on equipment inventory transferred to assets held for sale in the period.

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT ("PP&E")

	As at	
	September 30, 2019	December 31, 2018
Cost, beginning of period	**25,631**	9,514
Capital expenditures - cash	**3,455**	719
Capital expenditures – non-cash [(1)]	**628**	2,408
Capitalized share-based compensation	**9**	12
Transfer from E&E assets (Note 4)	**14**	15,527
Transfer to ROU assets (Note 6)	**(30)**	-
Change in decommissioning liabilities	**389**	189
Asset dispositions	**-**	(814)
Foreign currency translation	**(1,685)**	(1,924)
Cost, end of period	**28,411**	25,631
Accumulated depletion, depreciation and impairment, beginning of period	**(3,620)**	(5,276)
Depletion and depreciation for the period	**(51)**	(144)
Asset dispositions	**-**	441
Foreign currency translation	**562**	1,359
Accumulated depletion, depreciation and impairment, end of period	**(3,109)**	(3,620)
Net book value, end of period	**25,302**	22,011

(1) Non-cash capital expenditures relate to costs initially funded by our partner under the terms of the UOA (Note 9).

General and administrative costs totaling $0.5 million (December 31, 2018 - $0.4 million) that were directly related to property, plant, and equipment activities have been capitalized.

NOTE 6 – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company's contracts at September 30, 2019 that contain leases or lease components include access to land for midstream development in Brazil as well as office space in both Canada and Brazil.

The net book value of the Company's ROU assets at September 30, 2019 are as follows:

		As at	
	September 30, 2019	**January 1, 2019**	December 31, 2018
Net book value, beginning of period	**256**	**-**	-
ROU Assets upon adoption of IFRS 16 – formerly operating leases	**-**	**226**	-
ROU Assets upon adoption of IFRS 16 – transferred from PP&E (Note 5)	**-**	**30**	-
Additions	**91**	**-**	-
Depreciation of ROU assets	**(120)**	**-**	-
Foreign currency translation	**(10)**	**-**	-
Net book value, end of period	**217**	**256**	-

		As at	
Net Book Value by Asset Class	**September 30, 2019**	**January 1, 2019**	December 31, 2018
Office space	**189**	**226**	-
Surface land access	**28**	**30**	-
Total Net Book Value	**217**	**256**	-

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

The Company's lease liabilities at September 30, 2019 are as follows:

	As at		
	September 30, 2019	**January 1, 2019**	December 31, 2018
Lease liabilities, beginning of period	**244**	-	-
Lease liabilities upon adoption of IFRS 16	**-**	**244**	-
Additions	**91**	**-**	-
Finance fees (see Note 15)	**11**	**-**	-
Lease payments	**(139)**	**-**	-
Foreign currency translation	**10**	**-**	-
Lease liabilities, end of period	**217**	**244**	-
Current	**171**	**160**	-
Non-current	**46**	**84**	-
Total, end of period	**217**	**244**	-

Upon recognition of the present value of minimum lease payments the Company's weighted average incremental borrowing rate used in measuring lease liabilities was 7.0%.

During the three and nine months ended September 30, 2019 the Company incurred a nominal amount in payments related to leases for which the low-value expedient was applied upon adoption of IFRS 16.

NOTE 7 – OTHER ASSETS

Other assets represent the non-current portion of available indirect tax credits in Brazil that the Company is eligible to claim to offset amounts owing.

	As at	
	September 30, 2019	December 31, 2018
Balance, beginning of period	**-**	-
Additions	**117**	-
Transferred to current	**(18)**	-
Foreign currency translation	**(8)**	-
Balance, end of period	**91**	-

NOTE 8 – DECOMMISSIONING LIABILITIES

The decommissioning liabilities are estimated based on the net ownership interest in wells and facilities, management's estimates of costs to abandon and reclaim those wells and facilities, and the potential future timing of the costs to be incurred.

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

	As at	
	September 30, 2019	December 31, 2018
Balance, beginning of period	**1,231**	1,464
Liabilities incurred	**528**	155
Revisions to obligations	**-**	3
Obligations settled	**(67)**	(12)
Disposition of obligations	**-**	(185)
Accretion (Note 15)	**20**	41
Foreign currency translation	**(105)**	(235)
Balance, end of period	**1,607**	1,231

Total undiscounted cash flows, escalated at 5.5% (December 31, 2018 - 5.5%) for inflation, required to settle the Company's decommissioning liabilities are estimated to be $2.3 million (December 31, 2018 - $2.0 million) and have been discounted using an average risk-free rate of 2.7% (December 31, 2018 – 2.9%).

The Company expects to incur $0.08 million (December 31, 2018 - $0.07 million) of decommissioning costs within one year and accordingly this amount is classified as current on the consolidated statements of financial position.

NOTE 9 – OTHER LIABILITIES

The Company's Other Liabilities at September 30, 2019 and December 31, 2018 represent the accrued payable related to Alvopetro's share of the costs incurred to date with respect to joint development of the Caburé natural gas field in which the Company has a 49.1% working interest. Pursuant to the unit operating agreement ("UOA"), the majority of the 2018 and 2019 field development is initially funded by the Company's partner and Alvopetro will reimburse the operating partner for its share of the development costs, including adjustments for inflation, within 30 days of the earlier of March 31, 2020 or the commencement of production allocations to Alvopetro. During the three months ended March 31, 2019 the liabilities were transferred to current based on the anticipating timing of first production at that time.

	As at	
	September 30, 2019	December 31, 2018
Balance, beginning of period	**2,348**	-
Alvopetro's share of expenditures incurred	**586**	2,721
Partner's share of equipment contributed by Alvopetro	**-**	(405)
Effective interest	**42**	-
Foreign currency translation	**(166)**	32
Total, end of period	**2,810**	2,348
Current	**2,810**	-
Non-current	**-**	2,348
Total, end of period	**2,810**	2,348

NOTE 10 – SHARE CAPITAL

a) Authorized

Alvopetro has an unlimited number of common shares authorized for issuance. The Company is also authorized to issue preferred shares in one or more series.

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

Issued and Outstanding Common Shares

	Number of Shares	Amount
Balance as at December 31, 2018	96,670,871	$ 155,731
Cancellation of shares	(77,379)	-
Balance as at September 30, 2019	**96,593,492**	**155,731**

Warrants outstanding at September 30, 2019 are as follows:

	Number of Warrants Outstanding at		**Weighted Average Remaining Contractual Life (years) at**	
Exercise Price	**September 30, 2019**	December 31, 2018	**September 30, 2019**	December 31, 2018
USD $0.50	**2,500,000**	2,500,000	**0.21**	0.96
CAD $0.64	**376,000**	376,000	**0.21**	0.96
USD $0.50	**800,000**	800,000	**1.04**	1.79
Total	**3,676,000**	3,676,000	**0.39**	1.14

Subsequent to September 30, 2019 Alvopetro issued 8,432,868 share purchase warrants in connection with its $15 million credit facility agreement (Note 17). Each warrant entitles the holder to purchase one common share of Alvopetro at an exercise price of USD$0.60 per common share. These warrants vested upon grant and expire on September 20, 2022.

b) Options to Purchase Common Shares

Alvopetro has a stock option plan whereby the Company may grant stock options to its directors, officers, employees and consultants as part of the Company's long-term incentive plan to align compensation with shareholders' interests. The options outstanding at September 30, 2019 are as follows:

	Number of Options	Weighted Average Exercise Price (CAD$)
Balance as at December 31, 2017	6,538,936	0.52
Granted	2,542,250	0.38
Expired	(1,900,436)	1.02
Balance as at December 31, 2018	7,180,750	0.34
Granted	60,000	0.69
Expired	(72,000)	1.10
Balance as at September 30, 2019	**7,168,750**	**0.33**
Percentage of common shares outstanding	**7.4%**	

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

	Options Outstanding at September 30, 2019			**Options Exercisable at September 30, 2019**		
Exercise Price	Number of Options	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (Years)
CAD$0.18 - $0.39	4,328,750	0.27	2.30	3,126,084	0.26	1.95
CAD$0.40 - $0.69	2,840,000	0.43	2.14	1,500,000	0.42	0.34
CAD$0.18 - $0.69	**7,168,750**	**0.33**	**2.24**	**4,626,084**	**0.31**	**1.43**

Share-Based Compensation – Stock Options

The fair values of the stock options granted under the Alvopetro stock option plan for the three and nine months ended September 30, 2019 and 2018 have been estimated on the grant date using the Black-Scholes option pricing model. Weighted average assumptions and resultant fair values for stock options granted are as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Risk free interest rate (%)	**-**	-	**1.48**	2.10
Expected term (years)	**-**	-	**4.0**	4.0
Expected volatility (%)	**-**	-	**45.0**	45.0
Dividend per share (%)	**-**	-	**-**	-
Forfeiture rate (%)	**-**	-	**5.0**	5.0
Weighted average fair value (CAD$)	**-**	-	**0.27**	0.11

Share-based compensation that was directly related to exploration and evaluation assets and property, plant and equipment has been capitalized with the remainder recognized as share-based compensation expense on the consolidated statements of operations and comprehensive loss.

d) Net Loss Per Share Attributable to Common Shareholders

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the applicable period. The following table provides the number of shares used in the basic and diluted per share computations:

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Weighted average common shares outstanding, basic and diluted	**96,593,492**	85,166,871	**96,611,916**	85,166,871

In determination of the weighted average number of diluted common shares outstanding for the three and nine months ended September 30, 2019 and 2018, all stock options and warrants were excluded because the effect would be anti-dilutive.

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

NOTE 11 – CAPITAL MANAGEMENT

The Company's capital consists of the following:

	As at	
	September 30, 2019	December 31, 2018
Working capital (deficit) surplus	**(3,364)**	6,729
Shareholders' equity	**54,386**	60,572

Alvopetro manages its capital to support the Company's strategic growth objectives and maintain financial capacity and flexibility for the purpose of funding the Company's exploration and development activities.

The Company considers its capital structure to include working capital and shareholders' equity. At September 30, 2019, the Company's net working capital deficit was $3.4 million (December 31, 2018 – $6.7 million surplus), which includes $1.4 million (December 31, 2018 - $7.1 million) of cash and cash equivalents.

Alvopetro may adjust its capital structure by issuing new equity or debt and adjusting its capital expenditure program, as allowed pursuant to contracted work commitments. Subsequent to September 30, 2019, all conditions to funding for the Company's $15 million credit facility were satisfied (Note 17), providing access to up to $13 million, with the final $2 million available upon first production from our Caburé natural gas development.

The Company has a credit support facility with a Canadian bank which allows for the issuance of letters of credit ("LCs") and letters of guarantee in support of financial guarantees required by the National Agency of Petroleum, Natural Gas and Biofuels of Brazil ("ANP") for Alvopetro's work commitments under the terms of its concession contracts as discussed further in Note 16. LCs and letters of guarantee issued under the Facility must be supported by either cash collateral posted by Alvopetro or through an Account Performance Security Guarantee from Export Development Canada ("EDC"). As at September 30, 2019, the total amount of LCs issued under the Facility was $4.9 million (December 31, 2018 - $6.1 million), the full balance of which was supported by EDC on behalf of Alvopetro. LCs supported by EDC at September 30, 2019 include $3.7 million (December 31, 2018 - $1.2 million) of LCs related to commitments that have been satisfied or are expected to be cancelled, subject to the final approval of the ANP.

Current restricted cash of $0.3 million (December 31, 2018 - $0.1 million) includes $0.2 million of cash posted in respect of abandonment guarantees and $0.1 million in respect of a portion of the Company's exploration work commitment on Block 57.

The Company has not paid or declared any dividends since the date of incorporation.

NOTE 12 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade and other receivables, other assets, accounts payable and accrued liabilities and other liabilities. The nature of Alvopetro's operations exposes the Company to credit risk, liquidity risk, and market risk. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management.

Fair Value of Financial Instruments

The Company classifies the fair value of its financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment that may affect the placement within the fair value hierarchy level. Due to timing of settlement of the Company's financial instruments and the method of measurement, their carrying values approximate their fair values. During the nine months ended September 30, 2019, there were no transfers of financial instruments between any of the above levels.

A description of the nature and extent of risks arising from the Company's financial instruments can be found in the notes to the audited consolidated financial statements as at and for the year ended December 31, 2018 and there has been no significant change to the Company's exposure to these risks. The following financial instruments were denominated in currencies other than U.S. dollars as at September 30, 2019:

	As at			
	September 30, 2019		December 31, 2018	
	CAD (000's)	**BRL (000's)**	CAD (000's)	BRL (000's)
Cash and cash equivalents	**37**	**3,059**	434	13,653
Restricted cash – current	**-**	**1,090**	-	525
Trade and other receivables	**25**	**1,001**	31	991
Other assets	**-**	**380**	-	-
Accounts payable and accrued liabilities	**(458)**	**(9,855)**	(312)	(3,362)
Other liabilities	**-**	**(11,703)**	-	(9,098)
Net exposure in foreign currency	**(396)**	**(16,028)**	153	2,709
Net exposure in USD ($000s)	**(299)**	**(3,849)**	112	699

The Company had no forward exchange rate contracts in place as at or during the periods ended September 30, 2019 or December 31, 2018.

NOTE 13 – CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	2018
Change in:				
Trade and other receivables	**19**	(100)	**11**	(185)
Prepaid expenditures	**(221)**	36	**(90)**	104
Accounts payable and accrued liabilities	**2,113**	(134)	**1,870**	(68)
	1,911	(198)	**1,791**	(149)
Changes relating to:				
Operating activities	**233**	(31)	**217**	(108)
Financing activities	**71**	-	**-**	-
Investing activities	**1,607**	(167)	**1,574**	(41)
	1,911	(198)	**1,791**	(149)

NOTE 14 – REVENUE

The Company's oil sales revenues have historically been derived from two customers, under contracts based on floating prices, specifically the Brent benchmark, adjusted for contracted discounts based on both a fixed cost per barrel and a fixed percentage of Brent. In the nine months ended September 30, 2019, discounts averaged 11% of the Brent price (nine months ended September

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30, 2018 - 6%). The discount for the nine months ended September 30, 2019 was impacted by contract revisions in early 2019 resulting in a higher discount to Brent and also in the second half of 2018 resulting in reduced prices per barrel in exchange for delivery taken at the wellhead with the purchaser covering all transportation costs.

Condensate sales under the UOA are split based on working interest percentage, with all condensate production from the unit sold pursuant to a sales contract on behalf of both Alvopetro and our partner based on the Brent price plus a small mark-up.

As at September 30, 2019, accounts receivable included $nil of accrued sales revenue related to oil and condensate production. There were no collection issues requiring adjustment to revenue recorded in the nine months ended September 30, 2019 or the year ended December 31, 2018.

Revenue is measured at the consideration specified in the contracts and represents amounts receivable net of discounts. Performance obligations associated with the sale of oil and condensate are satisfied when control of the product is transferred to the customer. This occurs when the oil is physically transferred to the delivery point agreed with the customer and the customer obtains legal title. Payment terms are on or before the 25th day of the month following satisfaction of the performance obligation.

NOTE 15 – NATURE OF EXPENSES

Production expenses by nature were as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Personnel	**20**	79	**80**	241
Other fixed	**43**	74	**125**	192
Variable	**4**	34	**20**	106
Workover	**-**	-	**-**	63
Total production expenses	**67**	187	**225**	602

General and administrative expenses (“G&A”) by nature were as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Personnel	**623**	580	**1,910**	1,831
Travel	**38**	14	**95**	64
Office and IT	**45**	76	**125**	247
Professional fees	**103**	85	**275**	516
General corporate	**163**	83	**387**	232
Gross G&A expenses	**972**	838	**2,792**	2,890
Capitalized to E&E and PP&E	**(233)**	(213)	**(730)**	(793)
Net G&A expenses	**739**	625	**2,062**	2,097

The majority of the Company’s G&A relates to personnel costs. General corporate expenses include public company costs, corporate insurance, directors’ fees and other miscellaneous expenses. G&A expenses directly attributable to exploration and development projects, primarily being personnel costs, are capitalized. Office and IT expenses are comparatively lower than 2018 with the adoption of IFRS 16 and the classification of the Company’s office space contracts as leases.

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

Finance expenses by nature were as follows:

	Three months ended September 30, 2019		Nine months ended September 30,	
	2019	2018	**2019**	2018
Accretion of decommissioning liabilities (Note 8)	**6**	11	**20**	31
Lease interest (Note 6)	**4**	-	**11**	-
Total finance expenses	**10**	11	**31**	31

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The following is a summary of contractual commitments as at September 30, 2019:

Commitments	**< 1 Year**	**1-3 Years**	**Thereafter**	**Total**
Minimum work commitments[(1)]				
Minimum work commitments to be completed				
Block 183[(2)]	-	801	-	801
Bom Lugar	-	-	84	84
Mãe-da-lua	-	-	84	84
Minimum work commitments to be completed	**-**	**801**	**168**	**969**
Minimum work commitments completed or to be terminated				
Block 169[(3)]	912	-	-	912
Block 255[(3)]	1,092	-	-	1,092
Block 57[(4)]	54	-	-	54
Minimum work commitments completed or to be terminated	**2,058**	**-**	**-**	**2,058**
Gas Treatment Agreement	**1,718**	**5,646**	**20,937**	**28,301**
Total commitments	**3,776**	**6,447**	**21,105**	**31,328**

Notes:

(1) Under the terms of the ANP concession contracts for each of our exploration blocks, the Company has commitments which must be completed prior to the applicable phase expiry date. The Company is required to post a performance guarantee with the ANP for all commitments in the table above.

(2) In February 2018, the ANP approved a suspension to the portion of Block 183 currently in the second exploration phase to which the above commitment is applicable. The Company will have 517 days from receipt of the environmental permit for the well to be drilled to meet the required work commitment.

(3) Due to an ongoing injunction against unconventional activities on all 12th Brazil Bid Round Blocks, in December 2017 the Company filed a request with the ANP to cancel the Block 169 and 255 concession contracts, including the commitments noted in the table above. In September 2019, the Company received notification that the ANP would agree to the cancellation of the contracts and is currently awaiting the formal agreement to execute the termination.

(4) In the third quarter of 2019 Alvopetro drilled the 57(A1) well in satisfaction of the above noted commitment, subject to ANP approval.

The Company's long-term GSA with Bahiagás provides for the sale of 5.3 mmcfpd (150,000 m3/d) on a firm basis and 12.4 million mmcfpd (350,000 m3/d) on an interruptible basis and includes penalties for supply failure in respect of the firm volumes and also take or pay penalties applicable to Bahiagás should it be unable to accept the firm volumes specified in the contract. The Company believes it can meet the firm sales commitments under the GSA solely with our production from the Caburé natural gas field, however supply failure penalties may arise where construction of the gas processing facility or pipeline is delayed (other than due to permitting delays), unit development is delayed, where there are unplanned production interruptions, or to the extent reservoir performance is below expected production rates. Supply failure penalties are a function of the shortfall of firm volumes and the prevailing natural gas price under the GSA at the time, which is determined based on a trailing weighted average basket of benchmark reference prices including Henry Hub and National Balancing Point natural gas prices and Brent crude oil prices. Alvopetro can mitigate these risks by adjusting firm volumes annually, meeting sales commitments under the GSA with third-party gas supplies, through development of existing gas resources, or through new gas discoveries from our prospect inventory. Firm gas deliveries under the GSA will commence in July 2020 (the "Firm Start Date"), with interruptible deliveries commencing earlier with mutual consent. The Company expects to commence gas deliveries on an interruptible basis near the end of the first quarter of 2020; however firm sales volumes (and the applicable potential penalties to both parties) will not commence until the Firm Start Date, or such earlier date as the parties may agree.

Alvopetro has a 10-year contract (the “Gas Treatment Agreement”) with Enerflex Ltd. (“Enerflex”), pursuant to which, Enerflex will build, own, operate and maintain a natural gas treatment facility (the “Facility”). Alvopetro is committed to integrated service fees totaling $2.9 million per year once the Facility is operational. Alvopetro anticipates that the Facility will be operational in the first quarter of 2020 and has reflected the associated commitment in the table above based on this start date. A portion of the payments are in BRL and therefore exposed to foreign exchange fluctuations. Management has assessed that this agreement contains a lease component under IFRS 16 which will affect the classification of these fees in future consolidated financial statements. The Gas Treatment Agreement includes customary penalties and standby charges to the extent Alvopetro is unable to receive the services on the start date. In addition, the Gas Treatment Agreement includes early termination penalty provisions which vary depending on timing of the termination. While the Gas Treatment Agreement also includes strict availability requirements and downtime credits, such credits may not fully offset costs incurred by Alvopetro due to ship or pay obligations under the GSA as discussed above to the extent processing in the Facility is limited due to unplanned or longer than scheduled maintenance or repair.

As is customary in the oil and gas industry, we may at times have work plans in place to reserve or earn certain acreage positions or wells. If we do not complete such work plans in a timely manner, the acreage positions or wells may be lost, or penalties may be applied.

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

NOTE 17 – CREDIT FACILITY

On September 20, 2019 the Company entered into a $15 million Credit and Guarantee Agreement (the “Credit Facility”) for which all conditions for funding were met on October 8, 2019 (the “Funding Date”). The Credit Facility is secured by all of Alvopetro’s assets and matures on October 8, 2022, with $13 million available on the Funding Date and the remaining $2 million available upon first production from our Caburé natural gas development. Amounts under the Credit Facility are available to be drawn from the Funding Date to October 8, 2020 (“the Availability Period”). Any undrawn amounts will be cancelled on October 8, 2020. The net proceeds drawn on the Credit Facility will be used to fund the remaining development of the Company’s Caburé natural gas field, Gomo development costs, payments for the well drilled on Block 57 in the third quarter of 2019, and for ongoing general operational and corporate requirements. The Credit Facility contains certain customary financial and non-financial covenants. Financial covenants are effective as of October 8, 2020 (the first anniversary of the Funding Date).

Amounts drawn under the Credit Facility are repayable at maturity, however after the first anniversary, the Facility may be repaid in part or full without penalty. Interest on the Credit Facility includes monthly payments at 9.5% per annum and an additional 3.0% per annum upon repayment of any amounts drawn. The Facility is subject to a 1.0% per annum commitment fee on the unused available balance during the Availability Period.

In connection with the financing, Alvopetro issued 8,057,868 share purchase warrants to the lenders (“Lender Warrants”) and 375,000 share purchase warrants to the Company’s financial advisors (“Advisor Warrants”). Each of the Lender Warrants and Advisor Warrants entitles the holder to purchase one common share of Alvopetro, at an exercise price of $0.60 per common share at any time prior to September 20, 2022.

The Credit Facility is a financial instrument and amounts drawn under the Credit Facility subsequent to the Funding Date will be treated as a financial liability. The Lender Warrants issued in connection with the Credit Facility are considered an equity instrument upon issuance on October 8, 2019 and will be recorded at fair value and reflected as a deferred financing cost incurred for the ability to access the Credit Facility, to be amortized over the term of the Credit Facility. The Advisor Warrants will be included as a transaction cost at fair value. The Company is currently finalizing the fair value assessment of the Lender Warrants and the Advisor Warrants. In connection with the Credit Facility, cash transaction costs totaled approximately $1 million, of which approximately $0.3 million was recognized as of September 30, 2019 as a prepaid expense. Cash transaction costs along with the value of the Advisor Warrants will be allocated to the Credit Facility and the Lender Warrants based on relative fair value and all costs allocated to the Credit Facility will be expensed over the term of the credit facility as a financing cost.