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INTERIM FINANCIAL STATEMENTS
MARCH 31, 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 March 31, 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 months ended March 31, 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	**March 31, 2019**	December 31, 2018
ASSETS			
Current			
Cash and cash equivalents		**4,868**	7,070
Restricted cash		**135**	135
Trade and other receivables		**326**	284
Prepaid expenditures		**187**	330
Assets held for sale	3	**201**	202
Total current assets		**5,717**	8,021
Exploration and evaluation assets	4	**35,337**	35,340
Property, plant and equipment	5	**22,988**	22,011
Right-of-use assets	2,6	**218**	-
Other assets	7	**106**	-
Non-current assets		**58,649**	57,351
Total assets		**64,366**	65,372
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**943**	1,221
Lease liabilities	2,6	**161**	-
Decommissioning liabilities	8	**71**	71
Other liabilities	9	**2,349**	-
Total current liabilities		**3,524**	1,292
Lease liabilities	2,6	**47**	-
Other liabilities	9	**-**	2,348
Decommissioning liabilities	8	**1,160**	1,160
Total liabilities		**4,731**	4,800
Shareholders' equity			
Share capital	10	**155,731**	155,731
Contributed surplus	10	**1,850**	1,813
Deficit		**(72,630)**	(71,847)
Accumulated other comprehensive loss		**(25,316)**	(25,125)
Total shareholders' equity		**59,635**	60,572
Total liabilities and shareholders' equity		**64,366**	65,372

Commitments and contingencies (Note 16)

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 March 31, 2019	2018
Revenue			
Oil and condensate sales	14	**68**	116
Royalties and production taxes		**(9)**	(13)
Net oil and condensate revenue		**59**	103
Other income		**69**	29
Total revenue and other income		**128**	132
Expenses			
Production	15	**94**	236
Transportation		**-**	4
General and administrative	15	**682**	714
Depletion and depreciation	5,6	**54**	33
Exploration and evaluation expenses		**8**	12
Finance expenses	15	**26**	10
Share-based compensation	10	**33**	3
Foreign exchange (gain) loss		**(6)**	9
Total expenses		**891**	1,021
Loss before taxes		**(763)**	(889)
Income tax		**-**	-
Net loss		**(763)**	(889)
Exchange loss on translation of foreign operations		**(192)**	(190)
Comprehensive loss		**(955)**	(1,079)
Net loss per share	10		
Basic		**(0.01)**	(0.01)
Diluted		**(0.01)**	(0.01)

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	Three Months Ended March 31, 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	**33**	3
Share-based compensation capitalized	10	**4**	4
Balance, end of period		**1,850**	1,669
Deficit			
Balance, beginning of period		**(71,847)**	(67,507)
IFRS 16 opening adjustment	2	**(20)**	-
Net loss		**(763)**	(889)
Balance, end of period		**(72,630)**	(68,396)
Accumulated Other Comprehensive Loss			
Balance, beginning of period		**(25,125)**	(19,952)
IFRS 16 opening adjustment	2	**1**	-
Other comprehensive loss		**(192)**	(190)
Balance, end of period		**(25,316)**	(20,142)

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)

		Three Months Ended March 31,	
Note	Note	2019	2018
Operating Activities			
Net loss		**(763)**	(889)
Adjustments for non-cash items:			
Depletion and depreciation	5,6	**54**	33
Finance expenses	15	**26**	10
Share-based compensation	10	**33**	3
Unrealized foreign exchange loss		**13**	1
Funds flow from operations		**(637)**	(842)
Changes in non-cash working capital	13	**(55)**	114
		(692)	(728)
Financing Activities			
Lease liabilities payments		**(44)**	-
Changes in non-cash working capital	13	**(21)**	-
		(65)	-
Investing Activities			
Expenditures on exploration and evaluation assets		**(115)**	(1,274)
Expenditures on property, plant and equipment		**(1,134)**	(2)
Change in other assets		**(111)**	-
Changes in non-cash working capital	13	**(103)**	394
		(1,463)	(882)
Change in cash and cash equivalents		**(2,220)**	(1,610)
Effect of foreign exchange on cash balances		**18**	(37)
Cash and cash equivalents, beginning of period		**7,070**	9,189
Cash and cash equivalents, end of period		**4,868**	7,542
Cash and cash equivalents consist of:			
Cash		**360**	1,410
Cash equivalents		**4,508**	6,132
Supplemental information:			
Cash income taxes paid		**-**	-
Cash interest income received		**58**	30

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 March 31, 2019 and December 31, 2018 and for the three months ended March 31, 2019 and March 31, 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 May 14, 2019.

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

Going Concern

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 positive working capital of $2.2 million as at March 31, 2019 (including cash and cash equivalents of $4.9 million), it has not yet achieved commercial operations and had a net loss of $0.8 million and negative cash flows from operating activities of $0.7 million for the three months ended March 31, 2019 and had an accumulated deficit of $72.6 million as at March 31, 2019. Furthermore, as a part of the Unit Operating Agreement ("UOA"), Gas Sales Agreement and Gas Treatment Agreement entered into in 2018, the Company has anticipated payments for the remainder of 2019 and 2020 totaling $9.2 million on the Caburé natural gas field and related midstream infrastructure to ensure the Company is able to commence gas deliveries in 2020. Should the Company's gas deliveries be delayed, Alvopetro may incur ship or pay penalties under the Gas Sales Agreement and additional charges under the Gas Treatment Agreement as discussed further in Note 16. The Company's ability to continue as a going concern is dependent on management's ability to identify additional sources of capital and to raise sufficient resources to fund the Caburé and Gomo development as planned and scheduled, the Company's plans and commitments on its exploration blocks and mature fields, and ongoing operating expenses. There is no assurance that 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 March 31, 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

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	
	March 31, 2019	December 31, 2018
Balance, beginning of period	**202**	236
Foreign currency translation	**(1)**	(34)
Balance, end of period	**201**	202

The balance at March 31, 2019 and December 31, 2018 consists of land owned by the Company which management intends to sell within one year.

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

	As at	
	March 31, 2019	December 31, 2018
Balance, beginning of period	**35,340**	54,585
Capital expenditures	**115**	1,904
Capital expenditures – non-cash[(1)]	**-**	313
Capitalized share-based compensation	**2**	3
Change in decommissioning liabilities	**-**	(31)
Transfer to PP&E (Note 5)	**-**	(15,527)
Other transfers	**-**	(4)
Asset dispositions	**-**	(426)
Impairment	**-**	(765)
Foreign currency translation	**(120)**	(4,712)
Balance, end of period	**35,337**	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 $0.1 million (December 31, 2018 - $0.6 million) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

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	
	March 31, 2019	December 31, 2018
Cost, beginning of period	**25,631**	9,514
Capital expenditures - cash	**1,134**	719
Capital expenditures – non-cash (1)	**-**	2,408
Capitalized share-based compensation	**2**	12
Transferred from E&E assets (Note 4)	**-**	15,527
Transfer to ROU assets (Note 6)	**(30)**	-
Change in decommissioning liabilities	**-**	189
Asset dispositions	**-**	(814)
Foreign currency translation	**(159)**	(1,924)
Cost, end of period	**26,578**	25,631
Accumulated depletion, depreciation and impairment, beginning of period	**(3,620)**	(5,276)
Depletion and depreciation for the period	**(18)**	(144)
Asset dispositions	**-**	441
Foreign currency translation	**48**	1,359
Accumulated depletion, depreciation and impairment, end of period	**(3,590)**	(3,620)
Net book value, end of period	**22,988**	22,011

(1) Non-cash capital expenditures of $2.4 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 - $0.4 million) that were directly related to property, plant, and equipment activities have been capitalized.

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

The net book value of the Company's ROU assets at March 31, 2019 are as follows:

	As at		
	March 31, 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**	-
Depreciation of ROU assets	**(36)**	**-**	-
Foreign currency translation	**(2)**	**-**	-
Net book value, end of period	**218**	**256**	-

	As at		
Net Book Value by Asset Class	**March 31, 2019**	**January 1, 2019**	December 31, 2018
Office space	**179**	**214**	-
Surface land access	**39**	**42**	-
Total Net Book Value	**218**	**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 March 31, 2019 are as follows:

	As at		
	March 31, 2019	**January 1, 2019**	December 31, 2018
Lease liabilities, beginning of period	**244**	-	-
Lease liabilities upon adoption of IFRS 16	**-**	**244**	-
Interest expense (see Note 15)	**4**	**-**	-
Lease payments	**(44)**	**-**	-
Foreign currency translation	**4**	**-**	-
Lease liabilities, end of period	**208**	**244**	-
Current	**161**	**160**	-
Non-current	**47**	**84**	-
Total, end of period	**208**	**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%. The Company's contracts at March 31, 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.

During the three months ended March 31, 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	
	March 31, 2019	December 31, 2018
Balance, beginning of period	**-**	-
Additions	**111**	-
Foreign currency translation	**(5)**	-
Balance, end of period	**106**	-

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.

	As at	
	March 31, 2019	December 31, 2018
Balance, beginning of period	**1,231**	1,464
Liabilities incurred	**-**	155
Revisions to obligations	**-**	3
Obligations settled	**-**	(12)
Disposition of obligations	**-**	(185)
Accretion	**8**	41
Foreign currency translation	**(8)**	(235)
Balance, end of period	**1,231**	1,231

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

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 $1.9 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 $0.07 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 March 31, 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 UOA, substantially all 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. As production is anticipated early 2020 the liabilities were transferred to current during the three months ended March 31, 2019.

	As at	
	March 31, 2019	December 31, 2018
Balance, beginning of period	**2,348**	-
Alvopetro's share of expenditures incurred	**-**	2,721
Partner's share of equipment contributed by Alvopetro	**-**	(405)
Effective interest (Note 15)	**14**	-
Foreign currency translation	**(13)**	32
Total, end of period	**2,349**	2,348
Current	**2,349**	-
Non-current	**-**	2,348
Total, end of period	**2,349**	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.

Issued and Outstanding Common Shares

	Number of Shares	Amount
Balance as at December 31, 2018	**96,670,871**	**$ 151,937**
Cancellation of shares	(77,379)	-
Balance as at March 31, 2019	**96,593,492**	**151,937**

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

Warrants outstanding at March 31, 2019 are as follows:

	Number of Warrants Outstanding at		Weighted Average Remaining Contractual Life (years) at	
Exercise Price	**March 31, 2019**	December 31, 2018	**March 31, 2019**	December 31, 2018
USD $0.50	**2,500,000**	2,500,000	**0.71**	0.96
CAD $0.64	**376,000**	376,000	**0.71**	0.96
USD $0.50	**800,000**	800,000	**1.54**	1.79
Total	**3,676,000**	3,676,000	**0.89**	1.14

All outstanding warrants were issued in connection with the October 2018 private placement. There were no warrant grants during the three months ended March 31, 2019 or March 31, 2018.

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 March 31, 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 and March 31, 2019	**7,180,750**	**0.34**
Percentage of common shares outstanding	**7.4%**	

	Options Outstanding at March 31, 2019			Options Exercisable at March 31, 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	2.80	3,102,084	0.26	2.45
CAD$0.40 - $0.75	2,780,000	0.43	2.59	1,480,000	0.42	0.79
CAD$1.01 - $1.10	72,000	1.10	0.20	72,000	1.10	0.20
CAD$0.18 - $1.10	**7,180,750**	**0.34**	**2.69**	**4,654,084**	**0.32**	**1.89**

d) Share-Based Compensation – Stock Options

The fair value of the stock options granted under the Alvopetro stock option plan is estimated on the grant date using the Black-Scholes option pricing model. There were no stock option grants during the three months ended March 31, 2019 or March 31, 2018.

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

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.

e) 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 March 31,	
	2019	2018
Weighted average common shares outstanding, basic and diluted	**96,649,377**	85,166,871

In determination of the weighted average number of diluted common shares outstanding for the three months ended March 31, 2019 and 2018, all stock options were excluded because the effect would be anti-dilutive.

NOTE 11 – CAPITAL MANAGEMENT

The Company's capital consists of the following:

	As at	
	March 31, 2019	December 31, 2018
Working capital	**2,193**	6,729
Shareholders' equity	**59,635**	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 March 31, 2019, the Company's net working capital surplus was $2.2 million (December 31, 2018 - $6.7 million), which includes $4.9 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. Although to date the Company has relied on existing cash balances to fund exploration and development as well as ongoing operational activities, the Company requires financing to execute the full development of its Caburé and Gomo natural gas assets, as discussed in Note 1.

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 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 March 31, 2019, the total amount of LCs issued under the Facility was $5.7 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 March 31, 2019 include $0.7 million (December 31, 2018 - $1.2 million) of LCs related to commitments that have been satisfied and Alvopetro is waiting for the release of the LCs.

The current restricted cash of $0.1 million (December 31, 2018 - $0.1 million) relates to cash posted in Brazil in support of abandonment guarantees on oil fields. Half of this current restricted cash balance relates to cash collateral posted by Alvopetro in respect of the Jiribatuba field (which was sold as of September 30, 2018). Upon approval by the ANP of the transfer of this field, the abandonment guarantee and associated restricted cash will be released.

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 three months ended March 31, 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 March 31, 2019:

	As at			
	March 31, 2019		December 31, 2018	
	CAD (000's)	**BRL (000's)**	CAD (000's)	BRL (000's)
Cash and cash equivalents	**110**	**8,462**	434	13,653
Restricted cash – current	**-**	**525**	-	525
Trade and other receivables	**43**	**1,144**	31	991
Other assets	**-**	**414**	-	-
Accounts payable and accrued liabilities	**(336)**	**(2,448)**	(312)	(3,362)
Other liabilities	**-**	**(9,152)**	-	(9,098)
Net exposure in foreign currency	**(183)**	**(1,055)**	153	2,709
Net exposure in USD ($000s)	**(137)**	**(271)**	112	699

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

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

NOTE 13 – CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended March 31,	
Change in:	**2019**	2018
Trade and other receivables	**(42)**	(41)
Prepaid expenditures	**147**	45
Accounts payable and accrued liabilities	**(263)**	504
Current portion of lease liabilities	**(21)**	-
	(179)	508
Changes relating to:		
Operating activities	**(55)**	114
Financing activities	**(21)**	-
Investing activities	**(103)**	394
	(179)	508

NOTE 14 – REVENUE

The Company's oil sales revenues are 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 three months ended March 31, 2019, discounts averaged 17% of the Brent price (three months ended March 31, 2018 - 8%). The discount for the three months ended March 31, 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 March 31, 2019, accounts receivable included $0.04 million of accrued sales revenue which related to March 2019 production. There were no collection issues requiring adjustment to revenue recorded in the three months ended March 31, 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 March 31,	
	2019	2018
Personnel	**37**	84
Other fixed	**48**	73
Variable	**9**	16
Workover	**-**	63
Total production expenses	**94**	236

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

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

	Three months ended March 31,	
	2019	2018
Personnel	**660**	657
Travel	**28**	36
Office and IT	**41**	92
Professional fees	**98**	153
General corporate	**96**	85
Gross G&A expenses	**923**	1,023
Capitalized to E&E and PP&E	**(241)**	(309)
Net G&A expenses	**682**	714

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.

Finance expenses by nature were as follows:

	Three months ended March 31,	
	2019	2018
Accretion of decommissioning liabilities (Note 8)	**8**	10
Effective interest on other liabilities (Note 9)	**14**	-
Lease interest (Note 6)	**4**	-
Total finance expenses	**26**	10

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The following is a summary of contractual commitments as at March 31, 2019:

Commitments	**< 1 Year**	**1-3 Years**	**Thereafter**	**Total**
Minimum work commitments(1)				
Minimum work commitments to be completed				
Block 183(2)	-	856	-	856
Block 169(3)	975	-	-	975
Block 255(3)	1,167	-	-	1,167
Block 57(4)	38	-	-	38
Bom Lugar	-	-	90	90
Minimum work commitments to be completed	**2,180**	**856**	**90**	**3,126**
Gas Treatment Agreement	**725**	**5,796**	**22,461**	**28,982**
Total commitments	**2,905**	**6,652**	**22,551**	**32,108**

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.

(4) Alvopetro holds a 65% working interest in Block 57 and the amount provided in the table above represents Alvopetro's share of the related work commitment.

The Company has a long-term gas sales agreement ("GSA" or "Gas Sales Agreement") with Bahiagás which 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 provides 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 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 were originally set to commence on January 1, 2020 (the Firm Start Date) with interruptible deliveries commencing earlier with mutual consent. As neither Alvopetro nor Bahiagás had regulatory permits in place by December 1, 2018, the Firm Start Date has been automatically extended and will be set following receipt of all permits by both parties (based on an equivalent number of days from December 1, 2018 to the date both parties are in receipt of the required permits). The Company expects to commence gas deliveries on an interruptible basis in early 2020; however firm sales volumes (and the applicable potential penalties to both parties) will not commence until the adjusted Firm Start Date.

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 approximately $2.9 million per year once the Facility is operational. Alvopetro anticipates that the Facility will be operational in early 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 presentation 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.

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. Management undertakes considerable effort to adhere to these requirements; however, there may be circumstances when it is not advantageous, cost-effective 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 penalty, which varies by concession depending on exploration phase and type of cost, will be incurred. At March 31, 2019 the Company's estimated local content penalties was $0.02 million (December 31, 2018 - $0.06 million), the full balance of which is included in accounts payable and accrued liabilities.