The following Management's Discussion and Analysis ("MD&A") is dated August 11, 2021 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, 2021, MD&A for the year ended December 31, 2020 and the audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019. Additional information for the Company, including the Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com or at 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.

As Alvopetro had not yet commenced commercial operations in the three months ended June 30, 2020, supplemental financial information has been presented for the first quarter of 2021 to enhance comparability in the quarterly period. Therefore, amounts presented in this MD&A under the following headings relate to the periods as follows:

Period Reference	**Q2 2021**	**Q1 2021**	**Q2 2020**
As at	June 30, 2021	March 31, 2021	June 30, 2020
Three Months Ended	Three month period ending June 30, 2021	Three month period ending March 31, 2021	Three month period ending June 30, 2020

For year-to-date results, amounts presented in this MD&A refer to the six month period ending June 30, 2021 and the six month period ending June 30, 2020.

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 natural gas and oil in the Recôncavo basin onshore Brazil. Alvopetro holds interests in the Caburé and Gomo natural gas assets, two oil fields and two other exploration assets comprising 23,527 acres (gross and net) onshore Brazil. Natural gas sales from the Caburé natural gas field, the Company's main producing asset, commenced in the third quarter of 2020. Alvopetro's shares are traded on the TSX Venture Exchange (TSX: ALV.V) and are also traded on the OTCQX® Best Market in the United States (OTCQX: ALVOF).

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 principal repayments to capital providers.

FINANCIAL & OPERATING SUMMARY

	As at and Three Months Ended			As at and Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Financial					
($000s, except where noted)					
Natural gas, oil and condensate sales	**8,182**	6,939	40	**15,121**	101
Net income (loss)	**3,637**	(1,088)	(1,168)	**2,549**	(3,531)
Per share – basic ($)	**0.04**	(0.01)	(0.01)	**0.03**	(0.04)
Per share – diluted ($)[(1)]	**0.03**	(0.01)	(0.01)	**0.02**	(0.04)
Cash flows from operating activities	**5,665**	4,304	(1,094)	**9,969**	(2,034)
Per share – basic ($)	**0.06**	0.04	(0.01)	**0.10**	(0.02)
Per share – diluted ($)[(1)]	**0.05**	0.04	(0.01)	**0.10**	(0.02)
Funds flow from operations [(2)]	**5,471**	4,756	(973)	**10,227**	(1,646)
Per share – basic ($)	**0.05**	0.05	(0.01)	**0.10**	(0.02)
Per share – diluted ($)[(1)]	**0.05**	0.05	(0.01)	**0.10**	(0.02)
Capital expenditures[(3)]	**918**	864	1,645	**1,782**	3,255
Total assets	**79,322**	76,022	71,466	**79,322**	71,466
Cash and cash equivalents	**4,249**	4,983	3,150	**4,249**	3,150
Net working capital surplus (deficit)[(2)]	**4,499**	5,775	(286)	**4,499**	(286)
Net debt[(2)]	**3,046**	7,254	15,478	**3,046**	15,478
Weighted average shares outstanding (000s)					
Basic	**99,794**	99,705	98,437	**99,750**	98,372
Diluted [(1)]	**104,701**	99,705	98,437	**103,919**	98,372
Operations					
Natural gas, crude oil and natural gas liquids sales:					
Natural gas (mcfpd)	**13,512**	12,464	-	**12,991**	-
NGLs – condensate (bopd)	**105**	98	2	**101**	4
Oil (bopd)	**5**	-	12	**2**	9
Total (boepd)	**2,361**	2,175	14	**2,269**	13
Average realized prices:					
Natural gas ($/mcf)	**6.06**	5.68	-	**5.88**	-
NGL – condensate ($/bbl)	**74.47**	64.41	37.27	**69.65**	62.21
Oil ($/bbl)	**59.63**	-	30.25	**59.63**	36.81
Company total ($/boe)	**38.08**	35.45	31.13	**36.82**	43.91
Operating netback ($/boe) [(2)]					
Realized sales price	**38.08**	35.45	31.13	**36.82**	43.91
Royalties	**(2.82)**	(3.30)	(3.89)	**(3.05)**	(5.65)
Production expenses	**(3.68)**	(3.63)	(28.02)	**(3.66)**	(34.78)
Operating netback	**31.58**	28.52	(0.78)	**30.11**	3.48

Notes:

(1) The weighted average number of diluted common shares outstanding in the computation of funds flow from operations and cash flows from operating activities per share is the same as for net income per share.

(2) Non-GAAP measure - see "*Non-GAAP Measures*" section within this MD&A.

(3) Includes non-cash capital expenditures of $0.35 million and $0.40 million for the three and six months ended June 30, 2020.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE SECOND QUARTER OF 2021

- We averaged daily natural gas sales in the quarter of 13.5 mmcfpd with associated natural gas liquids sales from condensate of 105 bopd and oil sales of 5 bopd, bringing our overall average daily sales volumes to 2,361 boepd, a 9% increase from the first quarter.
- We generated natural gas and condensate revenues of $8.2 million, with an operating netback of $31.58/boe, an increase of $3.06 per boe from the first quarter. Our natural gas sales price averaged $6.06/mcf, a 7% increase from the average realized price in the first quarter of $5.68/mcf. Overall, our averaged realized price per boe increased $2.63 per boe to $38.08 per boe.
- Our funds flow from operations improved to $5.5 million ($0.05 per basic share and per diluted share) compared to $4.8 million in the first quarter. Cash flows from operating activities improved $1.4 million to $5.7 million ($0.06 per basic share and $0.05 per diluted share).
- We reported net income of $3.6 million, an increase of $4.7 million from the prior quarter due mainly to the recognition of an unrealized foreign exchange gain of $2.8 million compared to an unrealized loss of $2.1 million in the first quarter, partially offset by increased deferred tax expense of $0.4 million and current tax expense of $0.3 million.
- Capital expenditures of $0.9 million included $0.5 million for the Gomo/Murucututu pipeline extension, $0.2 million in costs for the upcoming 183(B1) and 182(C1) exploration wells to be drilled later this year and $0.2 million in capitalized G&A.
- We completed an amendment to our credit facility (the “Credit Facility”), extending the maturity date by one year to October 8, 2023, and eliminating the 3% per annum interest payable in kind (“PIK”) as of April 15, 2021.
- As at June 30, 2021, we had a net working capital surplus of $4.5 million, including $4.2 million in cash and cash equivalents. During the quarter we repaid $5.5 million of advances outstanding under our Credit Facility reducing the balance outstanding to $7.5 million as of June 30, 2021, and the Company’s net debt to $3.0 million, an improvement of $4.2 million from March 31, 2021.

RECENT HIGHLIGHTS

- Our daily sales averaged 2,412 boepd in July.
- The semi-annual natural gas price determination under our long-term gas sales agreement was completed effective August 1, 2021, with a new contracted natural gas price of BRL1.31/m^3, a 24% increase from our February 1, 2021 contracted price of BRL1.06/m^3.
- In July we commenced construction of the transfer pipeline which will connect our 183(1) well, part of our Gomo/Murucututu project, to our Caburé pipeline.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at June 30, 2021, Alvopetro held interests in the Caburé and Gomo/Murucututu natural gas assets, two oil fields (Bom Lugar and Mãe-da-lua), Block 183 and Block 182 in the Recôncavo basin onshore Brazil.

NATURAL GAS ASSETS:

Caburé Natural Gas Field:

Alvopetro’s flagship asset, the Caburé natural gas field, commenced commercial natural gas deliveries on July 5, 2020, averaging 13.5 mmcfpd in the second quarter of 2021 and 11.9 mmcfpd since July 5, 2020. The Caburé and Caburé Leste natural gas field, collectively referred to as the Caburé natural gas field throughout this MD&A, extends across four blocks in the Recôncavo basin in the state of Bahia in Brazil, two of which are held by Alvopetro (Blocks 197 and 198) and two of which are held by our partner (Blocks 211 and 212), with Alvopetro’s share of the unitized area (the “Unit”) being 49.1% and our operating partner’s share being 50.9%.

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 proved plus probable reserves, they will no longer be entitled to further production allocations. Under the terms of the UOA, natural gas liquids (“NGLs”) production from the unit (relating to condensate production) is split based on working interest.

Natural Gas Sales:

Alvopetro's share of natural gas from the Caburé natural gas field is shipped via our 11-kilometre Caburé transfer pipeline and processed through the natural gas processing facility (the "Facility") owned and operated by Enerflex Ltd. ("Enerflex") pursuant to our Gas Treatment Agreement. All natural gas is sold to Bahiagás, the local state distribution company, under the terms of our gas sales agreement ("GSA"), which provides for the sale of firm volumes and interruptible volumes. 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. For 2020 and 2021, the Company agreed to firm volumes of 10.6 mmcfpd (300 $10^3m^3/d$) and interruptible volumes of up to 7.1 mmcfpd (200 $10^3m^3/d$).

Murucututu (Gomo) Natural Gas Project:

Alvopetro's Murucututu/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 late 2019, Alvopetro commenced a stimulation and initial production test of the 183(1) well and in early 2021 completed another production test, the results from which validated previous analysis with respect to our long-term productivity forecast of the well. Alvopetro declared commerciality on the portion of Block 183 attributable to the Gomo project in April 2021 and this portion of the block has been renamed Murucututu and is now in the development and production phase with an expiry date of April 2048. The portion of Block 197 which is part of the project 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.

Alvopetro now plans to install a 9-kilometre transfer pipeline extension to connect the 183(1) well to our Caburé transfer pipeline. In the second quarter of 2021, Alvopetro received the necessary permits for pipeline construction and took delivery of all pipe, incurring total capital expenditures of $0.5 million in the quarter. Pipeline construction commenced in July 2021 and Alvopetro anticipates a further $2.2 million in capital expenditures in the remainder of 2021 for pipeline construction and field production facilities. Future capital plans for the project include completion and stimulation of additional net pay in our 183(1) well, stimulation of our 197(1) well and drilling additional "fit-for-purpose" development wells.

Exploration and evaluation ("E&E") assets

Following the results of the 183(1) production test in early 2021, the Company made the decision to proceed with further development of the Murucututu/Gomo asset and the full carrying value was transferred to PP&E in the first quarter of 2021. The Company's remaining E&E assets include Block 182 and the portion of Block 183 that is not part of the Gomo project.

Block	Gross Acres	Current Phase Expiry	Estimated Commitment(1) ($000's)	Letter of Credit Support(2) ($000's)
182	4,807	November 21, 2021	-	-
183	3,611	January 13, 2022	667	638
TOTAL			**667**	**638**

(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 is currently in the PAD phase.

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

Alvopetro has natural gas prospects on each of Block 182 and Block 183. Alvopetro plans to drill the first two prospects, the 182-C1 well and the 183-B1 well, later in 2021. We completed civil construction, purchased long lead items and incurred other preliminary costs totalling $0.8 million in the six months ended June 30, 2021. Total drilling costs of $6.8 million are anticipated for these two wells in the remainder of 2021. Future capital expenditures on these projects will depend on drilling results.

OUTLOOK

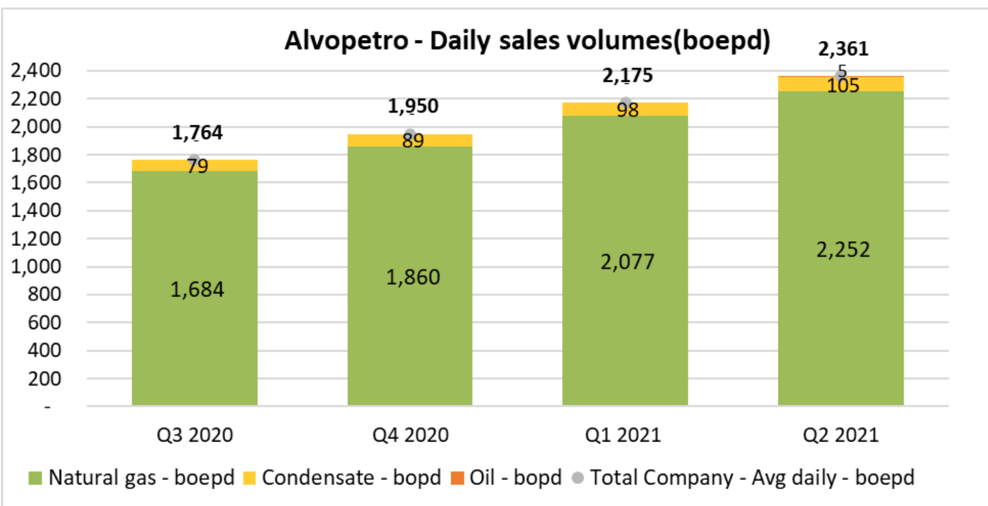
Production from the Caburé natural gas field and associated natural gas sales are expected to continue at rates between 10.6 mmcfpd to 13.8 mmcfpd, consistent with average production in the fourth quarter of 2020 and the first half of 2021. Including associated condensate sales, the Company anticipates average sales of 1,850 boepd to 2,400 boepd for the remainder of 2021.

FINANCIAL AND OPERATING REVIEW

Sales Volumes

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Total sales volumes by product:					
Natural gas (mcf)	**1,229,590**	1,121,748	-	**2,351,338**	-
NGLs – condensate (bbls)	**9,520**	8,787	161	**18,307**	643
Oil (bbls)	**436**	-	1,124	**436**	1,657
Total sales (boe)	**214,888**	195,745	1,285	**410,633**	2,300
Average daily sales volumes by product:					
Natural gas (mcfpd)	**13,512**	12,464	-	**12,991**	-
NGLs – condensate (bopd)	**105**	98	2	**101**	4
Oil (bopd)	**5**	-	12	**2**	9
Average daily sales (boepd)	**2,361**	2,175	14	**2,269**	13

Since commencing natural gas sales under Alvopetro's long-term GSA in July 2020, average daily sales volumes have increased steadily, with the second quarter of 2021 recording the highest daily sales average of 2,361 boepd. As production had not yet commenced in the first half of 2020, sales volumes in the comparative prior period are minimal. Compared to the first quarter of 2021, average daily sales increased 8.6% due mainly to additional gas demand.



Average Realized Sales Prices

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Average realized prices:					
Natural gas ($/mcf)	**6.06**	5.68	-	**5.88**	-
NGL – condensate ($/bbl)	**74.47**	64.41	37.27	**69.65**	62.21
Oil ($/bbl)	**59.63**	-	30.25	**59.63**	36.81
Total ($/boe)	**38.08**	35.45	31.13	**36.82**	43.91
Average benchmark prices:					
Brent oil ($/bbl)	**68.98**	61.04	33.27	**64.95**	42.11
Henry Hub ($/mmbtu)	**2.95**	3.50	1.70	**3.22**	1.80
National Balancing Point ($/mmbtu)	**9.06**	6.86	1.60	**7.95**	2.41
Average contracted natural gas price under GSA(1)					
BRL/m^3	**1.061**	1.026	-	**1.044**	-
Average Foreign Exchange Rate ($1 USD = BRL)	**5.291**	5.483	5.385	**5.386**	4.922

(1) Under the terms of the GSA, the volumes delivered are adjusted for heat content in the determination of the final amounts paid, representing a gross-up of approximately 7% to the contracted natural gas price, which contributes to a higher realized price overall relative to the contractual price.

The natural gas price under our long-term GSA with Bahiagas is set semi-annually (as of February 1st and August 1st) based on a trailing weighted average of USD benchmark prices for Brent, Henry Hub and National Balancing Point, incorporating both a floor and ceiling price, which were $5.23/mmbtu and $8.89/mmbtu, respectively, as of August 1, 2020, $5.28/mmbtu and $8.98/mmbtu, respectively, as of February 1, 2021 and $5.52/mmbtu and $9.38/mmbtu, respectively as of August 1, 2021. The natural gas price is then converted to a Brazilian Real ("BRL") denominated natural gas price based on a historical average foreign exchange rate and billed monthly in BRL at the BRL-denominated natural gas price until the next price reset. As all invoices are issued in BRL, actual receipts and revenue recognized in equivalent USD will be subject to exchange rate variations. See "*Foreign Exchange*" discussion below.

As a result of the decline in the global commodity prices, Alvopetro's natural gas price was reset to the floor price of $5.23/mmbtu as of August 1, 2020 and converted to a BRL-denominated natural gas price of BRL0.96/m^3. As of February 1, 2021, Alvopetro's natural gas price was reset based on the new floor price of $5.28/mmbtu and converted to a BRL denominated natural gas price of BRL1.06/m^3. With the appreciation of the BRL, Alvopetro's realized natural gas price increased 7% to $6.06/mcf in the second quarter, compared to $5.68/mcf in the first quarter. Alvopetro's natural gas price was reset to BRL1.31/ m^3 as of August 1, 2021, an increase of 24%, mainly as a result of improving global commodity prices in the first half of 2021.

Condensate production from both the Caburé unit and gas processing facility is sold pursuant to contracts based on Brent plus a premium. Oil sales from the Bom Lugar field and the Mãe-da-lua field are sold at a discount to Brent.

Natural Gas, Oil and Condensate Sales Revenue

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Natural gas	**7,447**	6,373	-	**13,820**	-
Condensate	**709**	566	6	**1,275**	40
Oil	**26**	-	34	**26**	61
Total revenues	**8,182**	6,939	40	**15,121**	101

Alvopetro generated $8.2 million in total revenues in the quarter, an increase of $1.2 million (18%) compared to the first quarter of 2021 quarter due to an 8.6% increase in daily sales volumes and a 7.4% increase in the average realized price per boe.

All natural gas, oil and condensate sales are reflected net of sales taxes.

Royalties

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Royalties	**607**	645	5	**1,252**	13
Royalties per boe ($)	**2.82**	3.30	3.89	**3.05**	5.65
Royalties as a percentage of sales (%)	**7.4%**	9.3%	12.5%	**8.3%**	12.9%

The Caburé natural gas field, 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. 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.

Royalties on natural gas are based on production volumes at an inherent reference price attributable to the raw natural gas produced at the wellhead (prior to midstream processing), resulting in lower effective royalty rates. However, as Henry Hub spot prices are a significant component of the reference price used for royalty purposes, Alvopetro's effective royalty rate was higher in the first quarter of 2021 compared to the second quarter of 2021 due to increased Henry Hub prices in the first quarter of 2021.

Production Expenses

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Production expenses by type:					
Personnel costs	**69**	60	10	**129**	25
Facility and pipeline costs	**424**	372	-	**796**	-
Other fixed costs	**233**	225	18	**458**	41
Variable costs	**49**	34	8	**83**	14
Workover costs	**16**	19	-	**35**	-
Total production expenses	**791**	710	36	**1,501**	80
Production expenses per boe:					
Personnel costs	**0.32**	0.31	7.78	**0.31**	10.87
Facility and pipeline costs	**1.98**	1.90	-	**1.94**	-
Other fixed costs	**1.08**	1.15	14.01	**1.12**	17.82
Variable costs	**0.23**	0.17	6.23	**0.20**	6.09
Workover costs	**0.07**	0.10	-	**0.09**	-
Total production expenses per boe ($)	**3.68**	3.63	28.02	**3.66**	34.78

The majority of the Company's production expenses relate to fees paid to Enerflex for operation of the Facility and the transfer pipeline and agreed unit operating costs with our partner on the Caburé upstream assets. With the commencement of natural gas deliveries in the third quarter of 2020, production expenses in 2021 increased significantly compared to the same periods in 2020. Compared to the first quarter of 2021, production expenses increased 11% in the second quarter, mainly due to additional fees associated with increased sales volumes.

General and Administrative ("G&A") Expenses

G&A Expenses, by type:	Three Months Ended Q2 2021	Q1 2021	Q2 2020	Six Months Ended June 30 2021	2020
Personnel	**753**	517	1,200	**1,270**	1,808
Travel	**6**	1	2	**7**	13
Office and IT costs	**39**	32	19	**71**	53
Professional fees	**207**	169	76	**376**	158
General corporate costs	**256**	236	172	**492**	288
Gross G&A	**1,261**	955	1,469	**2,216**	2,320
Capitalized G&A	**(225)**	(104)	(437)	**(329)**	(648)
G&A expenses	**1,036**	851	1,032	**1,887**	1,672
$ per boe	**4.82**	4.35	803.11	**4.60**	726.96

Gross G&A expenses decreased $0.2 million and $0.1 million in the three and six months ended June 30, 2021, compared to the same periods in 2020, due mainly to decreased personnel costs, offset by increased professional fees and general corporate costs. With lower capitalized G&A in the second quarter, net G&A was marginally higher in the current period. Compared to the first quarter of 2021, G&A increased due to increased professional fees and personnel costs.

Funds Flow from Operations and Cash Flows From Operating Activities

	Three Months Ended Q2 2021	Q1 2021	Q2 2020	Six Months Ended June 30 2021	2020
Cash flows from operating activities	**5,665**	4,304	(1,094)	**9,969**	(2,034)
Per share – basic ($)	**0.06**	0.04	(0.01)	**0.10**	(0.02)
Per share – diluted ($)	**0.05**	0.04	(0.01)	**0.10**	(0.02)
Funds flow from operations(1)	**5,471**	4,756	(973)	**10,227**	(1,646)
Per share – basic ($)	**0.05**	0.05	(0.01)	**0.10**	(0.02)
Per share – diluted ($)	**0.05**	0.05	(0.01)	**0.10**	(0.02)

(1) Non-GAAP measure - see "*Non-GAAP Measures*" section within this MD&A.

The Company recognized funds flow from operations of $5.5 million and cash flows from operations of $5.7 million in the second quarter of 2021, an improvement of $0.7 million and $1.4 million respectively from the first quarter of 2021 (due to increased sales volumes and improved realized prices, partially offset by increased G&A). As production from the Caburé natural gas field did not commence until the third quarter of 2020, the Company realized a net outflow in the three and six months ended June 30, 2020.

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. Foreign exchange rates for the reporting periods as specified are as follows:

	As at June 30, 2021	March 31, 2021	December 31, 2020	% Appreciation (Depreciation) of BRL/CAD to USD Q2 2021	YTD 2021
Rate at end of period:					
$1 USD = BRL	**5.002**	5.697	5.197	**12.2**	**3.8**
$1 USD = CAD	**1.239**	1.258	1.273	**1.5**	**2.7**

	Three Months Ended			% Appreciation (Depreciation) of BRL/CAD to USD	
	Q2 2021	Q1 2021	Q2 2020	**Change from Q1 2021**	**Change from Q2 2020**
Average rate in the period:					
$1 USD = BRL	**5.291**	5.483	5.385	**3.5**	**1.7**
$1 USD = CAD	**1.228**	1.266	1.385	**3.0**	**11.3**

	Six Months Ended June 30,		% Appreciation (Depreciation) of BRL/CAD to USD
	2021	2020	**Change from YTD 2020**
Average rate in the period:			
$1 USD = BRL	**5.386**	4.922	**(9.4)**
$1 USD = CAD	**1.246**	1.364	**8.7**

The assets and liabilities of Alvopetro's Brazilian subsidiaries are translated to USD at the exchange rate on the reporting period date. The income and expenses of BRL-denominated items are translated to USD at the exchange rates on the date of the relevant transactions. All resulting foreign currency differences are recorded in exchange gain or loss on translation of foreign operations in other comprehensive income or loss. The BRL appreciated 12% from March 31, 2021, and 4% from December 31, 2020, resulting in an exchange gain recognized in other comprehensive income of $4.3 million and $3.4 million in the three and six months ended June 30, 2021, respectively.

Foreign exchange fluctuations on USD-denominated amounts advanced to the Brazilian subsidiaries are recorded in exchange gains or losses on translation of foreign operations and included in other comprehensive income (loss), to the extent settlement is neither forecasted nor likely to occur in the foreseeable future. Where future settlement is anticipated, foreign exchange gains or losses on the amount expected to be settled are recognized in earnings. The Company recorded $2.0 million of foreign exchange gains in the three months ended June 30, 2021, and $0.3 million in the six months ended June 30, 2021, with respect to fluctuations in foreign exchange on intercompany amounts anticipated to be repaid (June 30, 2020 - $nil).

As discussed above, the Company is exposed to foreign exchange fluctuations on its natural gas revenues. With respect to Alvopetro's natural gas price reset on August 1, 2020 and February 1, 2021 the price determined in BRL was based on average historical exchange rates of 4.92 and 5.38, respectively. In the three months ended June 30, 2021, the actual average rate was 5.29, a 2% appreciation compared to the 5.38 used in the natural gas price determination effective February 1, 2021. The following table denotes the overall estimated impact on natural gas revenues of a 5% and 10% depreciation and appreciation of the BRL relative to the USD:

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Increase (Decrease) to Natural Gas Revenues from:					
5% Appreciation of BRL to USD	**392**	335	-	**727**	-
10% Appreciation of BRL to USD	**827**	708	-	**1,536**	-
5% Depreciation of BRL to USD	**(355)**	(303)	-	**(658)**	-
10% Depreciation of BRL to USD	**(677)**	(579)	-	**(1,256)**	-

To manage exposure to foreign exchange volatility with respect to the BRL, the Company has entered into BRL/USD forward exchange rate contracts. As of June 30, 2021, the Company has a total of BRL10.8 million of forward exchange contracts with settlements based on fixed rates between 4.99 and 5.59 and settlement dates occurring until December 2021. The Company recognizes the fair value of these contracts in the statement of financial position with changes in fair value recognized as an unrealized gain or loss included in earnings. Realized gains or losses are recognized in the period the contracts are settled.

The fair value of the risk management contracts as at June 30, 2021 was a liability of $0.1 million (December 31, 2020 – liability of $0.01 million). The realized and unrealized losses and gains are as follows:

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Realized losses (gains)	**25**	(14)	-	**11**	-
Unrealized losses (gains)	**141**	(44)	-	**97**	-
Total loss (gain)	**166**	(58)	-	**108**	-

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 earnings as foreign exchange gains or losses.

Depletion and Depreciation

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Depletion and depreciation on PP&E	**1,861**	1,430	28	**3,291**	35
Depreciation of right of use assets	**231**	244	22	**475**	77
Depletion and depreciation expense	**2,092**	1,674	50	**3,766**	112
$ per boe	**9.74**	8.55	38.91	**9.17**	48.70

With production commencing on July 5, 2020, depletion and depreciation expense increased in 2021 compared to all periods in 2020. Depletion and depreciation expense in the second quarter increased compared to the first quarter of 2021 in both total amount and on a per boe basis with increased volumes in the period and as a result of the appreciation of the BRL relative to the USD in the period.

Impairment

The impairment in 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.

Share-Based Compensation Expense

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Share based compensation expense	**92**	89	39	**181**	67

Share-based compensation expense is a non-cash expense based on the fair value of stock options, restricted share units ("RSUs") and deferred share units ("DSUs") granted and amortized over the respective vesting periods. At June 30, 2021, 6.3 million stock options, 900,000 RSUs and 500,000 DSUs were outstanding compared to 6.9 million stock options and no RSUs or DSUs at June 30, 2020. As a result of the RSUs granted in the third quarter of 2020 and the DSUs granted in the second quarter of 2021 along with higher exercise prices for new stock options granted in late 2020 and to date in 2021, overall share-based compensation expense increased in 2021.

Finance Expenses

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Lease interest	**330**	356	1	**686**	3
Accretion on decommissioning liabilities	**22**	20	23	**42**	42
Amortization of deferred financing costs	**160**	158	167	**318**	327
Interest on Credit Facility	**321**	460	443	**781**	710
Gross finance expenses	**833**	994	634	**1,827**	1,082
Capitalized to E&E and PP&E	**-**	-	(565)	**-**	(737)
Finance expenses	**833**	994	69	**1,827**	345

Interest calculated on the Credit Facility includes cash interest paid monthly and interest in kind (PIK) payable upon repayment of amounts drawn. The PIK interest was eliminated effective April 15, 2021. Up to October 8, 2020, interest on the credit facility also included commitment fees, payable monthly, for any undrawn amounts. The increase to finance expense in the three and six months ended June 30, 2021 compared to the same periods in 2020 is related to interest on capital leases due to the commencement of the capital lease with Enerflex at the end of the second quarter of 2020. Overall finance expenses decreased in the second quarter of 2021 compared to the first quarter of 2021 as Alvopetro repaid an additional $5.5 million in the second quarter of 2021 and a total of $8.0 million in the six months ended June 30, 2021 contributing to lower interest costs on the Credit Facility.

The portion of interest on the Credit Facility and the amortization of deferred financing costs directly attributable to eligible PP&E and E&E activities was capitalized to those assets in 2020.

Income Tax Expense

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Current income tax expense	**295**	-	-	**295**	-
Deferred income tax expense	**1,464**	1,068	-	**2,532**	-
Total	**1,759**	1,068	-	**2,827**	

The statutory corporate tax rate in Brazil is 34%. This is comprised of a basic 15% corporate income tax, plus 10% surtax and a 9% social contribution tax. The Company has submitted an application to tax authorities within Brazil for Supertintendência de Desenvolvimento do Nordeste ("SUDENE"), a regional tax incentive offered for qualifying projects in Bahia State. This tax incentive is expected to contribute to special deductions to reduce the inherent current tax payable due to an effective rate of 15.25%. Alvopetro has not received formal approval for the SUDENE incentive as of the date of this MD&A and the current income tax expense computed for the three and six months ended June 30, 2021, is based on the statutory rate of 34%.

Following the commencement of production and cash flows from the Caburé field in the third quarter of 2020, the Company recognized the benefit of a previously unrecognized deferred tax asset in Brazil. The deferred tax expense in 2021 relates to tax deductions recognized in 2021 in excess of accounting deductions.

Net Income (Loss)

	Three Months Ended			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Net income (loss)	**3,637**	(1,088)	(1,168)	**2,549**	(3,531)
Per share – basic ($)	**0.04**	(0.01)	(0.01)	**0.03**	(0.04)
Per share – diluted ($)	**0.03**	(0.01)	(0.01)	**0.02**	(0.04)

The Company reported net income of $3.6 million in the three months ended June 30, 2021, an increase of $4.7 million compared to the first quarter of 2021. Contributing to the improvement in net income was foreign exchange gains of $2.8 million, compared to a foreign exchange loss of $2.1 million in the first quarter, partially offset by increased tax expense of $1.2 million.

Capital Expenditures

Capital Expenditures by Type	**Three Months Ended Q2 2021**	Three Months Ended Q1 2021	Three Months Ended Q2 2020	**Six Months Ended June 30 2021**	Six Months Ended June 30 2020
E&E					
Drilling and completions	**119**	244	16	**363**	198
Facility & equipment	**11**	1	9	**12**	24
Land, lease, and similar payments	**4**	2	6	**6**	12
Inventory purchases	**58**	447	-	**505**	-
Capitalized G&A	**111**	42	42	**153**	157
Capitalized finance expense	**-**	-	5	**-**	114
Total E&E	**303**	736	78	**1,039**	505
PP&E					
Facility & equipment	**512**	3	612	**515**	1,629
Drilling & completion	**47**	125	-	**172**	-
Land, lease and similar payments	**8**	4	-	**12**	5
Furniture & fixtures	**18**	-	-	**18**	2
Capitalized G&A	**114**	62	395	**176**	491
Capitalized finance expense	**-**	-	560	**-**	623
Tax credits and other	**(84)**	(66)	-	**(150)**	-
Total PP&E	**615**	128	1,567	**743**	2,750
Total Capital Expenditures by Type(1)	**918**	864	1,645	**1,782**	3,255

Capital Expenditures by Property	**Three Months Ended Q2 2021**	Three Months Ended Q1 2021	Three Months Ended Q2 2020	**Six Months Ended June 30 2021**	Six Months Ended June 30 2020
E&E					
Blocks 182, 183, & 197	**245**	289	78	**534**	505
Inventory	**58**	447	-	**505**	-
Total E&E	**303**	736	78	**1,039**	505
PP&E					
Caburé and associated midstream assets	**17**	-	1,567	**17**	2,748
Murucututu/Gomo (Blocks 183, 197)	**680**	192	-	**872**	-
Bom Lugar	**2**	2	-	**4**	-
Tax credits and other	**(84)**	(66)	-	**(150)**	2
Total PP&E	**615**	128	1,567	**743**	2,750
Total Capital Expenditures by Property(1)	**918**	864	1,645	**1,782**	3,255

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

Capital expenditures in the second quarter included $0.5 million on the Murucututu/Gomo project as the Company took delivery of all pipe for construction of the pipeline to connect the 183(1) well to the Caburé transfer pipeline. Construction on the pipeline commenced in July. An additional $0.1 million was incurred for the Company's two exploration wells planned later in 2021 (183-B1 and 182-C1), inventory purchases of $0.1 million and capitalized G&A of $0.2 million.

Summary of Quarterly Results

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Financial								
Natural gas, oil and condensate sales	**8,182**	6,939	5,887	5,320	40	61	65	77
Net income (loss)	**3,637**	(1,088)	2,754	6,483	(1,168)	(2,363)	(1,086)	(2,321)
Per share – basic ($)	**0.04**	(0.01)	0.03	0.07	(0.01)	(0.02)	(0.01)	(0.02)
Per share – diluted ($)	**0.03**	(0.01)	0.03	0.06	(0.01)	(0.02)	(0.01)	(0.02)
Cash flows from operating activities	**5,665**	4,304	3,124	1,971	(1,130)	(904)	(611)	(546)
Per share – basic ($)	**0.06**	0.04	0.03	0.02	(0.01)	(0.01)	(0.01)	(0.01)
Per share diluted ($)	**0.05**	0.04	0.03	0.02	(0.01)	(0.01)	(0.01)	(0.01)
Funds flow from operations [(1)]	**5,471**	4,756	4,252	3,610	(1,009)	(637)	(713)	(779)
Per share – basic ($)	**0.05**	0.05	0.04	0.04	(0.01)	(0.01)	(0.01)	(0.01)
Per share diluted ($)	**0.05**	0.05	0.04	0.03	(0.01)	(0.01)	(0.01)	(0.01)
Capital expenditures[(2)]	**918**	864	452	107	1,645	1,610	6,999	3,648
Operations								
Average realized prices:								
Natural gas ($/mcf)	**6.06**	5.68	5.36	5.37	-	-	-	-
NGL – condensate ($/bbl)	**74.47**	64.41	46.97	44.75	37.27	70.54	69.14	73.63
Oil ($/bbl)	**59.63**	-	-	-	30.25	50.66	51.60	51.05
Average Foreign Exchange ($1 USD = BRL)	**5.291**	5.483	5.392	5.377	5.385	4.466	4.116	3.968
Operating netback ($/boe) [(1)]								
Realized sales price ($/boe)	**38.08**	35.45	32.82	32.79	31.13	60.10	57.93	61.60
Royalties	**(2.82)**	(3.30)	(1.51)	(2.81)	(3.89)	(7.88)	(8.91)	(8.80)
Production expenses	**(3.68)**	(3.63)	(3.39)	(3.99)	(28.02)	(43.35)	(45.45)	(53.60)
Operating netback	**31.58**	28.52	27.92	25.99	(0.78)	8.87	3.57	(0.80)
Average daily sales:								
Natural gas (mcfpd)	**13,512**	12,464	11,163	10,105	-	-	-	-
NGL – condensate (bopd)	**105**	98	89	79	2	5	4	7
Oil (bopd)	**5**	-	-	-	12	6	8	7
Total average daily sales (boepd)	**2,361**	2,175	1,950	1,764	14	11	12	14

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 and $0.6 million in Q3 2019.

Natural gas, oil and condensate sales increased $1.2 million in the second quarter of 2021 compared to the first quarter of 2021 due to the 9% increase in average daily sales volumes and the 7% increase in the average realized sales price per boe. The Company generated funds flow from operations of $5.5 million in the second quarter a $0.7 million increase from the first quarter of 2021. Net income improved from a loss of $1.1 million to income of $3.6 million in the second quarter due to improved funds flow from operations as well as an unrealized foreign exchange gain of $2.8 million compared to a loss of $2.1 million in the prior quarter, offset by a $0.7 million increase in tax expense including $0.3 million of current tax expense. In all quarters prior to the third quarter of 2020 efforts by the Company were focused on the development of the Caburé asset and related midstream infrastructure, with minimal revenue from oil and condensate sales, and the Company generated net losses and negative funds flow from operations in all prior periods.

The operating netback improved to $31.58 per boe, an increase of $3.06 per boe, due mainly to the increased realized price per boe and, to a lesser extent, lower royalties per boe.

Capital activities in the second quarter included $0.5 million on the Gomo/Murucututu pipeline project, $0.1 million in costs for the Company's upcoming exploration wells and capitalized G&A of $0.2 million.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at June 30, 2021:

Commitments	**< 1 Year**	**1-3 Years**	**Thereafter**	**Total**
Minimum work commitments[(1)]				
Block 183	667	-	-	667
Bom Lugar	-	70	-	70
Mãe-da-lua	-	-	70	70
Minimum work commitments	667	70	70	807
Gas Treatment Agreement	1,204	2,408	7,224	10,836
Total commitments	**1,871**	**2,478**	**7,294**	**11,643**

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.

Amounts presented above for the Gas Treatment Agreement represent the monthly service fees for operation and maintenance of the Facility and Alvopetro's 11-kilometre transfer pipeline.

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 which is secured by all of Alvopetro's assets and was originally set to mature on October 8, 2022. During the three months ended June 30, 2021, the Credit Facility was amended to extend the maturity date to October 8, 2023. The Credit Facility is subject to cash interest of 9.5% per annum, payable monthly, and originally an additional PIK interest at a rate of 3.0% per annum until April 15, 2021 when it was eliminated. Amounts drawn under the Credit Facility are repayable at maturity, however amounts may be repaid in part or full at Alvopetro's option without penalty. Alvopetro has repaid a total of $8.0 million to date in 2021, bringing the balance outstanding to $7.5 million as of June 30, 2021.

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

Under the terms of the Credit Facility, Alvopetro must comply with financial covenants as of December 31, 2020, being a minimum debt service ratio of 1.30 and a maximum leverage ratio of 2.25. For the period ended June 30, 2021, the covenants are computed for the period July 1, 2020 to June 30, 2021 and determined as follows:

Covenant	**Covenant threshold**	**June 30, 2021**	March 31, 2021	December 31, 2020
Debt Service Ratio	Minimum of 1.30:1	**3.57:1**	3.22:1	3.57:1
Leverage Ratio	Maximum of 2.25:1	**0.20:1**	0.64:1	1.33:1

Debt Service Ratio is computed based on the "Adjusted Consolidated EBITDA" to "Consolidated Debt Service". Both Adjusted Consolidated EBITDA and Consolidated Debt Service are defined terms in the Credit Facility agreement. Adjusted Consolidated EBITDA is "Consolidated EBITDA" decreased by income taxes and capital expenditures in the period and increased or decreased by the net change in non-cash working capital in the period. Consolidated EBITDA is defined in the Credit Facility and is reconciled to net income by adding back depletion, depreciation, impairment, finance expenses, taxes, share based compensation, unrealized gains and losses and other non-cash items. In addition, for all periods commencing on July 1, 2020 (being those covenant calculations ending on December 31, 2020, March 31, 2021 and June 30, 2021), Adjusted Consolidated EBITDA is increased by the Company's cash and cash equivalents as of June 30, 2020. Consolidated Debt Service is defined to include all interest and principal payments on the Company's outstanding debt and capital lease obligations for the period.

The Leverage Ratio is computed as the ratio of "Adjusted Consolidated Indebtedness" to "Consolidated EBITDA". Adjusted Consolidated Indebtedness includes all debt of the Company reduced by the portion of debt attributable to the capital lease obligation outstanding to Enerflex and the unrestricted cash balance.

The Company is in compliance with all financial and non-financial covenants as of June 30, 2021.

Lease Liabilities

In 2018, Alvopetro 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. Alvopetro 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 at that time. 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 liabilities as at June 30, 2021. Additional lease liabilities outstanding relate to office space in Canada and Brazil and surface land access for our midstream assets.

The Company's lease liabilities are as follows:

	As at	
	June 30, 2021	December 31, 2020
Lease liabilities, beginning of period	**8,310**	163
Additions	**136**	8,494
Finance expense	**686**	706
Lease payments	**(931)**	(1,014)
Foreign currency translation	**9**	(39)
Lease liabilities, end of period	**8,210**	8,310
Current	**486**	483
Non-current	**7,724**	7,827
Total, end of period	**8,210**	8,310

Cash and Working Capital

At June 30, 2021, Alvopetro's cash and cash equivalents of $4.2 million and its restricted cash of $0.2 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	940	842	98	-
Cash held in Brazil	3,309	-	-	3,309
Restricted cash - current	151	-	-	151
Total	**4,400**	**842**	**98**	**3,460**

(1) Amounts in the table above denote the U.S. dollar equivalent as at June 30, 2021.

The Company had cash of $4.2 million and a total net working capital surplus of $4.5 million at June 30, 2021. Positive cash flows from natural gas deliveries and associated condensate sales sufficient to fund the Company's operational activities and planned capital projects are expected going forward. However, the Company is exposed to a variety of risks which may adversely impact future cash flows. The Company manages this risk by forecasting cash flows for a minimum period of twelve months, which involves preparation of capital expenditure, operating and general and administrative budgets, all of which are monitored closely, and adjusted as necessary. The Company has flexibility on future capital plans, other than with respect to work commitments.

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 Alvopetro'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 Alvopetro or through an Account Performance Security Guarantee from Export Development Canada ("EDC"). As at June 30, 2021, the total amount of LCs issued under the credit support facility was $0.6 million (December 31, 2020 - $0.6 million), the full balance of which was satisfied by EDC. The Company has a restricted cash balance of $0.2 million as at June 30, 2021 (December 31, 2020 - $0.1 million) primarily in respect of abandonment guarantees on the Company's oil fields.

The liability for decommissioning obligations of Alvopetro was $0.9 million as at June 30, 2021, with $0.1 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, 2021, the Company had $1.8 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 11, 2021, there were 99,828,295 common shares outstanding, 6,327,250 stock options outstanding, 900,000 RSUs, 500,000 DSUs outstanding and 8,432,868 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 five non-GAAP measures: 1) funds flow from operations; 2) funds flow from operations per share; 3) net working capital; 4) net debt; and 5) operating netback per barrel of oil equivalent. 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			**Six Months Ended June 30**	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Cash flows from operating activities	**5,665**	4,304	(1,094)	**9,969**	(2,034)
Add back changes in non-cash working capital	**(194)**	452	121	**258**	388
Funds flow from operations	**5,471**	4,756	(973)	**10,227**	(1,646)

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 flows from operating activities per share and funds flow from operations per share is as follows:

	Three Months Ended			**Six Months Ended June 30**	
$ per share	**Q1 2021**	Q1 2021	Q2 2020	**2021**	2020
Per basic share:					
Cash flows from operating activities	**0.06**	0.04	(0.01)	**0.10**	(0.02)
Funds flow from operations	**0.05**	0.05	(0.01)	**0.10**	(0.02)
Per diluted share:					
Cash flows from operating activities	**0.05**	0.04	(0.01)	**0.10**	(0.02)
Funds flow from operations	**0.05**	0.05	(0.01)	**0.10**	(0.02)

Net Working Capital

Net working capital 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, 2021	March 31, 2021	June 30, 2020
Total current assets	**8,413**	8,905	4,283
Total current liabilities	**(3,914)**	(3,130)	(4,569)
Net working capital surplus (deficit)	**4,499**	5,775	(286)

Net Debt

Net debt is computed as the carrying amount of the Credit Facility, decreased by net working capital surplus or increased by net working capital deficit. Net debt is used by management to assess the Company's overall debt position and borrowing capacity.

		As at	
	June 30, 2021	March 31, 2021	June 30, 2020
Credit Facility, balance outstanding	**7,545**	13,029	15,192
Net working capital surplus (deficit)	**4,499**	5,775	(286)
Net Debt	**3,046**	7,254	15,478

Operating Netback per Barrel of Oil Equivalent

Operating netback is calculated on a per unit basis, which is per barrel of oil equivalent ("boe"). 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 natural gas, oil and condensate sales less royalties, and production and transportation costs on a per unit (barrel of oil equivalent) 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			Six Months Ended June 30	
	Q2 2021	Q1 2021	Q2 2020	**2021**	2020
Natural gas, oil and condensate sales	**8,182**	6,939	40	**15,121**	101
Royalties	**(607)**	(645)	(5)	**(1,252)**	(13)
Production expenses	**(791)**	(710)	(36)	**(1,501)**	(80)
Operating netback	**6,784**	5,584	(1)	**12,368**	8
Operating netback per boe ($)	**31.58**	28.52	(0.78)	**30.11**	3.48

RISKS AND UNCERTAINTIES

Alvopetro is exposed to a variety of risks including, but not limited to: market risk, operational risks, foreign operations risk, liquidity and financing risk, reservoir performance risk, legal and regulatory risks including the impact of new and stricter environmental regulations and competitive risks within the oil and gas industry. In addition, the impact of the COVID-19 pandemic increases our exposure to certain of these risks. An investment in Alvopetro should be considered speculative due to the nature of our activities and the stage of our development. 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 and in our MD&A for the year-ended December 31, 2020. There have been no significant changes in the three and six months ended June 30, 2021 to the risks and uncertainties identified in the MD&A and Annual information Form for the year-ended December 31, 2020.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The accounting policies used in preparation of the interim financial statements as at and for the three and six months ended June 30, 2021 are consistent with those disclosed in the audited consolidated financial statements as at and for the years ended December 31, 2020. The Company has not early adopted any standard, interpretation, or amendment that has been issued but is not yet effective.

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 expected timing and outcomes of certain of Alvopetro's testing activities, future production and sales volumes, 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 success of future drilling, completion, recompletion and development activities, the outlook for commodity markets and ability to access capital markets, the impact of the COVID-19 pandemic, the performance of producing wells and reservoirs, well development and operating performance, the timing of regulatory licenses and approvals, general economic and business conditions, forecasted demand for oil and natural gas, 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 2020 MD&A and 2020 Annual Information Form which are available on SEDAR and can be accessed at www.sedar.com. Except as may be required by applicable securities laws, Alvopetro 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:

10^3m^3	=	thousands of cubic metres
$10^3m^3/d$	=	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)
boepd	=	barrels of oil equivalent (“boe”) per day
bopd	=	barrels of oil and/or natural gas liquids (condensate) per day
BRL	=	Brazilian real
m^3	=	cubic metre
m^3/d	=	cubic metre per day
mcf	=	thousand cubic feet
mcfe	=	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.