

The following Management's Discussion and Analysis ("MD&A") is dated August 15, 2018 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of Alvopetro Energy Ltd. ("Alvopetro" or the "Company") as at and for the three and six months ended June 30, 2018, MD&A for the year ended December 31, 2017 and the audited consolidated financial statements as at and for the years ended December 31, 2017 and 2016. Additional information for the Company, including the Annual Information Form ("AIF"), can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or at [www.alvopetro.com](http://www.alvopetro.com). This MD&A contains financial terms that are not considered measures under International Financial Reporting Standards ("IFRS") and forward-looking statements. As such, the MD&A should be used in conjunction with Alvopetro's disclosure under the headings "*Non-GAAP Measures*" and "*Forward Looking Information*" at the end of this MD&A.

**All amounts contained in this MD&A are in United States dollars ("USD"), unless otherwise stated and all tabular amounts are in thousands of United States dollars, except as otherwise noted.**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW

#### Description of Business

Alvopetro Energy Ltd. ("Alvopetro" or "the Company") is engaged in the exploration for and the acquisition, development and production of, hydrocarbons in the Recôncavo and Camamu-Almada basins onshore Brazil. Alvopetro holds interests in the Caburé and Gomo natural gas assets, three producing oil fields and seven other exploration blocks comprising 65,714 gross acres (55,701 net acres) onshore Brazil.

#### Strategy

Alvopetro's strategy is to unlock the on-shore natural gas potential in the state of Bahia, building off the development of our Caburé and Gomo natural gas assets and the construction of strategic midstream infrastructure. We are creating an upstream/midstream hybrid corporate vehicle to provide sustainable returns to our shareholders. Our plan is to create a disciplined long-term return model where at least half of our net cashflows are distributed to stakeholders as dividends to our shareholders and/or as interest payments to infrastructure-related debtholders.

## SELECTED QUARTERLY RESULTS

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
<b>Financial</b>				
(\$000s, except where noted)				
Oil sales	216	86	332	257
Net loss	(1,128)	(814)	(2,017)	(1,707)
Per share – basic and diluted (\$) <sup>(1)</sup>	(0.01)	(0.01)	(0.02)	(0.02)
Funds flow from operations <sup>(2)</sup>	(844)	(723)	(1,686)	(1,520)
Per share – basic and diluted (\$) <sup>(1)</sup>	(0.01)	(0.01)	(0.02)	(0.02)
Capital expenditures <sup>(3)</sup>	930	566	2,206	3,335
Total assets	62,150	74,013	62,150	74,013
Debt and other long-term liabilities	608	-	608	-
Net working capital surplus <sup>(2) (4)</sup>	5,454	12,304	5,454	12,304
Common shares outstanding, end of year (000s)				
Basic	85,167	85,167	85,167	85,167
Diluted <sup>(1)</sup>	93,008	91,806	93,008	91,806
<b>Operations</b>				
Operating netback (\$/bbl) <sup>(2)</sup>				
Brent benchmark price	74.91	50.92	71.04	52.80
Discount	(3.81)	(7.15)	(3.41)	(5.47)
Sales price	71.10	43.77	67.63	47.33
Transportation expenses	(1.65)	(2.04)	(1.83)	(2.39)
Realized sales price	69.45	41.73	65.80	44.94
Royalties and production taxes	(6.25)	(6.11)	(6.52)	(5.34)
Production expenses	(58.92)	(127.23)	(84.54)	(85.64)
Operating netback	4.28	(91.61)	(25.26)	(46.04)
Average daily crude oil production (bopd)	33	22	27	30

### Notes:

- (1) Consists of outstanding common shares and stock options of the Company.
- (2) Non-GAAP measure. See "Non-GAAP Measures" section within this MD&A.
- (3) Includes non-cash capital expenditures of \$nil in the six months ended June 30, 2018 (June 30, 2017 - \$0.4 million).
- (4) Includes current restricted cash of \$0.1 million (June 30, 2017 - \$0.1 million) and assets held for sale of \$0.2 million (June 30, 2017 - \$0.1 million).

## HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE SECOND QUARTER OF 2018

- In April 2018, we finalized the terms of the unitization agreement (“UOA”) and the unit development plan for our Caburé natural gas field with the adjacent resource owner, Imetame Energia Ltda. (“Imetame”). Under the terms of the UOA, Imetame will act as initial operator. The parties have agreed to a development plan which will be executed by Imetame in 2018 and 2019. Alvo Petro will be responsible for our share of unit capital when we commence production, or March 2020, whichever occurs first.
- In May 2018, Alvo Petro executed a long-term natural gas sales agreement (“GSA”) with Bahiagás, the Bahia State natural gas distribution company, with deliveries under the GSA set to commence January 1, 2020, or earlier with mutual consent. The GSA provides for the sale of 5.3 mmcfpd (150,000 m<sup>3</sup>/d) on a firm basis plus up to 12.4 mmcfpd (350,000 m<sup>3</sup>/d) on an interruptible basis, adjustable annually. The natural gas price to be received under the GSA is set semi-annually using a trailing weighted average basket of benchmark prices. The calculated natural gas price under the GSA for the month of August 2018 price is \$6.82/mmbtu and will be adjusted next in February 2019. Alvo Petro has secured the land for the gas processing facility, completed all field survey and permitting work, and the application for construction was submitted for regulatory approval at the end of April 2018.
- In June 2018, GLJ Petroleum Consultants (“GLJ”) completed an independent reserves evaluation of both our Caburé natural gas field and the Gomo gas discovered from our 183(1) and 197(1) wells. Total proved plus probable (“2P”) reserves of 4.6 mmboe were assigned to the Caburé natural gas field with a before tax value discounted at 10% of US\$108.2 million. Total 2P reserves of 1.1 mmboe were assigned to the Gomo gas project with a before tax value discounted at 10% of US\$15.8 million. When combined with the December 31, 2017 reserves evaluation of our producing oil fields by Sproule International Limited (“Sproule”), the Company’s total 2P reserves are 6.4 mmboe with a before tax value discounted at 10% of US\$135.6 million.
- Our production increased to 33 bopd in the second quarter, a 57% increase from the first quarter 2018, largely due to increased production from our Bom Lugar well. As a result of increased sales volumes, rising commodity prices and reduced production expenses, we achieved an operating netback of \$4.28 per barrel in the quarter.
- Capital expenditures of \$0.9 million in the second quarter included Caburé permitting and unit development costs of \$0.6 million and capitalized G&A of \$0.3 million.
- We reported a net loss of \$1.1 million in the second quarter due to negative funds flow from operations of \$0.8 million and impairment charges of \$0.2 million recognized in the quarter. We relinquished Block 106 subsequent to June 30, 2018 and recognized an impairment of \$0.2 million in the quarter to reduce the carrying value of the block to \$nil. E&E expense in the quarter was primarily attributable to the remaining work commitment outstanding on this block.
- Our cash, restricted cash and working capital resources total \$5.5 million, including cash and cash equivalents of \$5.8 million.

## PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at June 30, 2018, Alvo Petro held interests in the Caburé and Gomo natural gas assets, three producing oil fields (Bom Lugar, Mãe-da-lua and Jiribatuba) and eight other exploration assets (Blocks 182, 106, 169, 255, 57, 62, 71, and 145) comprising 73,473 gross (63,460 net) acres onshore Brazil. Subsequent to June 30, 2018, Block 106 was relinquished to the National Agency of Petroleum, Natural Gas and Biofuels (“ANP”) and the Company’s current acreage is now 65,714 gross (55,701 net) acres.

### NATURAL GAS ASSETS:

Alvo Petro holds interests in two main natural gas assets within Brazil: the Caburé natural gas field and our Gomo natural gas project. GLJ completed an independent reserves evaluation of these assets, assigning total proved plus probable reserves of 5.7 mmboe as at May 31, 2018 (the “GLJ Report”), with 4.6 mmboe assigned to the Caburé natural gas field and 1.1 mmboe assigned to the Gomo natural gas project.

### Caburé natural gas field:

Alvo Petro’s Caburé natural gas field and Caburé Leste natural gas field (the 197(2) and 198(A1) wells), collectively referred to as the Caburé natural gas field throughout this MD&A, extend across four blocks in the Recôncavo basin in Bahia state in Brazil, two of which are held by Alvo Petro (Blocks 197 and 198) and two of which are held by our partner (Blocks 211 and 212), with Alvo Petro’s share being 49.1% and Imetame’s share being 50.9%. In April 2018, Alvo Petro and Imetame finalized the terms of the unitization and executed the UOA, the unit development plan and all related agreements, subject to the approval of the ANP.

The unit has four existing wells and the development plan includes the construction of low and high-pressure production facilities, tie-in of existing wells, and drilling of up to four new development wells. All unit wells will be completed and tied in by the end of 2019 with a planned gross field production plateau rate of 15.9 mmcf/d (450,000 m3/d).

Each party will be entitled to nominate for its working interest share of field production and for any natural gas not nominated by the other party. Once a party produces its share of 2P reserves, they will not longer be entitled to further production. Imetame is entitled to 100% of the early field production (allocated against Imetame's share of 2P reserves) and has agreed to fund virtually all of the unit development capital in 2018 and 2019. Alvopetro will pay for its share of the initial unit capital, when we commence production or March 2020, whatever comes first. Alvopetro's share of the unit development capital incurred to June 30, 2018 is \$0.6 million and the resulting liability has been reflected as non-current in the consolidated statement of financial position.

The GLJ Report assigned 2P reserves of 4.6 mmboe to Alvopetro's share of this field, with a before tax value discounted at 10% of \$108.2 million. Management considers that this field is now technically feasible and commercially viable pursuant to the Company's accounting policies and the full carrying value of this asset of \$15.2 million as at May 31, 2018 was transferred from Exploration and Evaluation ("E&E") assets to Property, Plant and Equipment ("PP&E").

#### **Gomo natural gas project:**

Alvopetro's Gomo gas project extends across Blocks 183 and 197 and includes the 183(1) well (which was drilled in 2014 and tested in the first quarter of 2018) and the 197(1) well (which was drilled and tested in 2014). The GLJ Report assigned 2P reserves to the drainage areas around these wells with 1.1 mmboe of assigned reserves and a before tax value discounted at 10% of \$15.8 million. To further evaluate this asset, Alvopetro plans to complete a stimulation of the 183(1) well later in 2018 with an 8-kilometre transfer pipeline to be built in 2019. As the Company is still evaluating this asset, management considers that the criteria for technical feasibility and commercial viability have not been met and the carrying value of the asset remains in E&E until additional information is obtained from the stimulation and production testing results, anticipated to commence later in 2018.

#### **Gas commercialization strategy and planned natural gas development:**

In May 2018, Alvopetro entered into a long-term GSA with Bahiagás. The reserves assigned to both the Caburé and Gomo natural gas assets are based on the terms of this GSA. The GSA provides for the sale of 5.3 mmcfpd (150,000 m3/d) on a firm basis and up to 12.4 mmcfpd (350,000 m3/d) on an interruptible basis, adjustable annually. The natural gas price to be received under the GSA is set semi-annually (in February and August) using a trailing weighted average basket of benchmark prices including Henry Hub and National Balancing Point gas prices and Brent crude oil prices, with a floor of \$5.00/mmbtu and a ceiling of \$8.50/mmbtu (both subject to United States inflation). The calculated natural gas price under the GSA for the month of August 2018 was \$6.82/mmbtu and will be adjusted next in February 2019. The GSA has take-or-pay provisions and supply failure penalties to ensure performance by both parties. Gas deliveries under the GSA are set to commence on January 1, 2020, or earlier with mutual consent.

As part of Alvopetro's 100% owned midstream development, Alvopetro will build a natural gas processing facility ("UPGN") and an 11-kilometre pipeline from the Caburé unit facilities to the UPGN. Alvopetro has secured the land for the UPGN, completed all field survey and permitting work, and the application for construction has been submitted for regulatory approval. The Gomo natural gas asset will connect to the midstream development via an 8-kilometre transfer pipeline to be built in 2019 following the stimulation of the 183(1) well planned for later in 2018.

## EXPLORATION AND EVALUATION (“E&E”) ASSETS:

The Company has the following estimated work commitments outstanding on its E&E assets as at June 30, 2018.

Block	Gross Acres	Working Interest	Current Phase Expiry	Estimated Net Work Commitment <sup>(1)</sup> (\$000's)	Letter of Credit Support <sup>(2)</sup> (\$000's)
182	4,807	100%	Suspension in place <sup>(3)</sup>	-	-
183	7,740	100%	December 31, 2019/Suspension in place <sup>(4)</sup>	865	1,233
197	3,484	100%	Suspension in place <sup>(4)</sup>	-	-
169	5,280	100%	Suspension in place <sup>(5)</sup>	986	1,543
255	7,734	100%	Suspension in place <sup>(5)</sup>	1,180	1,847
57	7,752	65%	January 24, 2019	38	279
62	7,715	65%	January 24, 2019	38	279
71	5,409	65%	January 24, 2019	32	191
145	7,734	65%	January 24, 2019	38	279
<b>Subtotal – work to be completed on E&amp;E assets</b>				<b>3,177</b>	<b>5,651</b>
<b>Work completed:</b>					
106 <sup>(6)</sup>	-	-		296	463
<b>GRAND TOTAL – ALL E&amp;E ASSETS</b>				<b>3,473</b>	<b>6,114</b>

(1) The estimated commitments expressed above are based on costs to complete work units (“UTs”) which represent the minimum work to be carried out under the terms of the existing exploration phase of the concession contracts. UTs may be satisfied through, among other things, drilling exploration wells and shooting or reprocessing seismic. UTs are not applicable in the Development Assessment Plan (“PAD”) phase; however, the Company must notify the ANP of its work plan to be completed during this phase. Blocks 182, Block 197 and a portion of Block 183 are currently in the PAD phase.

(2) Letters of Credit (“LCs”) posted in satisfaction of work units may be in excess of USD equivalent amounts for the associated commitments due to foreign exchange fluctuations and foreign exchange margin requirements.

(3) Block 182 is currently in the PAD phase. The ANP has approved a suspension of the PAD expiry date due to the lack of an environmental permit. Following receipt of the permit Alvo Petro will have 278 days until the PAD expiry.

(4) Block 183 and Block 197 (excluding the portion of Block 197 now attributable to the Caburé natural gas field) are part of the Gomo gas project. A portion of Block 183 is currently in the PAD phase with an expiry date of December 31, 2019. The remainder of the block is in the second exploration phase and is currently in suspension due to the lack of an environmental permit. Following receipt of the permit, Alvo Petro will have 517 days until the phase expiry date. Block 197 is currently in the PAD phase. In 2017, the ANP approved the suspension of the PAD pending receipt of environmental permits for stimulation of the 197(1) well.

(5) 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 commitment noted in the table above, and return the bid round bonuses paid.

(6) In July 2018, the Company notified the ANP of its intention to relinquish Block 106. In the three months ended June 30, 2018, the Company completed work in satisfaction of the outstanding work commitment, subject to ANP approval, and accrued the estimated remaining fine payable of \$0.2 million as E&E expense.

## FINANCIAL AND OPERATING REVIEW

### Average Daily Production

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Total production (bbls)	3,038	1,965	4,909	5,430
Daily production (bopd)	33	22	27	30

Average daily production in the second quarter of 2018 increased to 33 bopd, a 50% increase over the second quarter in 2017 due to increased production at both the Bom Lugar field and the Jiribatuba field, which was brought back online in the second quarter of 2018, partially offset by declines at the Mãe-da-lua field, which also reduced the year-to-date production in 2018 compared to 2017.

### Oil Sales

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Brent (\$/bbl)	74.91	50.92	71.04	52.80
Discount (\$/bbl)	(3.81)	(7.15)	(3.41)	(5.47)
Sales Price (\$/bbl)	71.10	43.77	67.63	47.33
Sales price discount as a % of Brent	5%	14%	5%	10%
Oil Sales	216	86	332	257
Transportation	(5)	(4)	(9)	(13)
Total sales, net of transportation expense	211	82	323	244
Realized price (\$/bbl)	69.45	41.73	65.80	44.94

Pursuant to the terms of Alvopetro's oil sales contracts, a discount is applied to the average Brent price as both a fixed cost per barrel and a fixed percentage of Brent. Contract adjustments reduced the discount per barrel under the Bom Lugar contract, and with increased proportionate sales from the Bom Lugar field, the overall discount relative to Brent declined in both the three and six months ended June 30, 2018.

Oil sales increased 151% in the second quarter of 2018 compared to the second quarter of 2017 as a result of the 50% increase in daily production, the 47% increase in Brent benchmark prices and reduced sales price discounts, contributing to a 62% increase in the sales price per barrel. On a year-to-date basis, despite decreased production volumes, the 35% increase in Brent and reduced sales price discounts resulted in a 29% increase in oil sales.

### Royalties and Production Taxes

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Royalties and production taxes	19	12	32	29
Percentage of sales (%)	8.8	14.0	9.6	11.3

The Bom Lugar and Jiribatuba fields held by Alvopetro are subject to a base 5% government royalty plus an additional 0.5% royalty paid to landowners according to applicable Brazil petroleum laws. The Mãe-da-lua field and all exploration blocks held by Alvopetro are subject to a base 10% government royalty plus a 1% landowner royalty. There is an additional 2.5% gross-overriding royalty on the Mãe-da-lua field, Block 182 and the portion of the Caburé and Gomo natural gas assets that was previously Block 197.

All royalties are paid based on the greater of the sales price and an ANP minimum reference price. Royalties and production taxes include all Social Integration Program (“PIS”) taxes and Social Assistance Contribution (“COFINS”) paid on oil sales at a combined rate of 9.25%, offset by credits on available expenses. The Company currently has sufficient PIS and COFINS credits to offset any amounts owing. With increased proportionate oil sales from our Bom Lugar field in both the three and six months ended June 30, 2018 compared to 2017, royalties as a percentage of sales has decreased.

### Production Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Production expenses by type:				
Personnel costs	78	93	162	186
Other fixed costs	45	59	118	120
Variable costs	56	30	72	51
Workover costs	-	68	63	108
Total production expenses	179	250	415	465
Production expenses per barrel:				
Personnel costs	25.68	47.32	33.00	34.26
Other fixed costs	14.81	30.03	24.04	22.10
Variable costs	18.43	15.27	14.67	9.39
Workover costs	-	34.61	12.83	19.89
Total production expenses per bbl (\$)	58.92	127.23	84.54	85.64

Production expenses for the three and six months ended June 30, 2018 decreased relative to the same periods in 2017 mainly due to reduced workover costs. On a per barrel basis, costs decreased in the three months ended June 30, 2018 due to both the decrease in overall costs as well as increased production levels.

### General and Administrative (“G&A”) Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
G&A Expenses, by type:				
Personnel	594	638	1,251	1,289
Travel	14	32	50	55
Office and IT costs	79	92	171	183
Professional fees	278	140	431	265
General corporate costs	64	(15)	149	69
Gross G&A	1,029	887	2,052	1,861
Capitalized G&A	(271)	(288)	(580)	(559)
G&A expenses	758	599	1,472	1,302

The Company’s G&A expenses have increased in the three and six months ended June 30, 2018, largely due to increased professional fees associated with additional legal fees with respect to the unitization and gas sales agreements and reserve report fees relating to the GLJ Report. General corporate costs in 2017 had also been reduced due to the recognition of a \$0.1 million tax receivable in the period.

### Funds Flow from Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Funds flow from operations	(844)	(723)	(1,686)	(1,520)

Despite higher oil sales, the Company's funds flow from operations decreased in both the three and six months ended June 30, 2018 due to increased G&A and E&E expenses relating to costs incurred on relinquished and previously impaired blocks.

## Foreign Exchange

The Company's reporting currency is the USD and its functional currencies are the USD and the Brazilian Real ("BRL"). Substantially all costs incurred in Brazil are in BRLs and the Company incurs head office costs in both USD and Canadian dollars ("CAD"). In each reporting period, the change in the values of the BRL and the CAD relative to the Company's reporting currency are recognized. The period end rates used to translate the Company's BRL and CAD denominated financial statement items for the reporting periods as specified are as follows:

	As at			% Change in Period	
	June 30, 2018	March 31, 2018	December 31, 2017	Q2 2018	YTD 2018
<b>Rate at end of period:</b>					
U.S. dollar / Brazilian real	3.856	3.324	3.308	16.0	16.6
U.S. dollar / Canadian dollar	1.317	1.289	1.255	2.2	4.9

	Three Months Ended June 30,		Six Months Ended June 30,		% Change in Period	
	2018	2017	2018	2017	Q2	YTD
<b>Average rate in the period:</b>						
U.S. dollar / Brazilian real	3.606	3.217	3.427	3.181	12.1	7.7
U.S. dollar / Canadian dollar	1.291	1.344	1.278	1.334	(3.9)	(4.2)

Head office transactions in CAD are recognized at the rates of exchange prevailing at the date of the transactions. At the end of each reporting period, monetary assets and liabilities are translated at the exchange rate in effect at the reporting period date. Non-monetary assets, liabilities, revenues and expenses are translated at transaction date exchange rates. Exchange gains or losses are included in the determination of net loss as foreign exchange gains or losses.

The assets and liabilities of Alvo Petro's Brazilian subsidiaries are translated to USD at the exchange rate on the reporting period date. The income and expenses of our Brazil operations are translated to USD at the exchange rates on the date of the relevant transactions. All resulting foreign currency differences are recorded in exchange loss on translation of foreign operations in our consolidated statements of operations and comprehensive loss. In the three and six months ended June 30, 2018, the BRL depreciated 16% and 17%, resulting in exchange losses of \$4.8 million and \$5.0 million, respectively.

As a significant portion of the Company's expenditures are denominated in CAD and BRL, the Company is exposed to fluctuations in these currencies relative to the USD which may have a material impact on costs in the future. In the three and six months ended June 30, 2018, the average BRL rate depreciated 12% and 8%, respectively, resulting in lower USD equivalent production and G&A expenses. In contrast, the CAD appreciated 4% on average in both periods, resulting in higher USD equivalent costs.

## Share-Based Compensation Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Share based compensation expense	24	21	27	46

Share-based compensation expense is a non-cash expense that is based on the fair value of stock options granted and amortized over the vesting period of the options. Under Alvo Petro's Stock Option Plan there were 7.8 million stocks options outstanding at June 30, 2018 compared to 6.6 million at June 30, 2017. Despite increased options outstanding at June 30, 2018, as the Company had deferred the December 2017 routine annual grant of stock options to directors, officers and certain employees to May 2018 until the Caburé unitization and GSA were finalized, share-based compensation expense declined on a year-to-date basis.



## Depletion, Depreciation, Accretion and Impairment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Depletion and depreciation (DD&A)	54	45	87	113
Accretion on decommissioning liabilities	10	9	20	18
Impairment	196	-	196	-
<b>Total</b>	<b>260</b>	54	<b>303</b>	131

Included in the depletion computation for our producing assets was \$6.3 million (June 30, 2017 - \$7.5 million) of estimated future development costs for undeveloped proved plus probable reserves. The decrease in depletion expense for the six months ended June 30, 2018 was due to both the decrease in production in 2018 as well as the depletable base, primarily as a result of the reduction in future development costs. In the second quarter of 2018, depletion expense increased despite reduced future development costs due to the increase in production.

In the three months ended June 30, 2018, the Company recorded an impairment of \$0.2 million related to Block 106. The Company relinquished this block to the ANP in July 2018 and the impairment relates to all costs incurred to June 30, 2018 including costs incurred in the second quarter in satisfaction of a portion of the work commitment outstanding as well as past costs on the block including bid round bonuses, costs associated with LCs, retention fees and capitalized G&A. The Company also recognized E&E expense of \$0.2 million in the three months ended June 30, 2018 with respect to the remaining work commitment payment to be made on block relinquishment.

## Net Loss

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	(1,128)	(814)	(2,017)	(1,707)

Net loss in the three and six months ended June 30, 2018 increased relative to the same periods in 2018 as a result of declining funds flow from operations as well as impairment charges recognized in the second quarter of 2018.

## Capital Expenditures

Capital Expenditures by Type	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>E&amp;E</b>				
Drilling and completions <sup>(1)</sup>	(22)	81	792	2,525
Facility & equipment	434	39	519	47
Land, lease, and similar payments	5	134	63	165
Capitalized G&A	168	275	475	540
Other	13	15	23	28
<b>Total E&amp;E</b>	<b>598</b>	<b>544</b>	<b>1,872</b>	<b>3,305</b>
<b>PP&amp;E</b>				
Drilling and completions	(75)	-	(75)	-
Facility & equipment	285	5	285	7
Furniture, fixtures and equipment	-	3	-	3
Land, lease, and similar payments	17	-	17	-
Capitalized G&A	103	13	105	19
Other	2	1	2	1
<b>Total PP&amp;E</b>	<b>332</b>	<b>22</b>	<b>334</b>	<b>30</b>
<b>Total capital expenditures by type</b>	<b>930</b>	<b>566</b>	<b>2,206</b>	<b>3,335</b>

Capital Expenditures by Property	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>E&amp;E</b>				
Caburé	538	252	773	2,910
9 <sup>th</sup> Brazil Bid Round blocks (Blocks 182, 183, 197)	54	70	1,065	118
11 <sup>th</sup> Brazil Bid Round blocks (Blocks 106, 107, 177)	8	144	23	176
12 <sup>th</sup> Brazil Bid Round blocks (Blocks 169, 255, 256)	-	73	-	79
13 <sup>th</sup> Brazil Bid Round blocks (Blocks 57, 62, 71, 145)	6	5	10	22
Costs to be allocated to blocks	(8)	-	1	-
<b>Total E&amp;E</b>	<b>598</b>	<b>544</b>	<b>1,872</b>	<b>3,305</b>
<b>PP&amp;E</b>				
Caburé	326	-	326	-
Bom Lugar	1	10	2	12
Jiribatuba	2	4	3	5
Mãe-da-lua	-	5	-	10
Corporate and other	3	3	3	3
<b>Total PP&amp;E</b>	<b>332</b>	<b>22</b>	<b>334</b>	<b>30</b>
<b>Total capital expenditures by property</b>	<b>930</b>	<b>566</b>	<b>2,206</b>	<b>3,335</b>

<sup>(1)</sup>Includes non-cash capital expenditures of \$0.4 million in the six months ended June 30, 2017.

The carrying value of the Caburé natural gas field was transferred to PP&E as of May 31, 2018. Capital expenditures incurred on this field from June 1, 2018 onwards have been included in PP&E. Capital expenditures in the second quarter of \$0.9 million included \$0.6 million in respect of Alvo Petro's 49.1% share of Caburé unit development costs and capitalized G&A of \$0.3 million. Under the terms of our UOA, Alvo Petro is required to pay the majority of our share of unit development capital when we commence production allocations, or in March 2020, whichever comes first. As these expenditures are not due within the next year, the related liability has been classified as non-current on the consolidated statement of financial position. Capital expenditures in the second quarter were reduced due to local content fine adjustments following changes in Brazilian legislation, resulting in a recovery of past amounts capitalized.

## Summary of Quarterly Results

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
<b>Financial</b>								
Oil sales	216	116	85	120	86	171	208	74
Net loss	(1,128)	(889)	(2,079)	(3,331)	(814)	(893)	(371)	(5,692)
Per share – basic & diluted (\$)	(0.01)	(0.01)	(0.02)	(0.04)	(0.01)	(0.01)	-	(0.07)
Funds flow from operations <sup>(1)</sup>	(844)	(842)	(775)	(959)	(723)	(797)	(1,006)	(1,155)
Per share – basic & diluted (\$)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital and other asset expenditures <sup>(2)</sup>	930	1,276	434	1,663	566	2,769	708	3,785
<b>Operations</b>								
Operating netback (\$/bbl) <sup>(1)</sup>								
Brent benchmark price	74.91	67.18	61.53	52.18	50.92	54.67	51.13	46.98
Sales price	71.10	62.00	55.05	46.91	43.77	49.35	42.31	38.60
Transportation expenses	(1.65)	(2.14)	(2.59)	(2.35)	(2.04)	(2.60)	(2.24)	(2.09)
Realized sales price	69.45	59.86	52.46	44.56	41.73	46.75	40.07	36.51
Royalties and production taxes	(6.25)	(6.95)	(6.48)	(4.69)	(6.11)	(4.91)	(4.48)	(4.17)
Production expenses	(58.92)	(126.14)	(112.05)	(72.71)	(127.23)	(62.05)	(34.58)	(137.72)
Operating netback	4.28	(73.23)	(66.07)	(32.84)	(91.61)	(20.21)	1.01	(105.38)
Average daily crude oil production (bopd)	33	21	17	28	22	39	53	21

### Notes:

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

(2) Q3 2017 and Q1 2017 capital expenditures include non-cash expenditures of \$0.05 million and \$0.4 million, respectively.

**Q2 2018** – During the quarter, the Company finalized the terms of the unitization agreement and the unit development plan for our Caburé natural gas field, executed a long-term natural gas sales agreement and was assigned proved and probable reserves on both the Caburé and Gomo natural gas assets. Capital expenditures in the quarter included \$0.6 million relating to Alvo Petro’s share of Caburé unit development costs and capitalized G&A of \$0.3 million. The Company achieved an operating netback of \$4.28 per barrel in the quarter due to a 57% increase in daily production volumes, lower production expenses and improving realized sales prices as a result of increasing Brent benchmark prices and reduced sales price discounts.

**Q1 2018** – The Company tested the 183(1) well in the quarter, incurring costs of \$0.8 million. Additional capital expenditures in the quarter included \$0.1 million with respect to permitting for our Caburé natural gas field and \$0.3 million of capitalized G&A. The Company’s average daily production increased to 21 bopd as the Bom Lugar field recommenced production in March after a pump failure in November 2017. The production increase as well as increasing Brent benchmark prices resulted in a 36% increase in oil sales. Despite higher oil sales, funds flow from operations decreased to \$0.8 million due to increased G&A and production expenses.

**Q4 2017** – The Company’s average daily production decreased 39% to 17 bopd due to reduced production from the Bom Lugar well which was impacted by downhole pump problems and other maintenance. The Company recognized total impairment charges of \$1.3 million in the quarter on Block 169 (\$0.3 million), Block 255 (\$0.3 million), equipment inventory (\$0.2 million) as well as on the Mãe-da-lua field (\$0.5 million). Funds flow from operations improved \$0.2 million due to reduced G&A and E&E expenses in the quarter. Capital expenditures of \$0.4 million were primarily attributable to recurring costs, including capitalized G&A of \$0.2 million.

**Q3 2017** – The Company drilled the 177(A1) well on Block 177 in the quarter, incurring costs of \$1.1 million. The Company recognized an impairment loss on this block of \$2.4 million and additional exploration and evaluation expenditures of \$0.1 million for costs to complete the remaining commitments. Due to the \$2.4 million impairment to Block 177 and \$1.0 million in negative funds flow from operations, the Company realized a net loss of \$3.3 million. Average daily production increased 27% in the quarter due to reduced workover activities compared to the second quarter of 2017. As a result of the increased production and the 7% increase in realized sales prices, oil sales increased 40%.

**Q2 2017** – Average daily production decreased 44% in the quarter as the Bom Lugar producing well was offline in April and May awaiting a pump repair. As a result of the production decline and the 7% decline in Brent, oil sales decreased 50% compared to the first quarter of 2017. Increased production expenses for workover costs on the Bom Lugar well and the reduced production volumes

contributed to higher production expenses per barrel and decreased operating netbacks. Funds flow from operations and net loss both improved compared to the first quarter of 2017 despite reduced oil sales and increased production expenses, largely due to a \$0.1 million decrease in general and administrative expenses. Total capital expenditures of \$0.6 million included capitalized G&A, LC fees on block extensions and suspensions approved by the ANP, preliminary surveying and planning for our upcoming Caburé development, and initial site construction costs for the 177(A1) well to be drilled in the third quarter of 2017.

**Q1 2017** – The Company completed drilling and testing the 198(A1) well on Block 198 in the quarter. This well is part of our Caburé gas field. Total capital expenditures of \$2.8 million in the quarter included \$2.4 million on this well and capitalized G&A of \$0.3 million. The Company's cash expenditures on its capital projects were reduced by \$0.4 million due to equipment inventory exchanged for drilling services on the 198(A1) well. Average daily production decreased 26%, primarily due to a workover on the producing well on the Bom Lugar field in January and additional pump issues on this well in March as well as natural declines on the 182(B1) well on the Mãe-da-lua field. Despite a 7% increase in Brent, due to the reduced production volumes, oil sales declined 18%. A net loss of \$0.9 million was realized in the quarter primarily due to the negative funds flow from operations of \$0.8 million.

**Q4 2016** – The Company's average daily production increased 152% in the quarter as both the 182(B1) well on the Mãe-da-lua field and the Bom Lugar producing well were on production after being offline for much of the third quarter. As a result of the production increase and the 9% increase in Brent, oil sales increased 181% to \$0.2 million. Increased oil sales combined with reduced production expenses resulted in a positive operating netback of \$1.01 per barrel. Capital expenditures of \$0.7 million included \$0.3 million in site construction and other preparatory work for the 198(A1) well which was drilled in January 2017 and \$0.2 million in capitalized G&A costs. Despite increased oil sales and reduced production and G&A expenses, funds flow from operations increased only \$0.1 million, largely due to E&E expenditures of \$0.2 million incurred in the period on Block 170 which was relinquished in March 2016. The net loss of \$0.4 million was as a result of the negative funds flow from operations as well as a \$0.3 million impairment charge booked to PP&E in relation to the 182(B1) well, offset by a deferred tax recovery of \$1.1 million.

**Q3 2016** – The Company completed drilling the 256(A1) well in the quarter. Due to the lack of any commercial discovery of hydrocarbons on this well, the Company recognized an impairment loss on this block of \$4.4 million. Total capital expenditures of \$3.8 million in the quarter included \$2.9 million for costs associated with the 256(A1) well, \$0.3 million for workover and facilities costs on the 182(B1) well and \$0.4 million in capitalized G&A costs. The Company's average daily production decreased 42% to 21 bopd in the quarter as the 182(B1) well was shut-in for much of the quarter for facilities and workover projects and the producing well on the Bom Lugar field was offline from mid-June to mid-August for a pump replacement. As a result of the decrease in production, oil sales declined 41% in the quarter. Production expenses per barrel were impacted by reduced daily production and increased workover costs on the Bom Lugar field of \$65.73 per barrel. The net loss of \$5.7 million was largely attributable to the impairment loss booked on Block 256 and negative funds flow from operations of \$1.2 million.

## Commitments and Contingencies

The following is a summary of Alvo Petro's net contractual commitments as at June 30, 2018:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments <sup>(1)</sup>				
<i>Minimum work commitments to be completed</i>				
Block 183 <sup>(2)</sup>	-	865	-	865
Block 169 <sup>(3)</sup>	986	-	-	986
Block 255 <sup>(3)</sup>	1,180	-	-	1,180
Block 57	38	-	-	38
Block 62	38	-	-	38
Block 71	32	-	-	32
Block 145	38	-	-	38
Bom Lugar	-	-	91	91
Jiribatuba	-	-	91	91
<b>Minimum work commitments to be completed</b>	<b>2,312</b>	<b>865</b>	<b>182</b>	<b>3,359</b>
<i>Minimum work commitments completed</i>				
Block 106	296	-	-	296
<b>Minimum work commitments completed</b>	<b>296</b>	<b>-</b>	<b>-</b>	<b>296</b>
<b>Total minimum work commitments</b>	<b>2,608</b>	<b>865</b>	<b>182</b>	<b>3,655</b>
<b>Office leases<sup>(4)</sup></b>	<b>113</b>	<b>-</b>	<b>-</b>	<b>113</b>
<b>Total commitments</b>	<b>2,721</b>	<b>865</b>	<b>182</b>	<b>3,768</b>

### 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) 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 commitment noted in the table above, and return the bid round bonuses paid.
- (4) The Company is committed to future minimum payments for office space in Canada and Brazil.

In May 2018, Alvo Petro entered into a long-term GSA with deliveries under the GSA set to commence on January 1, 2020, or earlier with mutual consent. The GSA initially provides for the sale of 5.3 mmfcpd (150,000 m<sup>3</sup>/d) on a firm basis and provides standard penalties for supply failure. 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 UPGN 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. We can mitigate these risks by meeting these sales commitments under the GSA with third-party gas supplies, through development of existing gas resources, or through new gas discoveries from our conventional exploration inventory.

The Company has a credit support facility (the "Facility") with a Canadian bank which allows for the issuance of LCs and letters of guarantee in support of the financial guarantees required by the ANP for Alvo Petro's work commitments under the terms of its concession contracts associated with its exploration blocks. Letters of credit and letters of guarantee issued under the Facility may be supported by either cash collateral posted by Alvo Petro or through an Account Performance Security Guarantee from Export Development Canada ("EDC"). As at June 30, 2018, the total amount of LCs issued under the Facility was \$6.1 million (December 31, 2017 - \$12.1 million), the full balance of which was satisfied by EDC. Work commitments for the Bom Lugar and Jiribatuba fields relate to abandonment guarantees and are supported by cash collateral posted by Alvo Petro and classified as current restricted cash.

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 and are assessed at the phase expiry date. Management undertakes considerable effort to adhere to these requirements; however, there may be circumstances when it is not advantageous or reasonably practical 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. In 2018, the ANP introduced revised local content regulations which reduced the local content requirements and, as a result, the Company's estimated local content penalties decreased from \$0.3 million at December 31, 2017 to \$0.1 million at June 30, 2018, the full balance of which is included in accounts payable and accrued liabilities.

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2018, Alvopetro's cash and cash equivalents of \$5.8 million and its restricted cash of \$0.1 million were held as follows:

	<b>Total</b>	<b>U.S. Dollar</b>	<b>CAD Dollar<sup>(1)</sup></b>	<b>Brazil Real<sup>(1)</sup></b>
Cash held in Canada	<b>5,618</b>	5,494	124	-
Cash held in Brazil	<b>221</b>	-	-	221
Restricted cash - current	<b>91</b>	-	-	91
<b>Total</b>	<b>5,930</b>	<b>5,494</b>	<b>124</b>	<b>312</b>

### Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as at June 30, 2018.

Alvopetro does not currently generate positive cash flow from its operations. Capital expenditures and ongoing G&A and production expenses have been funded to date from existing cash balances. At June 30, 2018, the Company's working capital surplus of \$5.5 million exceeded estimated outstanding minimum work commitments to be completed of \$3.4 million by \$2.1 million. Exploration work commitments to be met in Brazil are supported by total LCs of \$6.1 million as at June 30, 2018, the full balance of which is currently satisfied through EDC. To the extent new or revised work commitments are required to be issued in the future, EDC coverage may be limited and the Company may be required to post the requisite amount from its cash balance which would impact its ability to fund future capital and operational expenditures.

In the three months ended June 30, 2018 we concluded the unitization process and entered into a long-term GSA with respect to our share of gas to be produced from our Caburé and Gomo natural gas assets. Gas deliveries under the GSA are set to commence on January 1, 2020 (or earlier with mutual consent) and construction of the UPGN and an 11-kilometre pipeline is planned to be completed by Alvopetro in 2018 and 2019. Alvopetro anticipates approximately \$1.0 million in capital expenditures for Caburé later in 2018 and up to \$12.5 million in 2019 with respect to the UPGN and pipeline to be constructed. In addition, under the terms of the UOA, the majority of the unit development capital (including drilling additional development wells, tie-in of existing and new wells, and construction of low and high-pressure facilities) will be initially funded by Imetame and Alvopetro's share of the unit development capital will be due on the earlier of Alvopetro's production commencement and March 2020. Alvopetro's share of unit development capital incurred to June 30, 2018 is \$0.6 million and has been classified as non-current on the consolidated statement of financial position. With respect to the Gomo gas project, Alvopetro plans to stimulate the 183(1) well later in 2018 at an estimated cost of \$0.8 million and tie-in the well to the Caburé midstream development via an 8-kilometre transfer pipeline to be built in 2019, with additional development pending results of this stimulation.

Alvopetro requires financing to fund the full development of our Caburé natural gas field as well as the additional capital associated with our Gomo natural gas project and is currently pursuing financing alternatives which may include project financing, vendor financing, capital leases for facilities, strategic partnerships, other debt issuances, or equity issuances. Future capital expenditures associated with Alvopetro's work commitments on its other exploration blocks as well as development prospects on our mature fields may also require financing. The Company may also explore asset sales or farmouts to assist with funding. If we are unable to execute a financing arrangement or a financing arrangement on terms acceptable to Alvopetro and are unable to generate

funds from asset sales or farmouts, the Company's current cash balances will be insufficient to fund the Caburé and Gomo development and the Company's plans and commitments on its other exploration blocks and mature fields. In addition, if financing is delayed or construction of the UPGN and pipeline is delayed, Alvo Petro may incur supply failure penalties under the GSA.

The liability for decommissioning obligations of Alvo Petro was \$1.4 million as at June 30, 2018. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows, if applicable.

At June 30, 2018 the Company had \$2.4 million of equipment inventory to be utilized for future operations which is included in exploration and evaluation assets in the consolidated statement of financial position.

## **OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of common shares and preferred shares in one or more series. The aggregate number of Alvo Petro common shares and stock options outstanding at August 15, 2018 was 93,008,057 (common shares – 85,166,871, stock options – 7,841,186). There are no preferred shares outstanding.

## **RISKS AND UNCERTAINTIES**

There have been no significant changes in the six months ended June 30, 2018 to the risk and uncertainties identified in the MD&A and in our Annual Information Form for the year ended December 31, 2017 other than as discussed above with respect to the GSA and the unitization agreements entered into in the three months ended June 30, 2018.

An investment in Alvo Petro should be considered speculative due to the nature of our activities and the stage of our development. Alvo Petro is exposed to a variety of risks, including but not limited to competitive, operational, political, environmental and financial risks. Investors should carefully consider the risk factors set forth under the heading "Risk Factors" in our Annual Information Form that can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

### **New and revised accounting standards and changes in accounting policies**

On January 1, 2018, the Company adopted IFRS 15 *Revenue from Contracts with Customers*. This standard requires an entity to recognize revenue reflective of the transfer of goods and services for the amount it expects to receive upon transfer of control to the purchaser. Oil sales revenue, derived from crude oil production in Brazil, is recognized when the performance obligations are satisfied and revenue can be reliably measured. The application of IFRS 15 did not have an impact on the Company's consolidated financial position, results of operations or cash flows but does require enhanced disclosures about the Company's revenue transactions.

On January 1, 2018, the Company adopted amendments to IFRS 9 *Financial Instruments*. These amendments introduced new models for classification and measurement of financial instruments, hedge accounting and impairment of financial assets. The adoption of these amendments did not have an impact on the Company's financial statements.

In the three months ended June 30, 2018, the Company realigned its cash-generating units ("CGUs") to combine Blocks 183, 197 and 198 to comprise a single CGU based on geographical proximity, shared infrastructure, a common gas sales agreement and management's intentions with respect to development of this area.

### **Standards issued but not yet effective**

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

Standard and Description	Date of Adoption	Expected Adoption Impact on Consolidated Financial Statements
IFRS 16 <i>Leases</i> – IFRS 16 was issued in January 2016 and replaces IAS 17 <i>Leases</i> . The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases.	January 1, 2019	The Company is assessing the effect of this future pronouncement on its financial statements.

**Management’s Report on Internal Control over Financial Reporting.** In connection with National Instrument 52-109 - Certification of Disclosure in Issuer’s Annual and Interim Filings (“NI 52-109”), the Chief Executive Officer and Chief Financial Officer of the Company are required to file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management’s Discussion and Analysis. The Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

**Forward-Looking Statements.** Certain information provided in this MD&A constitutes forward-looking statements. Specifically, this MD&A contains forward-looking statements relating to the anticipated outcomes of regulatory determinations, future results from operations, projected financial results and financing requirements, future capital and operating costs, future production rates, proposed exploration and development activities, sources and availability of capital, and capital spending levels. Forward-looking statements are necessarily based upon assumptions and judgments with respect to the future including, but not limited to, the success of future drilling, completion, recompletion and development activities, the outlook for commodity markets and ability to access capital markets, the performance of producing wells and reservoirs, well development and operating performance, general economic and business conditions, weather and access to drilling locations, the availability and cost of labour and services, environmental regulation, including regulation relating to hydraulic fracturing and stimulation, the ability to monetize hydrocarbons discovered, the regulatory and legal environment and other risks associated with oil and gas operations. Although we believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because we can give no assurance that they will prove to be correct. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, reliance on industry partners, availability of equipment and personnel, uncertainty surrounding timing for drilling and completion activities resulting from weather and other factors, changes in applicable regulatory regimes and health, safety and environmental risks), commodity price and exchange rate fluctuations and general economic conditions. Certain of these risks are set out in more detail in our 2017 MD&A and in our 2017 Annual Information Form which has been filed on SEDAR and can be accessed at [www.sedar.com](http://www.sedar.com). Except as may be required by applicable securities laws, Alvo Petro assumes no obligation to publicly update or revise any forward-looking statements made herein or otherwise, whether as a result of new information, future events or otherwise.

**Oil and Natural Gas Reserves.** All net present values in this MD&A are based on estimates of future operating and capital costs and forecast prices used by GLJ and Sproule. The reserves definitions used in these evaluations are the standards defined in the Canadian Oil and Gas Evaluation Handbook reserve definitions and consistent with NI 51-101 and used by GLJ and Sproule, respectively. The disclosure in MD&A summarizes certain information contained in the GLJ Report and the Sproule Report but represents only a portion of the disclosure required under NI 51-101. The GLJ Report is for the interim period ended May 31, 2018 and the Sproule Report is for the year ended December 31, 2017. Full disclosure with respect to the Company’s reserves as at December 31, 2017 is contained in the Company’s annual information form for the year ended December 31, 2017 which was filed on SEDAR.

**Abbreviations:**

m <sup>3</sup>	=	cubic metre
m <sup>3</sup> /d	=	cubic metre per day
mcf	=	thousand cubic feet
mcfpd	=	thousand cubic feet per day
mmboe	=	million barrels of oil equivalent



mmbtu	=	million British Thermal Units
mmcf	=	million cubic feet
mmcfpd	=	million cubic feet per day
boepd	=	barrels of oil equivalent per day
bopd	=	barrels of oil per day

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

**Non-GAAP Measures.** This report contains financial terms that are not considered measures under International Financial Reporting Standards ("IFRS"), such as funds flow from operations, funds flow per share, net working capital surplus and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities excluding changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities. Net working capital surplus includes current assets (including current restricted cash and assets held for sale) less current liabilities and is used to evaluate the Company's financial resources. Operating netback is determined by dividing oil sales less royalties and production taxes, transportation and operating expenses by sales volume of produced oil. Management considers operating netback important as it is a measure of profitability per barrel sold and reflects the economic quality of production. Funds flow from operations, funds flow per share, net working capital surplus and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with IFRS.