

The following Management's Discussion and Analysis ("MD&A") is dated August 12, 2020 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, 2020, MD&A for the year ended December 31, 2019 and the audited consolidated financial statements as at and for the years ended December 31, 2019 and 2018. 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 basin onshore Brazil. Alvopetro holds interests in the Caburé and Gomo natural gas assets, two oil fields and one other exploration block comprising 23,527 acres (gross and net) 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 our strategic midstream infrastructure. We are creating an upstream/midstream hybrid corporate vehicle to provide sustainable returns to our stakeholders while reinvesting in a disciplined manner in our high impact upstream assets. Our plan is to create a reinvestment and long-term stakeholder return model where approximately half of our cashflows are distributed to stakeholders as dividends, share repurchases, and interest and principle repayments to capital providers.

## FINANCIAL & OPERATING SUMMARY

	As at and Three Months Ended June 30,		As at and Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Financial</b>				
(\$000s, except where noted)				
Oil and condensate sales	40	30	101	98
Net loss	(1,168)	(841)	(3,531)	(1,604)
Per share – basic and diluted (\$) <sup>(1)</sup>	(0.01)	(0.01)	(0.04)	(0.02)
Funds flow from operations <sup>(2)</sup>	(973)	(699)	(1,646)	(1,336)
Per share – basic and diluted (\$) <sup>(1)</sup>	(0.01)	(0.01)	(0.02)	(0.01)
Capital expenditures <sup>(3)</sup>	1,645	775	3,255	2,024
Total assets	71,466	64,366	71,466	64,366
Cash and cash equivalents	3,150	3,338	3,150	3,338
Net working capital (deficit) surplus <sup>(2)</sup>	(286)	996	(286)	996
Credit Facility – amount outstanding <sup>(4)</sup>	15,192	-	15,192	-
Common shares outstanding, end of period (000s)				
Basic	98,442	96,593	98,442	96,593
Diluted <sup>(1)</sup>	114,576	107,438	114,576	107,438
<b>Operations</b>				
Operating netback (\$/bbl) <sup>(2)</sup>				
Brent benchmark price	33.27	68.33	42.11	66.08
Premium (discount)	(2.14)	(10.53)	1.80	(11.73)
Sales price	31.13	57.80	43.91	54.35
Transportation expenses	-	-	-	-
Realized sales price	31.13	57.80	43.91	54.35
Royalties	(3.89)	(7.71)	(5.65)	(7.21)
Production expenses	(28.02)	(123.31)	(34.78)	(87.63)
Operating netback	(0.78)	(73.22)	3.48	(40.49)
Average daily crude oil and natural gas liquids sales (bbls/d)	14	6	13	10

### Notes:

- (1) Consists of outstanding common shares, stock options, and warrants of the Company.
- (2) Non-GAAP measure - see "Non-GAAP Measures" section within this MD&A.
- (3) Includes non-cash capital expenditures of \$0.35 and \$0.40 million for the three and six months ended June 30, 2020 (June 30, 2019 - \$0.03 million for the three and six months ended).
- (4) Alvo Petro has drawn \$15 million under the Credit Facility. With additional interest amounts owing on repayment of amounts drawn, the outstanding balance is \$15.2 million as of June 30, 2020 (June 30, 2019 - \$nil).

## HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE SECOND QUARTER OF 2020

- In the second quarter of 2020, commissioning operations at the gas treatment facility and the 11-kilometre Caburé transfer pipeline were completed. A total of 60 mmcf of natural gas was produced from the Caburé unit during commissioning operations. Commercial natural gas sales commenced on July 5, 2020.
- Effective May 1, 2020, Bahiagás began prepayments to Alvo Petro for natural gas at a rate of 120 10<sup>3</sup>m<sup>3</sup>/d for total prepaid volumes of 7.3 million m<sup>3</sup> (259 mmcf) in the quarter, recorded as unearned revenue of \$1.2 million.
- Capital expenditures of \$1.6 million in the quarter were largely attributable to final costs for our Caburé midstream development including \$0.5 million in costs at the gas treatment facility (including commissioning costs in the quarter), and \$0.1 million for our 11-kilometre transfer pipeline. Additional capital expenditures in the quarter included capitalized G&A of \$0.4 million and capitalized finance expenses of \$0.6 million.
- Our sales volumes averaged 14 bbls/d in the quarter comprised of 2 bbls/d of natural gas liquids (condensate) sales from the Caburé unit and 12 bbls/d of oil from the Mãe-da-lua field. Despite reduced production expenses, as a result of the declining Brent price in the quarter, we realized an operating loss of \$0.78/bbl.
- We reported a net loss of \$1.2 million in the quarter, primarily due to negative funds flow of \$1.0 million and finance expenses of \$0.1 million.
- Our net working capital deficit of \$0.3 million as of June 30, 2020, includes cash and cash equivalents of \$3.2 million. We drew an additional \$2.0 million on our credit facility (the “Credit Facility”) in the quarter, bringing the total balance outstanding to \$15.2 million as at June 30, 2020.

## RECENT HIGHLIGHTS

- On July 5, we commenced natural gas deliveries to Bahiagás under our GSA. Total natural gas volumes of 7.9 million m<sup>3</sup> (280 mmcf) were delivered to Bahiagás, resulting in average daily natural gas sales of 260 10<sup>3</sup>m<sup>3</sup>/d (9 mmcfpd) for the month of July. Natural gas liquids (condensate) sales volumes averaged 66 bbls/d in July, resulting in overall sales volumes of 1,570 boe/d.

## PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at June 30, 2020, Alvo Petro held interests in the Caburé and Gomo natural gas assets, two oil fields (Bom Lugar and Mãe-da-lua) and Block 182 comprising 23,527 acres (gross and net) in the Recôncavo basin onshore Brazil.

### **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.

### **Caburé Natural Gas Field:**

Alvo Petro’s Caburé natural gas field and Caburé Leste natural gas field, 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 of the unitized area being 49.1% and our operating partner’s share being 50.9%. There are seven wells in the unit and six of these wells are tied-in to the Unit’s central production facility. Construction of the low-pressure production facilities was completed in 2018 and construction of the high-pressure production facilities was completed in January 2020. The field has a planned gross production plateau rate of 15.9 mmcfpd (450 10<sup>3</sup>m<sup>3</sup>/d). In the second quarter of 2020, Alvo Petro commenced production allocations for commissioning operations for both the pipeline and the gas treatment facility. Commercial natural gas sales commenced on July 5, 2020.

Under the terms of the Unit Operating Agreement (“UOA”), each party is entitled to nominate for their working interest share of field production and for any natural gas not nominated by the other party. Once a party produces their share of 2P reserves, they will no longer be entitled to further production allocations. Our partner was entitled to 100% of the early field production (allocated against their share of 2P reserves). Under the terms of the UOA, natural gas liquids (“NGLs”) production from the unit (relating to condensate production) is split based on working interest and sold by the operator on behalf of both parties.

## Gomo Natural Gas Project:

Alvopetro's Gomo natural gas project extends across Blocks 183 and 197 and includes the 183(1) and 197(1) wells, both of which were drilled in 2014. In the fourth quarter of 2019 Alvopetro commenced the stimulation and initial production testing of the 183(1) well to further evaluate the Gomo natural gas asset. The pressure recorders were recovered from the wellbore in the first quarter of 2020 and Alvopetro completed pressure transient analysis in April. Due to operational challenges during the stimulation, we were unable to recover all fluids from the wellbore and cannot fully validate the results of the fracture stimulation with the pressure transient analysis. Alvopetro plans to install a plunger lift system to remove the remaining fluids and undertake a 60-day long duration test to obtain improved estimates of the deliverability of the well. Concurrently, we plan to complete the permitting process for an 8-kilometre transfer pipeline to ultimately tie the 183(1) well into our recently completed 11-kilometre Caburé pipeline.

## Gas Commercialization:

The Company's GSA with Bahiagás provides for the sale of 5.3 mmcfpd (150 10<sup>3</sup>m<sup>3</sup>/d) on a firm basis and up to 12.4 mmcfpd (350 10<sup>3</sup>m<sup>3</sup>/d) on an interruptible basis, adjustable by Alvopetro annually. The GSA has take-or-pay provisions and ship-or-pay penalties to ensure performance by both parties which are based on the firm volumes. In May 2020, Alvopetro and Bahiagás entered into an amendment to the GSA wherein Bahiagás agreed to commence prepayments of natural gas effective May 1, 2020 at a rate of 120 10<sup>3</sup>m<sup>3</sup>/d. Alvopetro agreed to a 15% discount to the current contractual price during this early prepayment period. Alvopetro will repay the prepayments through natural gas deliveries during the second half of 2020. In addition, the amendment provided that natural gas deliveries will commence once Bahiagás infrastructure is complete (the "Supply Start Date") and on the Supply Start Date, firm volumes for the remainder of 2020 will be increased to 10.6 mmcfpd (300 10<sup>3</sup>m<sup>3</sup>/d); however, any supply failure penalties during 2020 will be reduced from the original contracted penalties. In the second quarter of 2020, Bahiagás prepaid for a total of 7.3 million m<sup>3</sup> (259 mmcf) for \$1.2 million. Natural gas deliveries to Bahiagás commenced on July 5, 2020 and Alvopetro delivered a total of 7.9 million m<sup>3</sup> (280 mmcf) in the month of July. Of the total July deliveries, 20% is attributable to the repayment of the prepaid volumes from the second quarter.

The natural gas price to be received under the GSA is set semi-annually (in February and August) in Brazilian real ("BRL") using a trailing weighted average basket of USD benchmark prices, with, as of August 1, 2020, a floor price of \$5.23/mmbtu and a ceiling price of \$8.89/mmbtu (both adjusted based on United States inflation). The natural gas price is then set in BRL based on the average BRL relative to USD and invoiced monthly in BRL. As a result of the recent decline in global commodity prices, Alvopetro's natural gas price from August 1, 2020 through to January 31, 2021 is based on the floor price. As all invoices are issued in BRL, actual receipts and revenue recognized in equivalent USD will be subject to exchange rate variations.

As part of Alvopetro's midstream infrastructure, the Company has a Gas Treatment Agreement with Enerflex Ltd ("Enerflex"), pursuant to which Enerflex constructed, and owns and operates a natural gas processing facility (the "Facility") for Alvopetro and provides all operations and maintenance, and warranties the on-stream performance of the Facility. Enerflex is also operating and maintaining the Company's 11-kilometre Caburé transfer pipeline. In the second quarter of 2020, commissioning operations of both the Facility and the transfer pipeline were completed and natural gas deliveries commenced on July 5, 2020.

## EXPLORATION AND EVALUATION ("E&E") ASSETS:

The Company's E&E assets as at June 30, 2020 are as follows:

Block	Gross Acres	Current Phase Expiry	Estimated Commitment <sup>(1)</sup> (\$000's)	Letter of Credit Support <sup>(2)</sup> (\$000's)
182	4,807	November 21, 2021 <sup>(3)</sup>	-	-
183	7,740	May 15, 2021 and suspension <sup>(4)</sup>	609	1,233
197	3,484	Suspension in place <sup>(4)</sup>	-	-
<b>TOTAL – ALL EXPLORATION BLOCKS</b>			<b>609</b>	<b>1,233</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, 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. Subsequent to June 30, 2020, the LC outstanding in respect of Block 183 was reduced to \$0.6 million.
- (3) Block 182 is currently in the PAD phase. Work to be completed under the PAD includes the drilling of one well in advance of the phase expiry date.
- (4) Block 183 and Block 197 (excluding the portion of Block 197 attributed to the Caburé natural gas field) are part of the Gomo gas project. The portion of Block 183 attributable to the Gomo gas project is currently in the PAD phase with an expiry date of May 15, 2021. 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.

## FINANCIAL AND OPERATING REVIEW

### Average Daily Sales

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Total oil (bbls)	1,124	519	1,657	1,556
Total NGLs - condensate (bbls)	161	-	643	247
Total oil and NGLs (bbls)	1,285	519	2,300	1,803
Daily volumes (bbls/d)	14	6	13	10

Average daily sales volumes in the second quarter of 2020 increased compared to the second quarter of 2019 due to increased sales from the Company’s Mãe-da-lua field as well as increased NGL volumes from the Caburé unit relating to condensate sales, which also contributed to the increased daily volumes in the six months ended June 30, 2020.

During commissioning operations for both the gas treatment facility and the transfer pipeline, Alvo Petro produced a total of 60 mmcf from the Caburé unit. No natural gas was sold from the commissioning operations and natural gas sales commenced subsequent to June 30, 2020.

### Oil and Condensate Sales

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Brent (\$/bbl)	33.27	68.33	42.11	66.08
(Discount) premium (\$/bbl)	(2.14)	(10.53)	1.80	(11.73)
Sales price (\$/bbl)	31.13	57.80	43.91	54.35
Sales price (discount) premium as a % of Brent	(6%)	(15%)	4%	(18%)
Oil Sales	34	30	61	83
Condensate Sales	6	-	40	15
Oil and Condensate Sales	40	30	101	98
Transportation	-	-	-	-
Total sales, net of transportation expense	40	30	101	98
Realized price (\$/bbl)	31.13	57.80	43.91	54.35

Condensate from the Caburé unit is sold pursuant to a contract based on Brent plus a premium whereas oil sales from Alvo Petro’s Mãe-da-lua field is sold at a discount to the average Brent price. Oil and condensate sales increased 33% in the second quarter of 2020 compared to 2019 due to 147% increase in sales volumes in 2020, offset by the 51% decrease in Brent oil prices.

Oil and condensate sales are reflected net of sales taxes.

## Unearned Revenue

	As at	
	June 30, 2020	December 31, 2019
Unearned revenue recorded as Other Liabilities	1,164	-
Take-or-pay volumes pre-sold (mcf)	258,506	-

Under the terms of the Company's long-term gas sales agreement, Alvo Petro is entitled to take-or-pay payments to the extent Bahiagás is unable to accept natural gas deliveries equivalent to a fixed percentage of the firm volumes specified in the contract. Bahiagás has the right to take delivery of the equivalent volumes at a later date. Take-or-pay payments under the contract commenced effective May 1, 2020. These payments have been recorded as unearned revenue, included in Other Liabilities in the Consolidated Statement of Financial Position. Alvo Petro will recognize the revenue associated with the take-or-pay payments when the volume is delivered. Under the terms of the amendment to the gas sales agreement signed in May, the payments made in May and June will be repaid through volume deliveries before the end of 2020.

## Royalties

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Royalties	5	4	13	13
Percentage of sales (%)	12.5	13.3	12.9	13.3

The Mãe-da-lua field, the Caburé natural gas field and all exploration blocks held by Alvo Petro are subject to a base 10% government royalty plus a 1% landowner royalty. The Bom Lugar field is subject to a base 5% government royalty plus a 0.5% 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 were previously on Block 197.

## Production Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Production expenses by type:				
Personnel costs	10	23	25	60
Other fixed costs	18	34	41	82
Variable costs	8	7	14	16
Total production expenses	36	64	80	158
Production expenses per barrel:				
Personnel costs	7.78	44.32	10.87	33.28
Other fixed costs	14.01	65.50	17.82	45.48
Variable costs	6.23	13.49	6.09	8.87
Total production expenses per bbl (\$)	28.02	123.31	34.78	87.63

Production expenses for the three and six months ended June 30, 2020 decreased relative to 2019 due to reduced personnel and maintenance costs and also as a result of the depreciation in the BRL relative to the USD, contributing to lower USD equivalent costs.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
G&A Expenses, by type:	2020	2019	2020	2019
Personnel	1,200	627	1,808	1,287
Travel	2	29	13	57
Office and IT costs	19	39	53	80
Professional fees	76	74	158	172
General corporate costs	172	128	288	224
Gross G&A	1,469	897	2,320	1,820
Capitalized G&A	(437)	(256)	(648)	(497)
G&A expenses	1,032	641	1,672	1,323

At the beginning of the second quarter of 2020, the Company made staffing reductions to reduce G&A costs going forward, offset by severance costs recognized in the period and a one-time bonuses following Alvo Petro’s completion of the Caburé development in the second quarter and achieving first gas production on July 5, 2020. G&A expenses in 2020 were also impacted by increased public company costs and insurance costs (part of general corporate costs).

## Funds Flow from Operations

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Funds flow from operations	(973)	(699)	(1,646)	(1,336)

The Company’s funds flow from operations in the three and six months ended June 30, 2020 declined compared to the prior periods in 2019 due to increased G&A expenses.

## Foreign Exchange

The Company’s reporting currency is the USD and its functional currencies are the USD and the BRL. Substantially all costs incurred in Brazil are in BRL 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:

	June 30, 2020	As at		% Appreciation (Depreciation) of BRL/CAD to USD	
		March 31, 2020	December 31, 2019	Q2 2020	YTD 2020
<b>Rate at end of period:</b>					
\$1 USD = BRL	5.476	5.199	4.031	(5.3)	(35.8)
\$1 USD = CAD	1.363	1.419	1.299	3.9	(4.9)

	Three Months Ended		Six Months Ended		% Appreciation (Depreciation) of BRL/CAD to USD	
	June 30,		June 30,		Q2	YTD
	2020	2019	2020	2019		
<b>Average rate in the period:</b>						
\$1 USD = BRL	5.385	3.922	4.922	3.846	(37.3)	(28.0)
\$1 USD = CAD	1.385	1.338	1.364	1.334	(3.5)	(2.2)

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. The BRL depreciated 5% and 36% relative to the USD in the three and six months ended June 30, 2020, resulting in an exchange loss of \$1.4 million and \$9.8 million in each respective period as the USD equivalent carrying value of BRL denominated assets (including E&E and PP&E) depreciated with the BRL, partially offset by exchange gains as a result of reductions in the USD equivalent carrying value of BRL denominated liabilities.

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 second quarter of 2020 and for the six months ended June 30, 2020 both the BRL and the CAD depreciated on average relative to the USD, contributing to lower USD equivalent costs in 2020 compared to 2019.

### Share-Based Compensation Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Share based compensation expense	39	34	67	67

Share-based compensation expense is a non-cash expense based on the fair value of stock options granted and amortized over the respective vesting periods. At June 30, 2020, 6.9 million stock options were outstanding compared to 7.2 million at June 30, 2019.

### Depletion and Depreciation and Impairment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Depletion and depreciation	50	52	112	106
Impairment	-	61	1,381	61
Total	50	113	1,493	167

The impairment recognized in the first quarter of 2020 relates to the Company's Bom Lugar field. As a result of the impact of the COVID-19 pandemic and the significant decline in current and forecasted crude oil prices, the Company recognized an impairment of the Bom Lugar asset of \$1.4 million in the three months ended March 31, 2020, reducing the carrying value to \$1.5 million. Impairment of \$0.06 million was recognized in the second quarter of 2019 in respect of land held for sale and materials inventory transferred to assets held for sale on June 30, 2019.

Depreciation includes \$0.03 million and \$0.08 million in respect of depreciation of right-of-use assets in the three and six months ended June 30, 2020 (June 30, 2019 - \$0.03 million and \$0.07 million).



## Finance Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Lease interest	1	6	3	14
Accretion on decommissioning liabilities	23	3	42	7
Amortization of deferred financing costs	167	-	327	-
Interest on Credit Facility	443	-	710	-
Other	-	(14)	-	-
Gross finance expenses	634	(5)	1,082	21
Capitalized to E&E and PP&E	(565)	-	(737)	-
Finance expenses	69	(5)	345	21

Interest calculated on the Credit Facility includes cash interest and commitment fees paid monthly, and interest in kind (PIK) payable upon repayment of amounts drawn. The portion of interest on the Credit Facility and the amortization of deferred financing costs that is directly attributable to eligible PP&E and E&E activities is capitalized to those assets, with the remainder, as shown above, included in profit and loss. The increase to finance expense in 2020 is primarily related to interest and amortization of deferred financing costs on the Company's credit facility arrangement entered into October 2019.

## Net Loss

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	(1,168)	(841)	(3,531)	(1,604)

Net loss in the second quarter of 2020 and for the six months ended June 30, 2020 decreased with increased G&A and finance expenses. The loss in the six months ended June 30, 2020 was also impacted by impairment charges of \$1.4 million recognized in the first quarter of 2020.

## Capital Expenditures

Capital Expenditures by Type	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>E&amp;E</b>				
Drilling and completions	16	27	198	27
Facility & equipment	9	10	24	10
Land, lease, and similar payments	6	14	12	39
Capitalized G&A	42	90	157	178
Capitalized finance expense	5	-	114	-
Other	-	-	-	2
<b>Total E&amp;E</b>	<b>78</b>	<b>141</b>	<b>505</b>	<b>256</b>
<b>PP&amp;E</b>				
Facility & equipment	612	433	1,629	1,409
Drilling & completion	-	-	-	-
Land, lease and similar payments	-	5	5	9
Furniture & fixtures	-	2	2	3
Capitalized G&A	395	166	491	319
Capitalized finance expense	560	-	623	-
Other	-	28	-	28
<b>Total PP&amp;E</b>	<b>1,567</b>	<b>634</b>	<b>2,750</b>	<b>1,768</b>
<b>Total Capital Expenditures by Type<sup>(1)</sup></b>	<b>1,645</b>	<b>775</b>	<b>3,255</b>	<b>2,024</b>

Capital Expenditures by Property	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>E&amp;E</b>				
9 <sup>th</sup> Brazil Bid Round blocks (Blocks 182, 183, 197)	78	106	505	210
11 <sup>th</sup> Brazil Bid Round blocks (Block 107)	-	-	-	5
13 <sup>th</sup> Brazil Bid Round blocks (Blocks 57, 62, 71, 145)	-	35	-	40
Inventory	-	-	-	1
<b>Total E&amp;E</b>	<b>78</b>	<b>141</b>	<b>505</b>	<b>256</b>
<b>PP&amp;E</b>				
Caburé and associated midstream assets	1,567	632	2,748	1,761
Bom Lugar	-	-	-	4
Corporate	-	2	2	3
<b>Total PP&amp;E</b>	<b>1,567</b>	<b>634</b>	<b>2,750</b>	<b>1,768</b>
<b>Total Capital Expenditures by Property<sup>(1)</sup></b>	<b>1,645</b>	<b>775</b>	<b>3,255</b>	<b>2,024</b>

(1) Includes non-cash capital expenditures of \$0.35 and \$0.40 million in the three and six months ended June 30, 2020 (June 30, 2019 - \$0.03 million and \$0.03 million)

Capital expenditures in the second quarter of 2020 included commissioning costs and final construction costs for our Caburé midstream development, including \$0.1 million for our 11-kilometre transfer pipeline and \$0.5 million in costs at the Facility.

## Summary of Quarterly Results

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
<b>Financial</b>								
Oil and condensate sales	40	61	65	77	30	68	62	125
Net loss	(1,168)	(2,363)	(1,086)	(2,321)	(841)	(763)	(1,445)	(878)
Per share – basic & diluted (\$)	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.01)	(0.02)	(0.01)
Funds flow from operations <sup>(1)</sup>	(973)	(673)	(747)	(779)	(699)	(637)	(821)	(759)
Per share – basic & diluted (\$)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital expenditures <sup>(2)</sup>	1,645	1,610	6,999	3,648	775	1,249	1,249	1,889
<b>Operations</b>								
Operating netback (\$/bbl) <sup>(1)</sup>								
Brent benchmark price	33.27	50.96	62.51	62.00	68.33	63.83	68.08	75.85
Sales price	31.13	60.10	57.93	61.60	57.80	52.96	59.85	70.15
Transportation expenses	-	-	-	-	-	-	(0.97)	(1.68)
Realized sales price	31.13	60.10	57.93	61.60	57.80	52.96	58.88	68.47
Royalties	(3.89)	(7.88)	(8.91)	(8.80)	(7.71)	(7.01)	(9.65)	(7.30)
Production expenses	(28.02)	(43.35)	(45.45)	(53.60)	(123.31)	(73.21)	(229.73)	(104.94)
Operating netback	(0.78)	8.87	3.57	(0.80)	(73.22)	(27.26)	(180.50)	(43.77)
Average daily sales (bbls/d)	14	11	12	14	6	14	11	19

### Notes:

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

(2) Includes non-cash capital expenditures of \$0.35 million in Q2 2020, 0.05 million in Q1 2020, \$2.6 million in Q4 2019, \$0.6 million in Q3 2019, \$0.03 million in Q2 2019, \$0.6 million in Q4 2018, and \$1.5 million in Q3 2018.

**Q2 2020** – Activities in the second quarter were focused on commissioning operations and final construction at both the gas treatment facility and the Caburé transfer pipeline. Of the total \$1.6 million in capital expenditures, \$0.6 million related to these activities, with an additional \$0.6 million in capitalized finance expenses and \$0.4 million in capitalized G&A. Funds flow from operations and net loss were impacted by additional G&A expenses for severance costs for terminations that occurred at the beginning of the period as well as for a one-time bonuses following completion of the Company’s Caburé development. The Company produced a total of 60 mmcf from the Caburé unit during commissioning operations; however natural gas sales did not commence until subsequent to June 30, 2020. Average daily sales from condensate production from the Caburé unit and oil sales from the Company’s Mãe-da-lua field increased to 14 bbls/d. Despite higher sales volumes and lower production expenses, the Company realized an operating loss of \$0.78/bbl as a result of the decline in Brent benchmark prices.

**Q1 2020** – An impairment charge of \$1.4 million was recognized in the quarter on the Company’s Bom Lugar field which contributed to the increased net loss of \$2.4 million. The Company completed the remaining construction for the Caburé midstream project, incurring total capital expenditures of \$0.9 million. Additional capital expenditures in the quarter included \$0.2 million for final stimulation costs on the 183(1) well, capitalized G&A of \$0.2 million and capitalized finance expenses of \$0.2 million. Despite reduced Brent prices per barrel in the quarter, the Company achieved a positive operating netback of \$8.87/bbl due to both lower production expenses per barrel and higher proportionate sales made in January when Brent benchmark prices were higher. The Company drew a total of \$8.0 million on its Credit Facility in the quarter which resulted in higher finance expenses in the quarter and also contributed to the higher net loss.

**Q4 2019** – Development of the Caburé project continued during the quarter with total capital expenditures of \$4.8 million, including \$1.0 million for the transfer pipeline, \$0.9 million for costs at the Facility and \$3.0 million for AlvoPetro’s 49.1% share of the joint upstream development costs. Additional capital expenditures included \$1.5 million for stimulation and testing costs on the 183(1) well, capitalized G&A of \$0.3 million and \$0. million in capitalized finance expenses. Average daily production decreased to 12 bbls/d, however as a result of reduced production expenses, the Company achieved a positive operating netback of \$3.57/bbl. The Company drew a total of \$5.0 million on its Credit Facility in the quarter, contributing to higher finance expenses and a higher net loss in the period.

**Q3 2019** – Capital expenditures of \$3.6 million included \$1.2 million for the 57(A1) well, \$2.1 million in Caburé expenditures for the transfer pipeline, unit development and site construction costs, and capitalized G&A of \$0.2 million. Average daily production

increased to 14 bbls/d with increased condensate sales, which also contributed to higher a realized sales price per barrel, despite lower Brent prices. The Company recognized an impairment charge of \$1.5 million on Block 57, contributing to the net loss to \$2.3 million. Alvo Petro entered into the Credit Facility in September, and all conditions for funding were satisfied on October 8, 2019. The Credit Facility provides funding for the Company's planned development of the Caburé and Gomo natural gas fields, the 57(A1) well drilled in the third quarter, and for other general corporate purposes.

**Q2 2019** – The Company received the approvals for construction of both the transfer pipeline and gas treatment facility to be built as part of the planned natural gas midstream development. Capital expenditures of \$0.8 million in the quarter included \$0.4 million in construction costs for the transfer pipeline and site construction costs for the gas treatment facility, as well as capitalized G&A of \$0.3 million. As average daily production decreased to 6 bbls/d, all from the Company's Mãe-da-lua field, the Company's operating netback decreased to a loss of \$73.22 per barrel, despite reduced production expenses.

**Q1 2019** – Capital expenditures of \$1.2 million included \$0.9 million in respect of the 11-kilometre transfer pipeline to be built from the Caburé unit facilities and capitalized G&A of \$0.2 million. Average daily production was 14 bbls/d and included 3 bbls/d relating to condensate production from the Caburé unit. Personnel and other cost reductions were implemented following the Company's decision to permanently shut-in the Bom Lugar field, contributing to reduced production expenses. With lower production expenses and reduced G&A expenses, the Company's funds flow from operations improved in the quarter.

**Q4 2018** – Capital expenditures included \$0.5 million for Alvo Petro's share of Caburé joint unit development, \$0.3 million for pipeline and permitting costs and capitalized G&A of \$0.3 million. The Company's average daily production decreased to 11 bbls/d, largely due to mechanical problems at the Company's Bom Lugar well which also contributed to higher production expenses in the quarter for both workover costs and maintenance costs. The well has now been shut-in. Total impairment charges of \$0.6 million were recognized in the period on the Company's E&E assets, contributing to a higher net loss in the quarter. The Company's Private Placement contributed net proceeds of \$3.8 million upon the issuance of 11,504,000 common shares and 3,676,000 warrants.

**Q3 2018** – Total capital expenditures of \$1.9 million in the quarter included \$1.5 million in respect of Alvo Petro's share of Caburé unit development costs and capitalized G&A of \$0.2 million. Average daily production decreased to 19 bbls/d in the quarter due to declines from our Bom Lugar well which was offline for much of the quarter awaiting a pump repair. The resulting production decline contributed to higher per barrel production costs and reduced operating netbacks per barrel. The Company entered into the Gas Treatment Agreement with Enerflex wherein Enerflex will construct, operate and maintain the natural gas processing facility on behalf of Alvo Petro and in exchange Alvo Petro will pay a monthly integrated service fee equivalent to \$2.9 million per annum, commencing when the facility is operational in late 2019.

## Commitments and Contingencies

The following is a summary of Alvo Petro's contractual commitments as at June 30, 2020:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments <sup>(1)</sup>				
Block 183 <sup>(2)</sup>	-	609	-	609
Bom Lugar	-	-	64	64
Mãe-da-lua	-	-	64	64
<b>Minimum work commitments</b>	-	609	128	737
<b>Gas Treatment Agreement</b>	965	1,930	6,754	9,649
<b>Total commitments</b>	<b>965</b>	<b>2,539</b>	<b>6,882</b>	<b>10,386</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) 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 Gas Treatment Agreement with Enerflex contains a lease related to equipment rental of the Facility for which details are provided in Note 6 to the interim condensed consolidated financial statements and the obligation is reflected on the Statement of Financial Position as of June 30, 2020. The contract also provides for monthly service fees to Enerflex for operation and maintenance of the Facility as well as Alvo Petro's 11-kilometre transfer pipeline. The committed payments for service fees

are included in the table above. These committed payments are in BRL and therefore exposed to foreign exchange fluctuations, with the estimated total at June 30, 2020 being \$9.6 million. The Gas Treatment Agreement includes early termination penalty provisions which vary depending on timing of the termination. While the agreement also includes strict availability requirements and downtime credits, such credits may not fully offset costs incurred by Alvo Petro due to ship or pay obligations under the GSA as discussed below to the extent processing in the Facility is limited due to unplanned or longer than scheduled maintenance or repair.

The Company's GSA with Bahiagás provides for ship or pay penalties applicable to Alvo Petro for supply failure in respect of the firm volumes and also take or pay penalties applicable to Bahiagás should it be unable to accept the firm volumes specified in the contract. The Company believes it can meet the firm sales commitments under the GSA solely with our production from the Caburé natural gas field, however supply failure penalties may arise where construction 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. Alvo Petro can mitigate these risks by adjusting firm volumes annually and by meeting sales commitments under the GSA with third-party gas supplies, through development of existing natural gas resources, or through new gas discoveries from our prospect inventory. In May 2020, Alvo Petro and Bahiagás entered into an amendment to the GSA which provides for increased firm volumes until December 31, 2020; however, as part of the amendment, any supply failure penalties in 2020 will be reduced from the original contractual penalties.

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.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Credit Facility**

In 2019, the Company entered into the \$15 million Credit Facility. Amounts under the Credit Facility were available to be drawn to October 8, 2020 (the "Availability Period"). The Credit Facility is secured by all of Alvo Petro's assets and matures on October 8, 2022. The Credit Facility is subject to cash interest of 9.5% per annum, payable monthly, and additional interest (PIK) is payable upon repayment of any Credit Facility amounts at a rate of 3.0% per annum. The Credit Facility is subject to a 1.0% per annum commitment fee on the unused available balance during the Availability Period. Amounts drawn under the Credit Facility are repayable at maturity, however after the first anniversary of the Credit Facility, amounts may be repaid in part or full at Alvo Petro's option without penalty. As of June 30, 2020, the Company had drawn the full available balance of \$15.0 million under the Credit Facility. The balance outstanding of \$15.2 million at June 30, 2020 includes PIK amounts owing upon repayment of amounts drawn.

The Credit Facility contains certain customary financial and non-financial covenants, standard representations and warranties and events of default. Events of default include, but are not limited to, failure to pay amounts owing (advances or interest) when due and payable, incorrect representations and warranties, failure to comply with financial and non-financial covenants, cross-default provisions on other debt outstanding, invalidity of security registrations, and change of control. To the extent an event of default occurs, the lenders can terminate their obligations for further advances under the Credit Facility and declare all advances outstanding immediately due and payable. Financial covenants are tested starting after October 8, 2020, the first anniversary of the Funding Date.

### **Lease liabilities**

In 2018, Alvo Petro entered into the 10-year Gas Treatment Agreement with Enerflex. Pursuant to the agreement, Enerflex constructed and operates the Facility to process natural gas from the Company's Caburé natural gas field. Enerflex also operates the Company's Caburé transfer pipeline. Alvo Petro pays both a monthly equipment rental fee for the Facility as well as monthly service fees for operations and maintenance. The portion of the agreement that relates to the equipment rental is a right-of-use

asset with a corresponding lease liability. The Facility was commissioned and became available for use during the second quarter of 2020 and the associated \$8.3 million right-of-use asset and lease liability were recognized in the period. The ongoing obligations to Enerflex will be satisfied in the normal course. The lease liability to Enerflex represents the majority of the Company's lease liability as at June 30, 2020. Additional lease liabilities outstanding relate to office space in Canada and Brazil and surface land access for midstream development.

The Company's lease liabilities at June 30, 2020 are as follows:

	As at	
	June 30, 2020	December 31, 2019
Lease liabilities, beginning of period	163	-
Lease liabilities upon adoption of IFRS 16	-	244
Additions	8,384	133
Finance expense	3	14
Lease payments	(89)	(234)
Foreign currency translation	(30)	6
Lease liabilities, end of period	8,431	163
Current	367	101
Non-current	8,064	62
Total, end of period	8,431	163

### Cash and Working Capital

At June 30, 2020, Alvo Petro's cash and cash equivalents of \$3.2 million and its restricted cash of \$0.1 million were held as follows:

	Total	U.S. Dollar	CAD Dollar <sup>(1)</sup>	Brazil Real <sup>(1)</sup>
Cash held in Canada	2,518	2,480	38	-
Cash held in Brazil	632	-	-	632
Restricted cash - current	112	-	-	112
<b>Total</b>	<b>3,262</b>	<b>2,480</b>	<b>38</b>	<b>744</b>

(1) Amounts in the table above denote the U.S. dollar equivalent as at June 30, 2020.

The Company had cash of \$3.2 million and a total net working capital deficit of \$0.3 million at June 30, 2020. Natural gas deliveries to Bahiagás commenced on July 5, 2020 and positive cash flows are expected going forward. As discussed in Note 1 to the interim condensed consolidated financial statements, to the extent there are lower than anticipated production volumes or sales volumes, Alvo Petro may incur ship or pay penalties under the GSA, charges under the Gas Treatment Agreement, or events of default under the Credit Facility, and additional financing may be required. In addition, as discussed further in "Risks and Uncertainties", the COVID-19 pandemic has resulted in an unprecedented reduction in global demand for oil and natural gas resulting in a sharp decline in commodity prices. The Company has taken measures to reduce costs going forward, including staff reductions and discretionary spending reductions, along with a delay of any discretionary capital spending other than initial plans for our Gomo project. However, to the extent commodity prices remain low, this may have an adverse impact on future results of operations and the Company's financial condition.

Exploration work commitments to be met in Brazil are supported by a credit 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. LCs and letters of guarantee issued 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, 2020, the total amount of LCs issued under the credit support facility was \$1.2 million (December 31, 2019 - \$4.9 million), the full balance of which was satisfied by EDC. Subsequent to June 30, 2020, the amount of LCs under the EDC facility was reduced to \$0.6 million. The Company has a restricted cash balance of \$0.1 million as at June 30, 2020 (December 31, 2019 - \$0.3 million) in respect of the abandonment guarantees on the Company's oil fields.

The liability for decommissioning obligations of Alvopetro was \$1.0 million as at June 30, 2020, with \$0.06 million expected to be incurred within one year. 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, 2020 the Company had \$1.1 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. As of August 12, 2020, there were 98,442,412 common shares outstanding, 6,900,500 stock options outstanding and 9,232,868 warrants outstanding. There are no preferred shares outstanding.

## NON-GAAP MEASURES

This MD&A or documents referred to in this MD&A make reference to certain measures which are not recognized measures under GAAP and do not have a standardized meaning prescribed by IFRS. This MD&A contains four non-GAAP measures: 1) funds flow from operations; 2) funds flow from operations per share; 3) net working capital (deficit) surplus; and 4) operating netback per barrel. These are complementary measures that are used by management in assessing the Company's financial performance, efficiency and liquidity and they may be used by investors or other users of this document for the same purpose. The non-GAAP measures do not have standardized meanings under IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. While these measures may be common in the oil and gas industry, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. The non-GAAP measures referred to in this report should not be considered an alternative to, or more meaningful than measures prescribed by IFRS and they are not meant to enhance the Company's reported financial performance or position.

### *Funds Flow from Operations and Funds Flow from Operations Per Share*

The most comparable GAAP measure to funds flow from operations is cash flows from operating activities. Management considers both funds flow from operations and funds flow per share important as they help evaluate financial performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash flows from operating activities however management finds that the impact of working capital items on the cash flows reduces the comparability of the metric from period to period. A reconciliation of funds flow from operations to cash flows from operating activities is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cash flows from operating activities	(1,094)	(660)	(2,034)	(1,352)
Add back changes in non-cash working capital	121	(39)	388	16
Funds flow from operations	(973)	(699)	(1,646)	(1,336)

The Company also refers to funds flow per share, which is funds flow from operations divided by the weighted average shares outstanding for the respective period. For the periods reported in this document the cash flow from operating activities per share and funds flow from operations per share is as follows:

\$ per share	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cash flows from operating activities per share	(0.01)	(0.01)	(0.02)	(0.01)
Funds flow from operations per share	(0.01)	(0.01)	(0.02)	(0.01)

### Net Working Capital (Deficit) Surplus

Net working capital (deficit) surplus is computed as current assets less current liabilities. Net working capital is a measure of liquidity, is used to evaluate financial resources, and is calculated as follows:

	As at June 30,	
	2020	2019
Total current assets	4,283	4,630
Total current liabilities	(4,569)	(3,634)
Working capital (deficit) surplus	(286)	996

### Operating Netback per Barrel

Operating netback is calculated on a per unit basis, which is currently per barrel as the Company has only oil and condensate sales in the periods noted below. It is a common non-GAAP measure used in the oil and gas industry and management believes this measurement assists in evaluating the operating performance of the Company at the lease level. It is a measure of the economic quality of the Company's producing assets and is useful for evaluating variable costs as it provides a reliable measure regardless of fluctuations in production. Operating netback is calculated as oil and condensate sales (after sales taxes) less royalties, and production and transportation costs on a per unit (barrel) basis. This calculation per unit is provided in the Selected Quarterly Results Section of this MD&A and is illustrated using our IFRS measures as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Oil and condensate sales	40	30	101	98
Royalties	(5)	(4)	(13)	(13)
Production expenses	(36)	(64)	(80)	(158)
Operating netback	(1)	(38)	8	(73)
Operating netback per barrel (\$)	(0.78)	(73.22)	3.48	(40.49)

### RISKS AND UNCERTAINTIES

An investment in Alvopetro should be considered speculative due to the nature of our activities and the stage of our development. Alvopetro is exposed to a variety of risks, including but not limited to liquidity and financing risks, legal and regulatory risks, market risks, operational risks, reservoir performance risks, exploration risks, and competitive 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). The recent COVID-19 pandemic increases our exposure to and the magnitude of risks identified in our 2019 Annual Information Form and MD&A for the year-ended December 31, 2019 as discussed in further detail below.

#### The Impact of COVID-19 Pandemic and Commodity Price Declines

The COVID-19 pandemic and the responses by governments and health authorities around the world to reduce the spread of the virus have given rise to a significant reduction in global economic activity and reduced demand for crude oil and natural gas, resulting in a sharp decline in current and forecasted commodity prices. Alvopetro's priority remains the health and safety of our employees, contractors and service providers and we implemented measures to protect their health and safety, including directing all staff to implement appropriate social distancing and work from home measures where possible, other than essential field staff. We continue to be focused on our Caburé project as well as initial plans for our Gomo gas project. Any discretionary capital spending will be dependent on prevailing commodity prices.

As a result of the decline in commodity prices, Alvopetro's natural gas price under the GSA with Bahiagás is based on the floor price of \$5.23/mmbtu as of August 1, 2020. While Alvopetro's operations and supply chain has not otherwise been materially impacted to date, the impact on future demand and operations is unknown and unpredictable and the Company may be negatively impacted. The outbreak presents uncertainty and risk with respect to the Company, its performance and estimates



and assumptions used by Management in the preparation of financial results. In particular and without limitation, a prolonged period of decreased global demand for crude oil and local demand for natural gas could adversely impact the Company's financial condition and results of operations as follows:

- A prolonged reduction in natural gas demand in the state of Bahia in Brazil may result in lower than expected sales volumes under the Company's GSA. While the Company has take-or-pay provisions within its agreement, should such prolonged reduction in demand constitute a force majeure event, we may not be entitled to receive take-or-pay amounts. Reduced cash flows as a result of reduced demand and/or lower commodity prices may result in an inability of the Company to meet ongoing operational, G&A and planned capital expenditures and may impact the Company's ability to continue as a going concern and may jeopardize the Company's ability to meet financial covenants under the Credit Facility which must be met commencing October 8, 2020.
- Workforce disruption or orders by government or health authorities to restrict work may reduce future sales under the Company's GSA, which may in turn negatively impact future cash flows of the Company and the ability to continue as a going concern and may give rise to events of default under the Company's Credit Facility.
- Lower commodity prices resulting in a reduction in the volumes and cash flows and overall value of our natural gas and oil reserves.
- Short-term fluctuations in foreign exchange and the continued devaluation of the BRL relative to the USD may give rise to reduced USD equivalent revenues under the Company's GSA as the natural gas price is set semi-annually and fixed in BRL.
- Our ability to obtain additional capital including debt or equity financing may be limited as a result of reduced commodity prices and continued volatility in the financial markets.

The direct and indirect effects of COVID-19 could have unforeseen implications that may be material. The extent to which the COVID-19 pandemic may impact our operations, financial condition and future financial performance is currently unknown. Even where the COVID-19 pandemic has subsided, the effects of the pandemic may continue for an extended period of time.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

### New and revised accounting standards

On January 1, 2020, the Company adopted the amendments to the following standards:

- 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 and six months ended June 30, 2020.

**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 concerning the plans relating to the Company's operational activities, future results from operations, projected financial results, future capital and operating costs, the impact of the COVID-19 pandemic, the expected timing and outcomes of certain of Alvo Petro's testing activities, future production rates, proposed exploration and development activities and the timing for such 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 timing of regulatory licenses and approvals, 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 this MD&A and in our 2019 MD&A and 2019 Annual Information Form which are available 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.

**Abbreviations:**

10 <sup>3</sup> m <sup>3</sup>	=	thousands of cubic metres
10 <sup>3</sup> m <sup>3</sup> /d	=	thousands of cubic metres per day
ANP	=	The National Agency of Petroleum, Natural Gas and Biofuels of Brazil
bbls	=	barrels of oil and/or natural gas liquids (condensate)
bbls/d	=	barrels of oil and/or natural gas liquids (condensate) per day
boe/d	=	barrels of oil equivalent ("boe") per day
m <sup>3</sup>	=	cubic metre
m <sup>3</sup> /d	=	cubic metre per day
mcf	=	thousand cubic feet
mcf e	=	thousand cubic feet of gas equivalent
mcfpd	=	thousand cubic feet per day
mmcfpd	=	million cubic feet per day
mmboe	=	millions of barrels of oil equivalent
mmbtu	=	million British Thermal Units
mmcf	=	million cubic feet
mmcfpd	=	million cubic feet per day
NGLs	=	natural gas liquids

**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 (6 mcf/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.