INTERIM FINANCIAL STATEMENTS
MARCH 31, 2020

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, 2020 and December 31, 2019 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, 2020 and 2019. Please note the interim financial statements have not been reviewed or audited by external auditors.

ALVOPETRO ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, thousands of United States dollars)

	Note	March 31, 2020	December 31, 2019
ASSETS			
Current			
Cash and cash equivalents		**6,221**	1,215
Restricted cash		**118**	270
Trade and other receivables		**206**	265
Prepaid expenditures		**246**	370
Assets held for sale	3	**132**	332
Total current assets		**6,923**	2,452
Exploration and evaluation assets	4	**31,616**	35,971
Property, plant and equipment	5	**25,664**	30,984
Right-of-use assets	6	**152**	219
Other assets	7	**1,614**	1,790
Non-current assets		**59,046**	68,964
Total assets		**65,969**	71,416
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**2,054**	3,244
Lease liabilities	6	**61**	101
Decommissioning liabilities	8	**62**	80
Other liabilities	9	**4,443**	5,728
Total current liabilities		**6,620**	9,153
Lease liabilities	6	**47**	62
Credit facility	10	**13,086**	5,027
Decommissioning liabilities	8	**1,029**	1,300
Total liabilities		**20,782**	15,542
Shareholders' equity			
Share capital	11	**156,498**	156,355
Contributed surplus	11	**2,675**	2,790
Deficit		**(79,241)**	(76,878)
Accumulated other comprehensive loss		**(34,745)**	(26,393)
Total shareholders' equity		**45,187**	55,874
Total liabilities and shareholders' equity		**65,969**	71,416

Commitments and contingencies (Note 17)
Subsequent event (Note 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 March 31, 2020	2019
Revenue			
Oil and condensate sales	15	**61**	68
Royalties and production taxes		**(8)**	(9)
Net oil and condensate revenue		**53**	59
Other income		**24**	69
Total revenue and other income		**77**	128
Expenses			
Production	16	**44**	94
General and administrative	16	**640**	682
Depletion and depreciation	5,6	**62**	54
Impairment	5	**1,381**	-
Exploration and evaluation expenses		**-**	8
Finance expenses	16	**276**	26
Share-based compensation	11	**28**	33
Foreign exchange loss (gain)		**9**	(6)
Total expenses		**2,440**	891
Loss before taxes		**(2,363)**	(763)
Income tax		**-**	-
Net loss		**(2,363)**	(763)
Exchange loss on translation of foreign operations		**(8,352)**	(192)
Comprehensive loss		**(10,715)**	(955)
Net loss per share	11		
Basic		**(0.02)**	(0.01)
Diluted		**(0.02)**	(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)

		Three Months Ended March 31,	
	Note	**2020**	2019
Common Shares			
Balance, beginning of period		**156,355**	155,731
Issue of common shares – options exercised		**146**	-
Share issuance costs		**(3)**	
Balance, end of period		**156,498**	155,731
Contributed surplus			
Balance, beginning of period		**2,790**	1,813
Share-based compensation expense	11	**28**	33
Share-based compensation capitalized	4,5	**9**	4
Options exercised		**(152)**	-
Balance, end of period		**2,675**	1,850
Deficit			
Balance, beginning of period		**(76,878)**	(71,847)
IFRS 16 opening adjustment		**-**	(20)
Net loss		**(2,363)**	(763)
Balance, end of period		**(79,241)**	(72,630)
Accumulated Other Comprehensive Loss			
Balance, beginning of period		**(26,393)**	(25,125)
IFRS 16 opening adjustment		**-**	1
Other comprehensive loss		**(8,352)**	(192)
Balance, end of period		**(34,745)**	(25,316)

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 March 31, 2020	2019
Operating Activities			
Net loss		**(2,363)**	(763)
Adjustments for non-cash items:			
Depletion and depreciation	5,6	**62**	54
Impairment	5	**1,381**	-
Non-cash finance expenses	16	**240**	26
Share-based compensation	11	**28**	33
Unrealized foreign exchange (gain) loss		**(20)**	13
Settlement of decommissioning liabilities	8	**(1)**	-
Funds flow from operations		**(673)**	(637)
Changes in non-cash working capital	14	**(267)**	(55)
		(940)	(692)
Financing Activities			
Advances under Credit Facility	10	**8,000**	-
Issue of common shares, net of share issuance costs		**48**	-
Lease liabilities payments	6	**(56)**	(44)
Repayment of other liabilities	9	**(111)**	-
Changes in non-cash working capital	14	**(92)**	(21)
		7,789	(65)
Investing Activities			
Expenditures on exploration and evaluation assets	4	**(427)**	(115)
Expenditures on property, plant and equipment	5	**(1,136)**	(1,134)
Proceeds on dispositions	4	**158**	-
Change in other assets		**-**	(111)
Change in restricted cash		**117**	-
Changes in non-cash working capital	14	**(377)**	(103)
		(1,665)	(1,463)
Change in cash and cash equivalents		**5,184**	(2,220)
Effect of foreign exchange on cash balances		**(178)**	18
Cash and cash equivalents, beginning of period		**1,215**	7,070
Cash and cash equivalents, end of period		**6,221**	4,868
Cash and cash equivalents consist of:			
Cash		**5,968**	360
Cash equivalents		**253**	4,508
Supplemental information:			
Cash income taxes paid		**-**	-
Cash interest income received		**4**	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, 2020 and December 31, 2019 and for the three months ended March 31, 2020 and March 31, 2019 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, 2019, except as discussed in Note 2 below. 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, 2019.

These interim condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors on May 13, 2020.

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. As of March 31, 2020, the Company has not yet achieved commercial operations and had a net loss of $2.4 million and negative cash flows from operating activities of $0.9 million for the three months ended March 31, 2020, and, at March 31, 2020, had an accumulated deficit of $79.2 million, a working capital surplus of $0.3 million and $13.1 million outstanding under the credit facility. Management expects to have sufficient funds for the remaining Caburé and Gomo development 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 delays in production commencement or lower than anticipated production volumes from the Caburé natural gas field (which may result in ship or pay penalties under the long-term gas sales agreement, charges under the Gas Treatment Agreement, or events of default under the credit facility) or lower than anticipated sales volumes under the long-term gas sales agreement, the Company's ability to continue as a going concern may depend on management's ability to secure additional sources of capital. 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 and are exacerbated by the COVID-19 coronavirus pandemic. Responses to the virus and efforts to slow its spread have caused unprecedented disruptions to business operations worldwide. It is difficult to estimate the length of the current economic situation, the market uncertainty and volatile commodity prices and currency exchange rates. To the best of management's abilities, the impact of these conditions has been considered in management's going concern assessment; however, the actual direct and indirect effects of this situation could have unforeseen implications that may be material.

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.

Use of Estimates, Judgments and Assumptions

The timely preparation of the consolidated interim financial statements requires management to make estimates, judgments and assumptions that may affect the reported amounts of assets and liabilities, disclosures of contingencies and the reported amounts of revenue and expenses during the period. Details on these estimates, judgments and assumptions are included in the audited consolidated financial statements as at and for the year ended December 31, 2019. The complexity of estimates and assumptions used to prepare these consolidated interim financial statements has increased since December 31, 2019 as a result of the COVID-19 pandemic which has adversely impacted global commercial activity. The most significant considerations potentially affected by COVID-19 are the Company's ability to continue as a going concern (discussed above) and the valuation of Alvopetro's exploration and evaluation assets and property, plant and equipment. The severe and sustained drop in commodity prices have increased the risk of measurement uncertainty in determining the recoverable amounts of the Company's exploration and evaluation assets and property, plant and equipment. The results of the potential economic downturn and any potential resulting direct and indirect impact to the Company has been considered in management's estimates at the period end; however, there could be further material impact in future periods.

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

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, 2020 and December 31, 2019 is held in Brazil. The Company does not have any significant income in Canada other than interest earned on cash balances.

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 2019 annual consolidated financial statements, with the exception of the following standards which were amended effective January 1, 2020.

- IFRS 3 *Business Combinations;*
- IAS 1 *Presentation of Financial Statement;* and
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

These amendments did not have an effect on the financial statements as at and for the three months ended March 31, 2020.

NOTE 3 – ASSETS HELD FOR SALE

	As at	
	March 31, 2020	December 31, 2019
Balance, beginning of period	**332**	202
Transferred from E&E assets (Note 4)	**-**	351
Impairment	**-**	(37)
Disposition	**(158)**	(171)
Foreign currency translation	**(42)**	(13)
Balance, end of period	**132**	332

Land	**132**	170
Equipment inventory	**-**	162
Total	**132**	332

During the three months ended March 31, 2020 the Company disposed of equipment inventory for proceeds equal to the carrying value, resulting in no gain or loss on the transaction.

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

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

	As at	
	March 31, 2020	December 31, 2019
Balance, beginning of period	**35,971**	35,340
Capital expenditures	**427**	3,276
Capitalized share-based compensation	**3**	8
Change in decommissioning liabilities	**-**	48
Transfer from (to) PP&E (Note 5)	**44**	(14)
Transfer to Assets Held for Sale (Note 3)	**-**	(351)
Impairment	**-**	(1,608)
Foreign currency translation	**(4,829)**	(728)
Balance, end of period	**31,616**	35,971

The majority of the Company's carrying value of its E&E assets relates to the Gomo gas project, including the 183(1) and 197(1) wells. The Company recently completed a stimulation and initial production test of the 183(1) well and now plans to undertake a longer-term production test. Given the results to date, the Gomo gas discovered from our 183(1) and 197(1) wells, and the Company's future plans for this project, as well as additional exploration prospects on these blocks, there is no indication of impairment of this E&E asset as at March 31, 2020.

General and administrative costs totaling $0.1 million (December 31, 2019 - $0.3 million) and finance expenses totaling $0.1 million (December 31, 2019 - $nil) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

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

	As at	
	March 31, 2020	December 31, 2019
Cost, beginning of period	**34,354**	25,631
Capital expenditures – cash	**1,136**	6,151
Capital expenditures – non-cash (Note 9)	**47**	3,244
Capitalized share-based compensation	**6**	15
Transfer (to) from E&E assets (Note 4)	**(44)**	14
Transfer to ROU assets (Note 6)	**-**	(30)
Change in decommissioning liabilities	**-**	196
Asset dispositions	**-**	-
Foreign currency translation	**(6,797)**	(867)
Cost, end of period	**28,702**	34,354
Accumulated depletion, depreciation and impairment, beginning of period	**(3,370)**	(3,620)
Depletion and depreciation for the period	**(17)**	(67)
Impairment	**(1,381)**	-
Foreign currency translation	**1,730**	317
Accumulated depletion, depreciation and impairment, end of period	**(3,038)**	(3,370)
Net book value, end of period	**25,664**	30,984

As a result of the significant decline in global crude oil prices and the uncertainty surrounding the economic impact of the COVID–19 global pandemic, the Company determined that indications of impairment existed as at March 31, 2020. A test for impairment was performed at the cash generating unit ("CGU") level by comparing the estimated recoverable amount to the carrying values of the assets. The estimated recoverable amount was determined based on fair value less costs of disposal using a discount rate of 15% before tax. The impairment charge recognized in the three months ended March 31, 2020 is in respect of the Bom Lugar field, reducing the carrying value of the field to $1.5 million as at March 31, 2020.

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

The key assumptions used in determining the recoverable amounts for purposes of the impairment tests are commodity prices, discount rate, reserve volumes, future capital cost estimates, future well locations, timing of future capital investment, and anticipated foreign exchange rates. In determining the estimated recoverable amount of the Bom Lugar field, the Company utilized the following forecasted commodity prices:

Brent ($/bbl)										
2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Thereafter
34.00	45.50	52.50	57.50	62.50	62.95	64.13	65.33	66.56	67.81	Escalated at 2%

Future changes to forecasted commodity prices could result in future impairment losses or impairment reversals. Increases or decreases to the assumed discount rate could result in additional impairment charges or impairment reversals. A 2% increase in the discount rate would result in an additional $0.2 million impairment whereas a 2% decrease in the discount rate would result in a $0.3 million reversal. In addition, the majority of the Company's production expenses and a portion of the Company's future development costs, are denominated in BRL. Fluctuations in the BRL relative to the USD may result in additional impairment charges or impairment reversals.

General and administrative costs totaling $0.1 million (December 31, 2019 - $0.6 million) and finance expenses totaling $0.1 million (December 31, 2019 - $0.1 million) that were directly related to property, plant, and equipment activities have been capitalized.

NOTE 6 – RIGHT-OF-USE ("ROU") ASSETS AND LEASE LIABILITIES

The Company's contracts at March 31, 2020 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 March 31, 2020 is as follows:

	As at	
	March 31, 2020	December 31, 2019
Net book value, beginning of period	**219**	-
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	**14**	133
Depreciation of ROU assets	**(45)**	(167)
Foreign currency translation	**(36)**	(3)
Net book value, end of period	**152**	219

	As at	
Net Book Value by Asset Class	**March 31, 2020**	December 31, 2019
Office space	**44**	70
Surface land access	**108**	149
Total Net Book Value	**152**	219

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, 2020 are as follows:

	As at	
	March 31, 2020	December 31, 2019
Lease liabilities, beginning of period	**163**	-
Lease liabilities upon adoption of IFRS 16	**-**	244
Additions	**-**	133
Finance expense	**2**	14
Lease payments	**(56)**	(234)
Foreign currency translation	**(1)**	6
Lease liabilities, end of period	**108**	163
Current	**61**	101
Non-current	**47**	62
Total, end of period	**108**	163

The Company's weighted average incremental borrowing rate used in measuring lease liabilities was 7.0% (December 31, 2019 – 7.0%).

During the three months ended March 31, 2020 the Company incurred a nominal amount in payments related to leases for which the low-value expedient is applied in application of IFRS 16.

NOTE 7 – OTHER ASSETS

Other assets represent the unamortized portion of the Company's deferred financing costs associated with the Company's Credit Facility arrangement entered into in 2019 (Note 10). The deferred financing costs are comprised of cash transactions costs as well as the fair value of the warrants issued to advisors and lenders. These costs are being amortized over the term of the Credit Facility:

	As at	
	March 31, 2020	December 31, 2019
Balance, beginning of period	**1,790**	-
Additions	**-**	1,927
Amortization of deferred financing costs	**(160)**	(137)
Foreign currency translation	**(16)**	-
Balance, end of period	**1,614**	1,790

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

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, 2020	December 31, 2019
Balance, beginning of period	**1,380**	1,231
Liabilities incurred	**-**	962
Revisions to obligations	**-**	(718)
Obligations settled	**(1)**	(67)
Accretion	**19**	52
Foreign currency translation	**(307)**	(80)
Balance, end of period	**1,091**	1,380
Current	**62**	80
Non-current	**1,029**	1,300
Total	**1,091**	1,380

Total undiscounted cash flows, escalated at 5.5% (December 31, 2019 - 5.5%) for inflation, required to settle the Company's decommissioning liabilities are estimated to be $4.4 million (December 31, 2019 - $5.8 million) and have been discounted using an average risk-free rate of 7.5% (December 31, 2019 – 6.7%).

NOTE 9 – OTHER LIABILITIES

The Company's Other Liabilities represent the accrued payable related to Alvopetro's share, net of cash calls paid and inventory and equipment transfers, 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, the majority of the 2018 and 2019 field development was 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, in the second quarter of 2020.

	As at	
	March 31, 2020	December 31, 2019
Balance, beginning of period	**5,728**	2,348
Alvopetro's share of expenditures incurred	**47**	3,048
Payments during the period	**(111)**	-
Effective interest	**59**	196
Foreign currency translation	**(1,280)**	136
Total, end of period	**4,443**	5,728

NOTE 10 – CREDIT FACILITY

	As at	
	March 31, 2020	December 31, 2019
Balance at beginning of period	**5,027**	-
Draws on Facility	**8,000**	5,000
Accrued interest due upon repayment	**59**	27
Balance at end of period	**13,086**	5,027

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

The Credit Facility is secured by all of Alvopetro's assets and matures on October 8, 2022. As at March 31, 2020 the Company had drawn $13.0 million. An additional $2 million will be available upon first natural gas sales under our long-term gas sales agreement.

The net proceeds drawn to date on the Credit Facility have been used to fund the 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 and will be used to pay the balance outstanding to our partner as of March 31, 2020 (Note 9).

The Credit Facility contains certain customary financial and non-financial covenants, standard representations and warranties, and events of default. 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. 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 Credit Facility is subject to a 1.0% per annum commitment fee on the unused available balance until October 8, 2020.

NOTE 11 – 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	$ 155,731
Shares issued – exercise of warrants	1,249,000	621
Shares issued – exercise of options	7,296	4
Cancellation of shares	(77,379)	-
Share issue costs	-	(1)
Balance as at December 31, 2019	97,849,788	156,355
Exercise of stock options	583,030	146
Share issue costs	-	(3)
Balance as at March 31, 2020	**98,432,818**	**156,498**

Warrants outstanding at March 31, 2020 are as follows:

	Number of Warrants			
	Exercise Price			
	USD $0.50	USD $0.60	CAD $0.64	Total
Balance as at December 31, 2018	3,300,000	-	376,000	3,676,000
Granted	-	8,432,868	-	8,432,868
Exercised	(1,009,000)	-	(240,000)	(1,249,000)
Expired	(1,491,000)	-	(136,000)	(1,627,000)
Balance as at December 31, 2019 and March 31, 2020	**800,000**	**8,432,868**	**-**	**9,232,868**
Weighted Average Remaining Contractual Life (years)	**0.54**	**2.47**	**-**	**2.31**

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

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, 2020 are as follows:

	Number of Options	Weighted Average Exercise Price (CAD$)
Balance as at December 31, 2018	7,180,750	0.34
Granted	970,000	0.75
Expired	(72,000)	1.10
Exercised	(40,000)	0.57
Balance as at December 31, 2019	8,038,750	0.38
Adjustment for net settlement of options	(679,420)	0.41
Adjustment for cash settlement of options	(187,800)	0.41
Exercise of options for common shares	(583,030)	0.41
Balance as at March 31, 2020	**6,588,500**	**0.37**
Percentage of common shares outstanding	**6.7%**	

	Options Outstanding at March 31, 2020			Options Exercisable at March 31, 2020		
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	4,282,500	0.27	1.81	3,849,751	0.26	1.66
CAD$0.40 - $0.75	2,306,000	0.57	3.99	469,335	0.44	3.37
CAD$0.18 - $0.75	**6,588,500**	**0.37**	**2.57**	**4,319,086**	**0.28**	**1.85**

c) 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, 2020 or March 31, 2019.

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 March 31,	
	2020	2019
Weighted average common shares outstanding, basic and diluted	**98,307,766**	96,649,377

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

In determination of the weighted average number of diluted common shares outstanding for the three months ended March 31, 2020 and 2019, all stock options were excluded because the effect would be anti-dilutive.

NOTE 12 – CAPITAL MANAGEMENT

The Company's capital consists of the following:

	As at	
	March 31, 2020	December 31, 2019
Working capital surplus (deficit)	**303**	(6,701)
Credit facility	**13,086**	5,027
Shareholders' equity	**45,187**	55,874

The Company considers its capital structure to include working capital, the Credit facility, and shareholders' equity. At March 31, 2020, the Company's net working capital surplus was $0.3 million (December 31, 2019 – net working capital deficit of $6.7 million), which includes $6.2 million (December 31, 2019 - $1.2 million) of cash and cash equivalents.

As of March 31, 2020, a total of $13 million had been drawn under the Credit Facility. An additional $2 million is available under the Credit Facility once natural gas sales commence under Alvopetro's long-term gas sales agreement. 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.
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 17. 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, 2020, the total amount of LCs issued under the Facility was $1.2 million (December 31, 2019 - $4.9 million), the full balance of which was supported by EDC on behalf of Alvopetro.

Current restricted cash of $0.1 million (December 31, 2019 - $0.3 million) represents $0.1 million of cash posted in respect of abandonment guarantees (December 31, 2019 - $0.2 million). The balance at December 31, 2019 also included $0.1 million in respect of a portion of the Company's exploration work commitment on Block 57 which was released in the three months ended March 31, 2020.

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

NOTE 13 – 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, other liabilities and the Credit Facility. 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 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. During the three months ended March 31, 2020 and the year ended December 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, 2019. As a result of the COVID-19 coronavirus pandemic and the associated impact on global economic activity, commodity prices and foreign exchange rates, Alvopetro's exposure to these risks has increased since December 31, 2019. The following financial instruments were denominated in currencies other than U.S. dollars (Canadian dollars ("CAD") and Brazilian real ("BRL")) as at March 31, 2020:

	As at			
	March 31, 2020		December 31, 2019	
	CAD (000's)	**BRL (000's)**	CAD (000's)	BRL (000's)
Cash and cash equivalents	**54**	**1,316**	91	1,656
Restricted cash – current	**-**	**613**	-	1,089
Trade and other receivables	**125**	**763**	28	891
Accounts payable and accrued liabilities	**(368)**	**(8,690)**	(315)	(11,001)
Lease liabilities	**(51)**	**(373)**	(89)	(384)
Other liabilities	**-**	**(23,097)**	-	(23,088)
Net exposure in foreign currency	**(240)**	**(29,468)**	(285)	(30,837)
Net exposure in USD ($000s)	**(169)**	**(5,669)**	(219)	(7,650)

The Company had no forward exchange rate contracts in place as at or during the periods ended March 31, 2020 or December 31, 2019.

NOTE 14 – CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended March 31,	
Change in:	**2020**	2019
Trade and other receivables	**(61)**	(42)
Prepaid expenditures	**195**	147
Accounts payable and accrued liabilities	**(870)**	(284)
	(736)	(179)
Changes relating to:		
Operating activities	**(267)**	(55)
Financing activities	**(92)**	(21)
Investing activities	**(377)**	(103)
	(736)	(179)

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

NOTE 15 – REVENUE

The Company's oil and condensate 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 period ended March 31, 2020, the Company realized an overall premium of 18% relative to the average Brent price in the period as the majority of sales were undertaken in January when Brent prices were higher (period ended March 31, 2019 – discount of 17%) and a higher proportion of sales now relate to higher value condensate that sells at a premium to Brent.

As at March 31, 2020, all sales revenue had been collected and no balance for accrued sales revenue was included in accounts receivable (December 31, 2019 - $0.02 million). There were no collection issues requiring adjustment to revenue recorded in the three months ended March 31, 2020 or 2019 or in the year ended December 31, 2019.

Revenue is measured at the consideration specified in the contracts and represents amounts receivable net of discounts. Performance obligations associated with the sale of crude oil and condensate are satisfied when control of the product is transferred to the customer. This occurs when the oil or condensate 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 16 – NATURE OF EXPENSES

Production expenses by nature were as follows:

	Three months ended March 31,	
	2020	2019
Personnel	**15**	37
Other fixed	**23**	48
Variable	**6**	9
Total production expenses	**44**	94

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

	Three months ended March 31,	
	2020	2019
Personnel	**608**	660
Travel	**11**	28
Office and IT	**34**	41
Professional fees	**82**	98
General corporate	**116**	96
Gross G&A expenses	**851**	923
Capitalized to E&E and PP&E	**(211)**	(241)
Net G&A expenses	**640**	682

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.

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 March 31,	
	2020	2019
Lease interest (Note 6)	**2**	4
Accretion of decommissioning liabilities (Note 8)	**19**	8
Amortization of deferred financing costs (Note 7)	**160**	-
Interest on Credit Facility (Note 10)	**267**	-
Other	**-**	14
Gross finance expenses	**448**	26
Capitalized to E&E and PP&E	**(172)**	-
Finance expenses	**276**	26

The portion of interest on the Credit Facility and the amortization of deferred financing costs that are directly attributable to eligible PP&E and E&E activities are capitalized to those assets.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The following is a summary of contractual commitments as at March 31, 2020:

Commitments	**< 1 Year**	**1-3 Years**	**Thereafter**	**Total**
Minimum work commitments[(1)]				
Block 183[(2)]	-	641	-	**641**
Bom Lugar	-	-	67	**67**
Mãe-da-lua	-	-	67	**67**
Minimum work commitments	**-**	**641**	**134**	**775**
Gas Treatment Agreement	**2,165**	**5,210**	**18,887**	**26,262**
Total commitments	**2,165**	**5,851**	**19,021**	**27,037**

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.

The Company's long-term gas sales agreement ("GSA") with Bahiagás provides for the sale of 5.3 million cubic feet per day ("mmcfpd") (150,000 cubic metres per day ("m3/d")) on a firm basis and 12.4 million mmcfpd (350,000 m3/d) on an interruptible basis and includes ship or pay 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 production from the Caburé natural gas field, however supply failure penalties may arise where construction 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 existing prospect inventory. Subsequent to March 31, 2020, Alvopetro and Bahiagás entered into an amendment to the GSA which provides that Bahiagás will commence prepayments of natural gas effective May 1, 2020 at a rate of 120,000 m3/d at a 15% discount to the current contractual natural gas price. In addition, under the terms of the amendment, natural gas deliveries will commence once Bahiagás infrastructure is complete (the "Supply Start Date") and the original firm volumes of 150,000 m3/d will be increased to 300,000 m3/d as of the

Supply Start Date for the remainder of 2020; however, as part of the amendment, any supply failure penalties in 2020 will be reduced from the original contractual penalties.

Alvopetro has a 10-year contract (the "Gas Treatment Agreement") with Enerflex Ltd. ("Enerflex"), pursuant to which, Enerflex constructed and will own, operate and maintain a natural gas treatment facility (the "Facility"). In addition, in the three months ended March 31, 2020, Alvopetro and Enerflex amended the Gas Treatment Agreement to include operation of Alvopetro's 11-kilometre transfer pipeline as part of the service fees. Alvopetro is committed to integrated service fees totaling $2.7 million per year once the Facility is operational. Alvopetro anticipates that the Facility will be operational in the second 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 such work plans are not completed 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, may have disputes with industry participants for which the outcomes are not determinable. The Company has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.