The following Management's Discussion and Analysis ("MD&A") is dated August 11, 2022 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, 2022, MD&A for the year-ended December 31, 2021 and the audited restated consolidated financial statements as at and for the years ended December 31, 2021 and 2020. 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 and Other Financial 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 is engaged in the exploration for and the acquisition, development and production of hydrocarbons in Brazil. Alvopetro is a pioneer in the development of Brazil's independent onshore natural gas industry anchored by the Company's core Caburé upstream and midstream project. Natural gas sales from the Caburé natural gas field commenced on July 5, 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 Murucututu natural gas assets and our strategic midstream infrastructure. Our objective is to create a balanced reinvestment and long-term stakeholder return model where approximately half of our cash flows are reinvested in organic growth opportunities and the other half is distributed to stakeholders as dividends, share repurchases, and interest and principal repayments to debt capital providers.

FINANCIAL & OPERATING SUMMARY

	As at and Three Months Ended June 30,			As at and Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Financial						
($000s, except where noted)						
Natural gas, oil and condensate sales	**15,787**	8,182	93	**29,759**	15,121	97
Net income – restated(1)	**6,631**	3,784	75	**17,746**	2,837	526
Per share – basic restated ($)(1)(2)	**0.20**	0.11	82	**0.52**	0.09	478
Per share – diluted restated ($)(1)(2)	**0.18**	0.11	64	**0.49**	0.08	513
Cash flow from operating activities	**12,997**	5,665	129	**21,330**	9,969	114
Per share – basic ($)(2)	**0.38**	0.17	124	**0.63**	0.30	110
Per share – diluted ($)(2)	**0.35**	0.16	119	**0.59**	0.29	103
Funds flow from operations (3)	**12,434**	5,471	127	**23,338**	10,227	128
Per share – basic ($)(2)	**0.37**	0.16	131	**0.69**	0.31	123
Per share – diluted ($)(2)	**0.34**	0.16	113	**0.64**	0.30	113
Dividends declared	**2,728**	-	-	**5,444**	-	-
Per share(2)	**0.08**	-	-	**0.16**	-	-
Capital expenditures	**6,338**	918	590	**10,138**	1,782	469
Cash and cash equivalents	**13,672**	4,249	222	**13,672**	4,249	222
Net working capital surplus (3)	**11,641**	4,499	159	**11,641**	4,499	159
Working capital, net of debt (net debt)(3)	**9,096**	(3,046)	-	**9,096**	(3,046)	-
Weighted average shares outstanding						
Basic (000s)(2)	**33,973**	33,265	2	**33,941**	33,250	2
Diluted (000s)(2)	**36,637**	34,339	7	**36,426**	34,075	7
Operations						
Natural gas, NGLs and crude oil sales:						
Natural gas (Mcfpd)	**13,546**	13,512	-	**13,940**	12,991	7
NGLs – condensate (bopd)	**97**	105	(8)	**98**	101	(3)
Oil (bopd)	**5**	5	-	**8**	2	300
Total (boepd)	**2,359**	2,361	-	**2,429**	2,269	7
Average realized prices(3):						
Natural gas ($/Mcf)	**11.90**	6.06	96	**10.94**	5.88	86
NGLs – condensate ($/bbl)	**121.93**	74.47	64	**114.11**	69.65	64
Oil ($/bbl)	**94.47**	59.63	58	**83.90**	59.63	41
Company total ($/boe)	**73.54**	38.08	93	**67.68**	36.82	84
Operating netback ($/boe)(3)						
Realized sales price	**73.54**	38.08	93	**67.68**	36.82	84
Royalties	**(5.35)**	(2.82)	90	**(4.84)**	(3.05)	59
Production expenses	**(4.23)**	(3.68)	15	**(4.00)**	(3.66)	9
Operating netback	**63.96**	31.58	103	**58.84**	30.11	95
Operating netback margin(3)	**87%**	83%	5	**87%**	82%	6

Notes:

(1) The 2021 comparative periods in the table above have been restated. See "Restatement of the 2021 Comparative Period" section within this MD&A for further details.

(2) Per share amounts are based on weighted average shares outstanding other than dividends per share, which is based on the number of common shares outstanding at each dividend record date. 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.

(3) See "*Non-GAAP and Other Financial Measures*" section within this MD&A.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE SECOND QUARTER OF 2022

- Daily sales averaged 2,359 boepd in Q2 2022, consistent with the Q2 2021 average of 2,361 boepd and a 6% reduction from the Q1 2022 average of 2,501 boepd as a result of a planned five-day shut-down of our gas processing facility to complete necessary work in advance of the facility expansion.
- On February 1, 2022, our contracted natural gas price under our long-term gas sales agreement increased 48% to Brazilian real ("BRL")1.94/m^3. With all natural gas sales in Q2 2022 at this higher price and an appreciation of the BRL relative to the USD compared to Q2 2021, our average realized natural gas price increased to $11.90/Mcf compared to the Q2 2021 average price of $6.06/Mcf and the Q1 2022 average price of $10.03/Mcf. Higher commodity prices resulted in a 93% increase in our natural gas, condensate and oil revenue compared to Q2 2021.
- With higher realized sales prices, our operating netback increased to $63.96 per boe in Q2 2022, an improvement of 103% from Q2 2021 and 19% from Q1 2022.
- We generated cash flows from operating activities of $13.0 million ($0.38 per basic share and $0.35 per diluted share) and funds flows from operations of $12.4 million ($0.37 per basic share and $0.34 per diluted share), increases of $7.3 million and $7.0 million, respectively compared to Q2 2021.
- We reported net income of $6.6 million, an increase of $2.8 million compared to Q2 2021.
- Capital expenditures totaled $6.3 million, focused on drilling costs for our 182-C1 and 183-B1 wells, long lead purchases, final costs for our Murucututu field production facility installation and other development costs on our Murucututu project.
- We repaid an additional $2.5 million of our credit facility, bringing the balance outstanding to $2.5 million. As at June 30, 2022, we had a net working capital surplus of $11.6 million, including $13.7 million in cash and cash equivalents. The Company's working capital net of our credit facility balance improved to $9.1 million, compared to $7.3 million as of March 31, 2022.

RECENT HIGHLIGHTS

- In July 2022, we completed drilling our 183-B1 well. Based on open-hole logs and fluid samples, the well discovered potential hydrocarbon pay totaling 34.3 metres across multiple formations, with an average porosity of 10.6% and average water saturation of 29.0%. We plan to undertake a testing program in the third quarter to assess the productive capability of the well and define the field development plan.
- The expansion of our gas processing facility was completed in July and available processing capacity has now increased to 500,000 m3/d (18 MMcfpd).
- As of August 1, 2022, Alvopetro's natural gas price has been reset to the new ceiling of $10.22/MMBtu, an increase of 6% form the February 1, 2022 price. Due to the appreciation of the BRL in the first half of 2022, to an average rate of 5.08, compared to the average rate of 5.40 in the second half of 2021, the BRL contracted price has remained consistent at BRL1.94/m^3.

NATURAL GAS AND OIL PROPERTIES

As at June 30, 2022, Alvopetro held interests in the Caburé and Murucututu natural gas assets, two exploration blocks (Block 183 and Block 182) and two oil fields (Bom Lugar and Mãe-da-lua), in the Recôncavo basin onshore Brazil, as more explicitly described in the MD&A for the year-ended December 31, 2021.

Alvopetro's flagship asset, the Caburé natural gas field, commenced commercial natural gas deliveries on July 5, 2020, averaging 13.5 MMcfpd in Q2 2022 and 13.9 MMcfpd in the six months ended June 30, 2022. This field currently generates 100% of Alvopetro's natural gas and NGL sales. The Caburé field extends across four blocks in the Recôncavo Basin in the state of Bahia in Brazil, two of which are held by Alvopetro and two of which are held by our partner, with Alvopetro's share of the unitized area (the "Unit") being 49.1%. 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.

Alvopetro's Murucututu natural gas project extends across two blocks (Blocks 183 and 197), both held 100% by Alvopetro, and includes the 183(1) and 197(1) wells, both of which were drilled in 2014. In 2022, Alvopetro completed installation of a 9-kilometre transfer pipeline extension to connect the 183(1) well to our Caburé transfer pipeline and construction of field production facilities is virtually complete. We expect the 183(1) well to be tied in and on production later in the third quarter of 2022. Future capital plans for the project include stimulation and tie-in of our 197(1) well and drilling two additional “fit-for-purpose” development wells. Total capital expenditures for these future projects is estimated at $16.8 million.

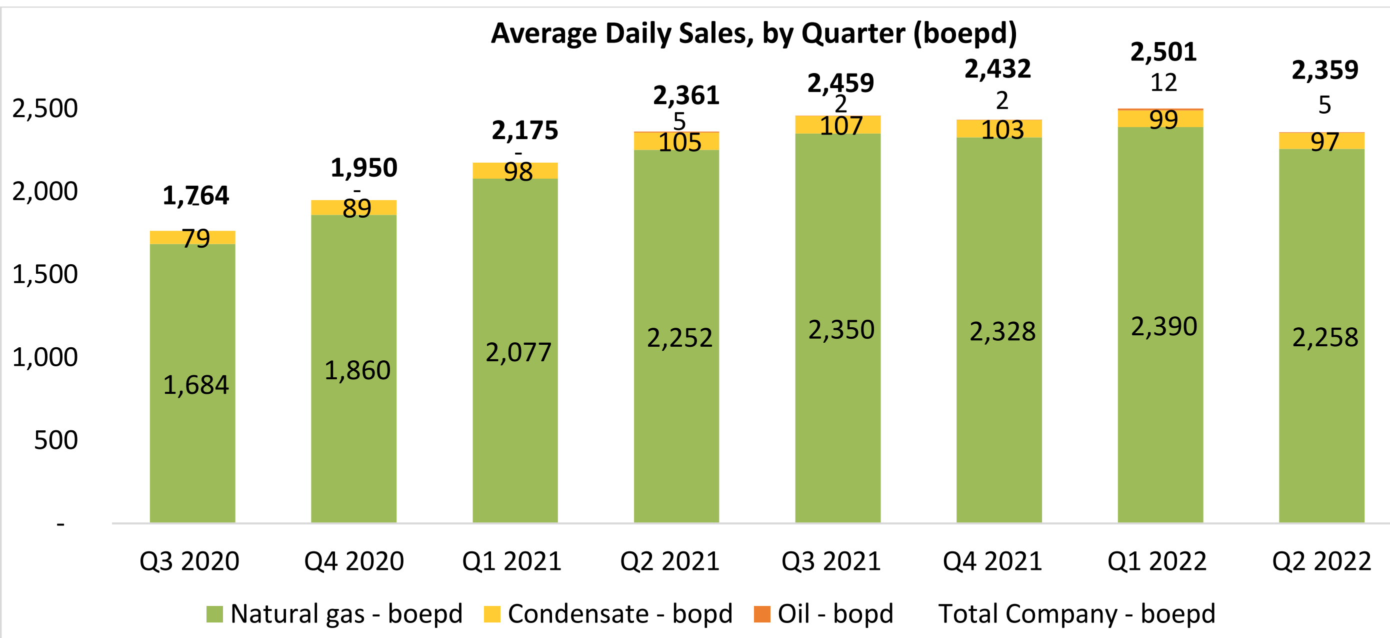
Alvopetro’s exploration and evaluation (“E&E”) assets include Block 182 and the portion of Block 183 that is not part of the Murucututu project. In 2022, Alvopetro drilled two wells on these blocks, the 182-C1 well and the 183-B1 well, with drilling of the first well, 182-C1, completed in April 2022 and drilling of the second well, 183-B1, completed in July. The 182-C1 well was drilled to a total measured depth of 2,926 metres and based on open-hole wireline logs, discovered 25 metres of potential net natural gas pay with an average porosity of 8.2% at an average water saturation of 34%. The 183-B1 well was drilled to a total measured depth of 2,917 metres and, based on open-hole wireline logs and fluid samples, encountered multiple zones of interest with an aggregate 34.3 metres of potential hydrocarbon pay with an average porosity of 10.6% and average water saturation of 29.0%. Alvopetro has now commenced a testing program of the 182-C1 well and expects to test the 183-B1 well later in the third quarter. In addition, Alvopetro expects to drill a follow-up well at each location later this year.

FINANCIAL AND OPERATING REVIEW

Sales Volumes

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Total sales volumes by product:						
Natural gas (Mcf)	**1,232,674**	1,229,590	-	**2,523,196**	2,351,338	7
NGLs – condensate (bbls)	**8,792**	9,520	(8)	**17,719**	18,307	(3)
Oil (bbls)	**434**	436	-	**1,478**	436	239
Total sales (boe)	**214,672**	214,888	-	**439,730**	410,633	7
Average daily sales by product:						
Natural gas (Mcfpd)	**13,546**	13,512	-	**13,940**	12,991	7
NGLs – condensate (bopd)	**97**	105	(8)	**98**	101	(3)
Oil (bopd)	**5**	5	-	**8**	2	300
Average daily sales (boepd)	**2,359**	2,361	-	**2,429**	2,269	7

Average daily natural gas sales in Q2 2022 were consistent with Q2 2021 but decreased 142 boepd (6%) from Q1 2022 due to the scheduled five-day shut-down in May at our Facility to complete advance work for the planned expansion and to complete a plant turnaround and inspection required by Brazil regulations every three years.



Average Realized Sales Prices

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Average realized prices[1]**:**						
Natural gas ($/Mcf)	**11.90**	6.06	96	**10.94**	5.88	86
NGL – condensate ($/bbl)	**121.93**	74.47	64	**114.11**	69.65	64
Oil ($/bbl)	**94.47**	59.63	58	**83.90**	59.63	41
Total ($/boe)	**73.54**	38.08	93	**67.68**	36.82	84
Average benchmark prices:						
Brent oil ($/bbl)	**113.84**	68.98	65	**107.20**	64.95	65
Henry Hub ($/MMBtu)	**7.50**	2.95	154	**6.80**	3.22	111
National Balancing Point ($/MMBtu)	**16.40**	9.06	81	**23.95**	7.95	201
Average contracted natural gas price[2]						
BRL/m^3	**1.938**	1.061	83	**1.830**	1.044	75
Average foreign exchange rate:						
$1 USD = BRL	**4.927**	5.291	7	**5.078**	5.386	6

(1) See "*Non-GAAP and Other Financial Measures*" section within this MD&A.
(2) 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 $5.65/MMBtu and $9.61/MMBtu, respectively, as of February 1, 2022. The natural gas price is then converted to a BRL-denominated natural gas price based on a historical average foreign exchange rate and billed monthly in BRL 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 of February 1, 2022, Alvopetro's natural gas price was set to the ceiling price (whereas the price on February 1, 2021 was based on the contracted floor price). With all of Q2 2022 natural gas sales at the ceiling price and the 7% appreciation in the average BRL/USD foreign exchange rate, Alvopetro's realized natural gas price increased 97% to $11.90/Mcf in Q2 2022 compared to $6.06/Mcf in Q2 2021. As of August 1, 2022, Alvopetro's natural gas price has been reset to the new ceiling of $10.22/MMBtu, an increase of 6%; however, as a result of the appreciation of the BRL in the first half of 2022 to an average rate of 5.08 compared to the average rate of 5.40 in the second half of 2021, the BRL contracted price remained consistent at BRL1.94/m^3.

Condensate production from both the Caburé unit and gas processing facility is sold pursuant to contracts based on Brent plus a premium. With average Brent prices increasing compared to Q2 2021 and including the premium received on condensate sales, our realized sales price on condensate improved 64% compared to Q2 2021.

Oil sales from the Bom Lugar field and the Mãe-da-lua fields are sold at a discount to Brent.

Natural Gas, Oil and Condensate Sales Revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Natural gas	**14,674**	7,447	97	**27,613**	13,820	100
Condensate	**1,072**	709	51	**2,022**	1,275	59
Oil	**41**	26	58	**124**	26	377
Total revenues	**15,787**	8,182	93	**29,759**	15,121	97

Due to the 93% increase in the average realized price per boe, Alvopetro's total natural gas, oil and condensate revenues increased $7.6 million compared to Q2 2021.

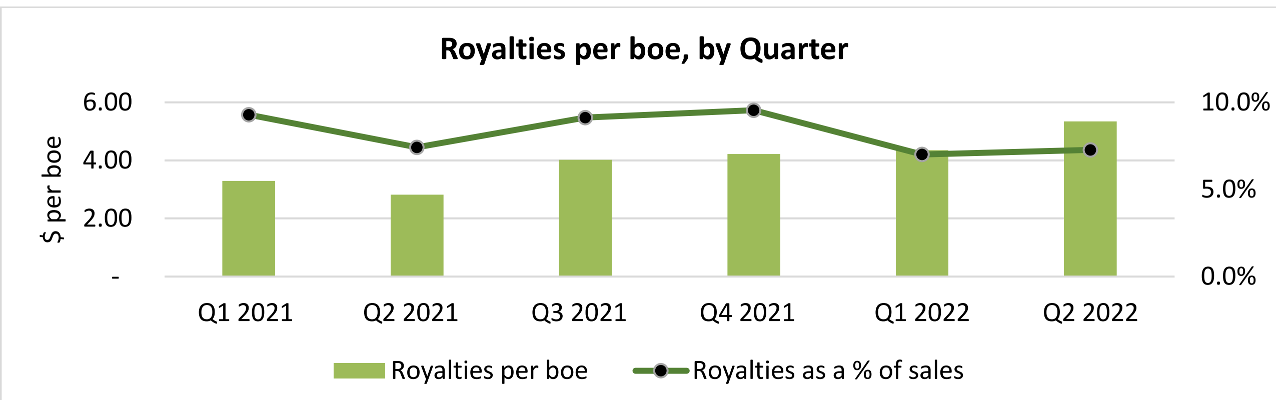
Royalties

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	**2021**	Change (%)	**2022**	2021	Change (%)
Royalties	**1,148**	607	89	**2,127**	1,252	70
Royalties per boe ($)[1]	**5.35**	2.82	90	**4.84**	3.05	59
Royalties as a % of sales[1]	**7.3%**	7.4%	(1)	**7.2%**	8.3%	(13)

(1) See "*Non-GAAP and Other Financial Measures*" section within this MD&A.

As of May 1, 2022, the majority of Alvopetro's properties (including the Caburé and Murucututu natural gas fields) are subject to a base 7.5% government royalty plus a 1% landowner royalty. Prior to this time, these properties were subject to a 10% government royalty rate and the 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 portion of the Caburé and Murucututu natural gas assets that were previously on Block 197, the Mãe-da-lua field and Block 182.

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 compared to base royalty rates. As Henry Hub spot prices are a significant component of the reference price used for royalties, Alvopetro's effective royalty rate fluctuates with changes in Henry Hub prices relative to Alvopetro's contracted natural gas price.



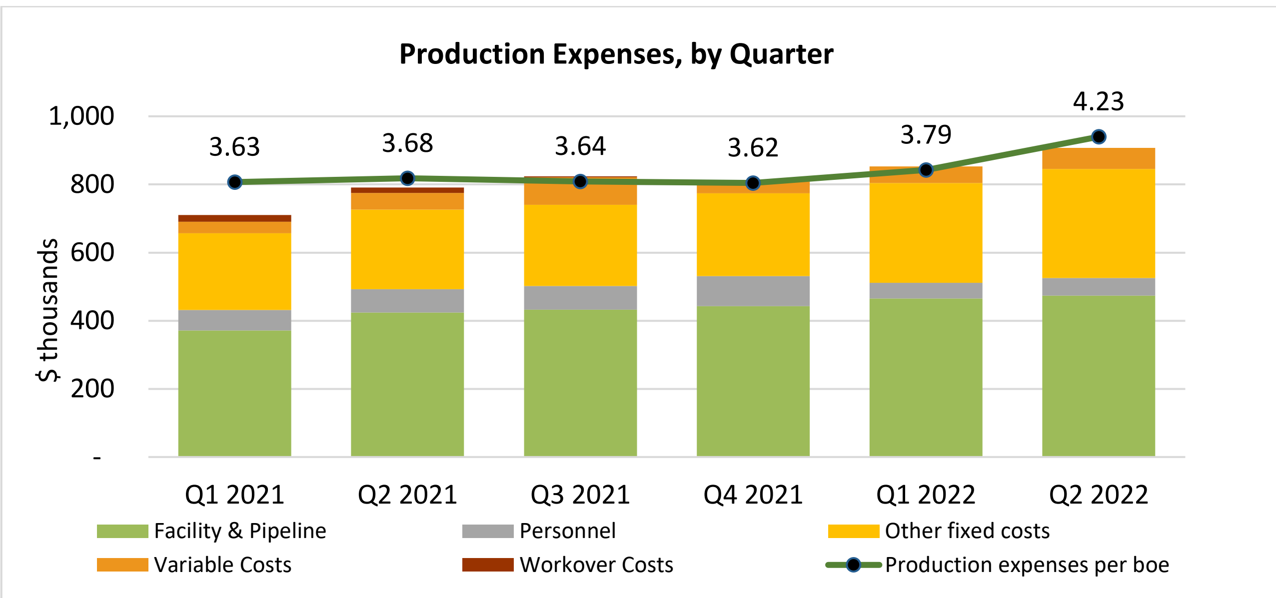
Production Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Production expenses by type:						
Personnel costs	**51**	69	(26)	**97**	129	(25)
Facility and pipeline costs	**474**	424	12	**939**	796	18
Other fixed costs	**320**	233	37	**613**	458	34
Variable costs	**62**	49	27	**111**	83	34
Workover costs	**-**	16	(100)	**-**	35	(100)
Total production expenses	**907**	791	15	**1,760**	1,501	17

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Production expenses per boe($)(1):						
Personnel costs	**0.24**	0.32	(25)	**0.22**	0.31	(29)
Facility and pipeline costs	**2.21**	1.98	12	**2.14**	1.94	10
Other fixed costs	**1.49**	1.08	38	**1.39**	1.12	24
Variable costs	**0.29**	0.23	26	**0.25**	0.20	25
Workover costs	**-**	0.07	(100)	**-**	0.09	(100)
Total	**4.23**	3.68	15	**4.00**	3.66	9

(1) See "*Non-GAAP and Other Financial Measures*" section within this MD&A.

The majority of the Company's production expenses relate to fees paid for operation of the Facility and the transfer pipeline and agreed unit operating costs with our partner on the Caburé upstream assets. Production expenses have increased from Q2 2021 (15%) and for the six months ended June 30, 2022 compared to 2021 due an increase in Alvopetro's share of unit operating costs due to higher proportionate production allocations from the Caburé Unit in 2022, which increased to 100% in Q2 2022.

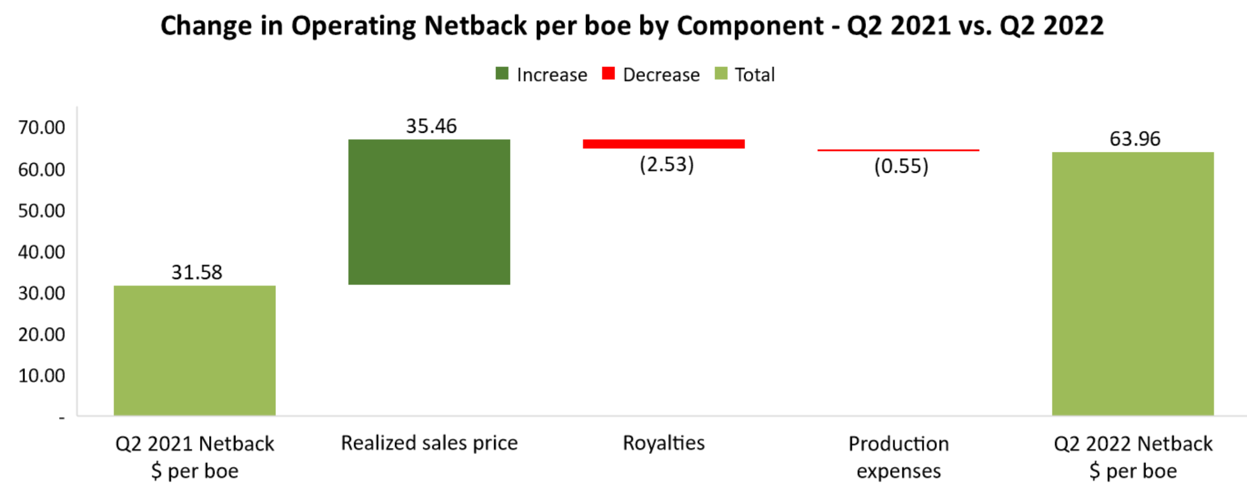


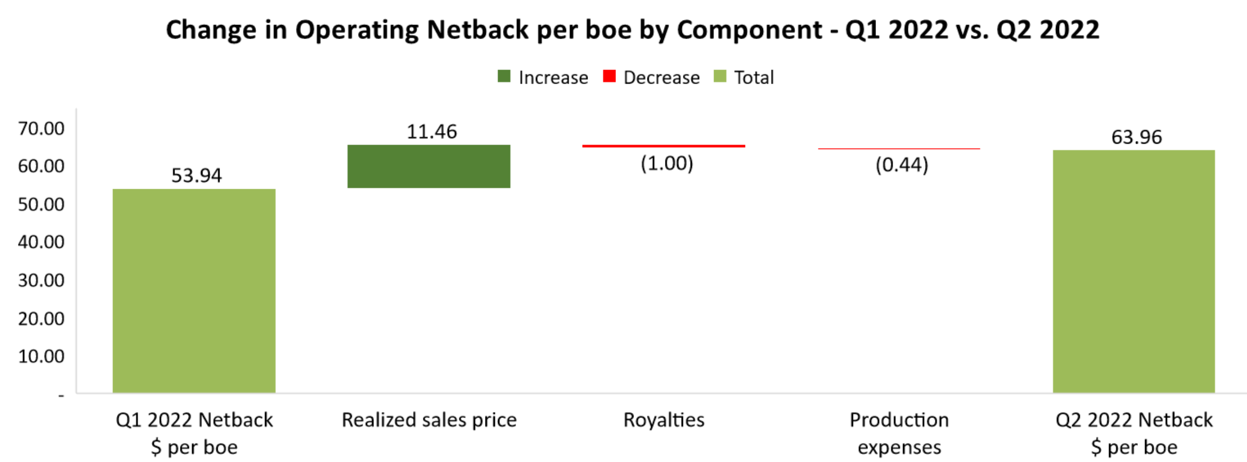
Operating Netback

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Operating netback [1]						
Natural gas, oil and condensate sales	**15,787**	8,182	93	**29,759**	15,121	97
Royalties	**(1,148)**	(607)	89	**(2,127)**	(1,252)	70
Production expense	**(907)**	(791)	15	**(1,760)**	(1,501)	17
Operating netback	**13,732**	6,784	102	**25,872**	12,368	109
Operating netback per boe[1]:						
Average realized sales price - $ per boe[1]	**73.54**	38.08	93	**67.68**	36.82	84
Royalties - $ per boe[1]	**(5.35)**	(2.82)	90	**(4.84)**	(3.05)	59
Production expense - $ per boe[1]	**(4.23)**	(3.68)	15	**(4.00)**	(3.66)	9
Operating netback per boe	**63.96**	31.58	103	**58.84**	30.11	95
Operating netback margin[1]	**87%**	83%	5	**87%**	82%	6

(1) See "*Non-GAAP and Other Financial Measures*" section within this MD&A.

Overall, Alvopetro's operating netback increased by $32.38 per boe (+103%) in Q2 2022 compared to Q2 2021 and by $10.02 per boe (+19%) compared to Q1 2022 due to the improved realized sales prices, partially offset by both higher royalties and production expenses.



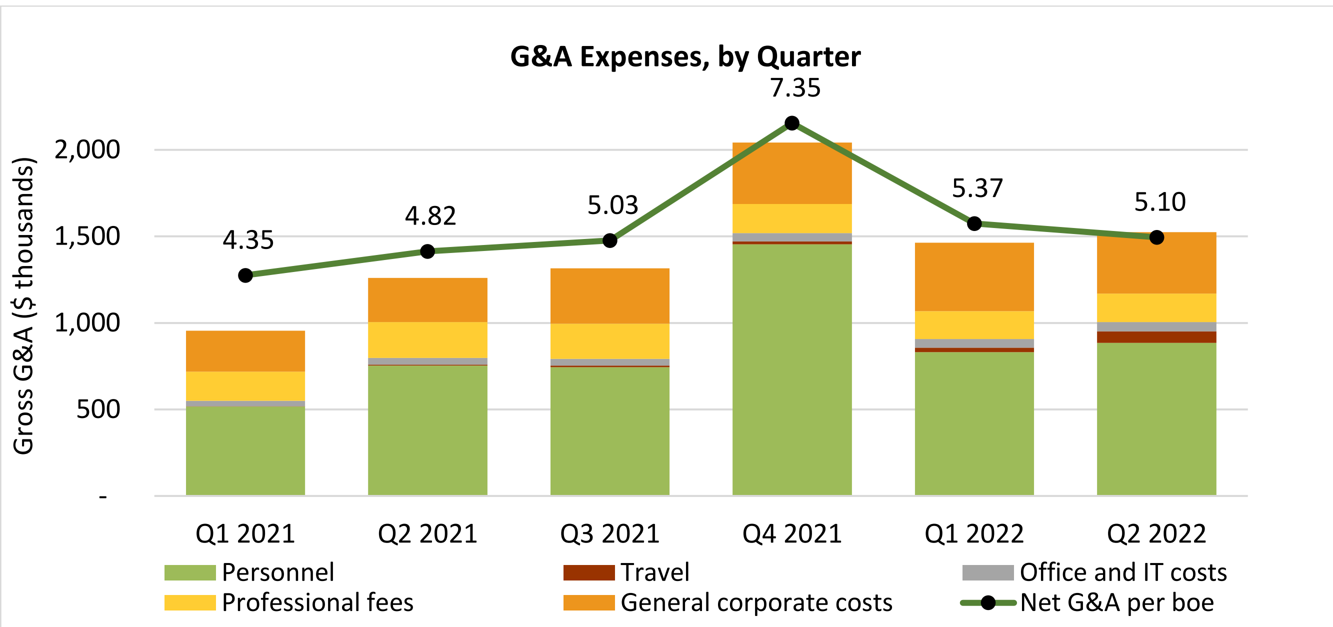


General and Administrative ("G&A") Expenses

G&A Expenses, by type:	Three Months Ended June 30, 2022	2021	Change (%)	Six Months Ended June 30, 2022	2021	Change (%)
Personnel	**884**	753	17	**1,715**	1,270	35
Travel	**67**	6	1,017	**93**	7	1,229
Office and IT costs	**53**	39	36	**103**	71	45
Professional fees	**166**	207	(20)	**326**	376	(13)
General corporate costs	**354**	256	38	**751**	492	53
Gross G&A	**1,524**	1,261	21	**2,988**	2,216	35
Capitalized G&A	**(430)**	(225)	91	**(686)**	(329)	109
G&A expenses	**1,094**	1,036	6	**2,302**	1,887	22
$ per boe(1)	**5.10**	4.82	6	**5.24**	4.60	14

(1) See "*Non-GAAP and Other Financial Measures*" section within this MD&A.

Annual salary adjustments and additional staffing levels resulted in higher personnel costs compared to 2021. With higher activity levels, travel costs and general corporate costs also increased. Gross G&A expenses were consistent with Q1 2022 of $1.5 million. With increased capital activities in 2022 compared to the same periods in 2021, capitalized G&A increased.



Cash Flow from Operating Activities and Funds Flow from Operations

	Three Months Ended June 30, 2022	2021	Change (%)	Six Months Ended June 30, 2022	2021	Change (%)
Cash flows from operating activities	**12,997**	5,665	129	**21,330**	9,969	114
Per share – basic ($)	**0.38**	0.17	124	**0.63**	0.30	110
Per share – diluted ($)	**0.35**	0.16	119	**0.59**	0.29	103
Funds flow from operations(1)	**12,434**	5,471	127	**23,338**	10,227	128
Per share – basic ($)	**0.37**	0.16	131	**0.69**	0.31	123
Per share – diluted ($)	**0.34**	0.16	113	**0.64**	0.30	113

(1) See "*Non-GAAP and Other Financial Measures*" section within this MD&A.

Funds flow from operations and cash flows from operations increased in both the three and six months ended June 30, 2022 compared to the same periods in 2021 due to higher revenues associated with higher commodity prices, partially offset by increased royalties, production expense, G&A expense and current tax expense.

Foreign Exchange

	As at			% Appreciation (Depreciation) of BRL/CAD to USD	
	June 30, 2022	March 31, 2022	December 31, 2021	**Q2 2022**	**YTD 2022**
Rate at end of period:					
$1 USD = BRL	**5.238**	4.738	5.581	**(11)**	**6**
$1 USD = CAD	**1.289**	1.250	1.268	**(3)**	**(2)**

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:

	Three Months Ended June 30,		Six Months Ended June 30,		% Appreciation (Depreciation) of BRL/CAD to USD	
	2022	2021	**2022**	2021	**Change from Q2 2021**	**Change from YTD 2021**
Average rate in the period:						
$1 USD = BRL	**4.927**	5.291	**5.078**	5.386	**7**	**6**
$1 USD = CAD	**1.277**	1.228	**1.271**	1.246	**(4)**	**(2)**

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 depreciated 11% from March 31, 2022 resulting in exchange losses of $2.6 million recognized in other comprehensive income in Q2 2022; however, as the BRL appreciated 6% since December 31, 2021, exchange gains of $1.4 million were recognized in other comprehensive income in the six months ended June 30, 2022.

Foreign exchange fluctuations on USD-denominated intercompany amounts advanced to the Brazilian subsidiaries are recorded in exchange gains or losses on translation of foreign operations and included in other comprehensive income, to the extent settlement is neither forecasted nor likely to occur in the foreseeable future. Where future settlement is anticipated in the foreseeable future, foreign exchange gains or losses on the amount expected to be settled are recognized in earnings. The Company recorded $2.1 million of foreign exchange losses on intercompany advances in Q2 2022 (Q2 2021 - $2.0 million foreign exchange gain) following the depreciation of BRL to the USD; however, on a year-to-date basis $1.6 million of foreign exchange gains were recognized to June 30, 2022 (six months ended June 30, 2021 - $0.3 million foreign exchange gain).

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 February 1, 2022 the price determined in BRL was based on average historical exchange rates of 5.40. In Q2 2022, the actual average rate was 4.93, an appreciation of 9%. 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 June 30,		Six Months Ended June 30,	
	2022	2021	**2022**	2021
Increase (Decrease) to Natural Gas Revenues from:				
5% Appreciation of BRL to USD	**772**	392	**1,453**	727
10% Appreciation of BRL to USD	**1,630**	827	**3,068**	1,536
5% Depreciation of BRL to USD	**(699)**	(355)	**(1,315)**	(658)
10% Depreciation of BRL to USD	**(1,334)**	(677)	**(2,510)**	(1,256)

To manage exposure to foreign exchange volatility with respect to the BRL, the Company has periodically entered into BRL/USD forward exchange rate contracts. In 2022, the Company entered into a total of BRL10.6 million forward exchange contracts with settlements based on fixed rates between 4.74 and 5.58 per USD and settlement dates spanning from February to July 2022. The Company recognized 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 net income (loss). Realized gains or losses are recognized in the period the contracts are settled. Total losses with respect to these contracts for the six months ended June 30, 2022 were $0.1 million (2021 - $0.1 million loss). As of June 30, 2022, BRL0.5 million forward contracts were outstanding (December 31, 2021 - $nil).

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 June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Depletion and depreciation on PP&E – restated(1)	**1,052**	1,639	(36)	**2,628**	2,856	(8)
Depreciation of right-of-use assets	**227**	231	(2)	**470**	475	(1)
Depletion and depreciation expense – restated(1)	**1,279**	1,870	(32)	**3,098**	3,331	(7)
$ per boe(2)	**5.96**	8.70	(32)	**7.05**	8.11	(13)

(1) The 2021 comparative periods in the table above have been restated. See “Restatement of the 2021 Comparative Period” section within this MD&A for further details.

(2) See “*Non-GAAP and Other Financial Measures*” section within this MD&A.

Depletion is calculated on a unit-of-production basis for all upstream PP&E assets, with higher production volumes resulting in a higher depletion rate. All midstream PP&E assets are depreciated over the estimated useful life of the assets on a straight-line basis and the Company’s right-of-use assets are depreciated over the lease term on a straight-line basis. Overall depletion is lower in 2022 as the depletion rate in 2021 included depletion on a property that is now fully depleted as of 2022.

Share-Based Compensation Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Share-based compensation expense	**184**	92	100	**434**	181	140

Share-based compensation expense is 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 as well as costs associated with dividend equivalents attributable to RSUs and DSUs granted to date. As of June 30, 2022, 1.2 million stock options, 0.4 million RSUs and 0.2 million DSUs were outstanding compared to 2.1 million stock options, 0.3 million RSUs and 0.2 million DSUs at June 30, 2021. Despite reduced stock options outstanding, as a result of increased RSUs and DSUs along with higher exercise prices for new stock options granted (due to higher share prices compared to 2021) and dividend equivalents attributable to RSUs and DSUs, overall share-based compensation expense increased in 2022.

Finance Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Lease interest	**320**	330	(3)	**657**	686	(4)
Accretion on decommissioning liabilities	**14**	22	(36)	**27**	42	(36)
Amortization of deferred financing costs	**159**	160	(1)	**316**	318	(1)
Interest on Credit Facility	**102**	321	(68)	**245**	781	(69)
Finance expenses	**595**	833	(29)	**1,245**	1,827	(32)

Finance expenses decreased in Q2 2022 and for the six months ended June 30, 2022 compared to the same periods in 2021 due mainly to decreased interest on our Credit Facility as a result of repayments. The balance outstanding decreased from $7.5 million as of June 30, 2021 to $2.5 million as of June 30, 2022.

Income Tax Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Current income tax expense	**333**	295	13	**472**	295	60
Deferred income tax expense – restated[(1)]	**832**	1,539	(46)	**2,851**	2,679	6
Total - restated[(1)]	**1,165**	1,834	(36)	**3,323**	2,974	12

(1) The 2021 comparative periods in the table above have been restated. See ""Restatement of the 2021 Comparative Period" section within this MD&A for further details.

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. In the third quarter of 2021, the Company received approval from tax authorities in Brazil for Supertintendência de Desenvolvimento do Nordeste ("SUDENE"), a regional tax incentive offered in Bahia State. Under the incentive, special deductions reduce the inherent current tax payable on qualifying projects to an effective rate of 15.25% where SUDENE profits align with taxable income under the actual profit regime. The SUDENE incentive applies to natural gas profits Alvopetro earns for a period of ten taxation years, commencing January 1, 2021 and ending December 31, 2030. As Alvopetro expects the majority of temporary differences to reverse during the SUDENE period, for deferred tax purposes Alvopetro has estimated the future tax rate applicable to temporary differences based on the SUDENE rate of 15.25%. However, in the three and six months ended June 30, 2021, as the Company had not yet received approval for SUDENE, the statutory rate of 34% was utilized for the estimated future tax rate.

Overall, the Company's effective tax rate (computed as total income tax expense divided by income before taxes) is 16% in the six months ended June 30, 2022, higher than the SUDENE rate of 15.25% due to non-deductible amounts including share-based compensation and certain finance expenses. Total tax expense for the six months ended June 30, 2022 increased by only $0.3 million compared to 2021 despite the $15.3 million increase in income before taxes due primarily to the recognition of the SUDENE benefit in 2022.

Net Income

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change (%)	**2022**	2021	Change (%)
Net income – restated[(1)]	**6,631**	3,784	75	**17,746**	2,837	526
Per share – basic restated ($)	**0.20**	0.11	82	**0.52**	0.09	478
Per share – diluted restated ($)	**0.18**	0.11	64	**0.49**	0.08	513

(1) The 2021 comparative periods in the table above have been restated. See ""Restatement of the 2021 Comparative Period" section within this MD&A for further details.

The Company reported a $2.8 million increase in net income in Q2 2022 compared to Q2 2021 due to the $7.0 million increase in funds flow from operations along with reduced depletion and depreciation expense and deferred tax expense offset by the $3.0 million foreign exchange loss in Q2 2022 compared to a foreign exchange gain of $2.8 million in Q2 2021.

Capital Expenditures

	Three Months Ended June 30,		Six Months Ended June 30,	
Capital Expenditures by Type	**2022**	2021	**2022**	2021
E&E				
Drilling and completions	**4,344**	119	**6,237**	363
Facility & equipment	**54**	11	**54**	12
Land, lease, and similar payments	**(19)**	4	**(14)**	6
Inventory purchases	**859**	58	**1,150**	505
Capitalized G&A	**240**	111	**356**	153
Total E&E	**5,478**	303	**7,783**	1,039
PP&E				
Facility & equipment	**562**	512	**1,828**	515
Drilling & completion	**2**	47	**51**	172
Land, lease and similar payments	**23**	8	**37**	12
Furniture & fixtures	**4**	18	**9**	18
Capitalized G&A	**190**	114	**330**	176
Other	**79**	(84)	**100**	(150)
Total PP&E	**860**	615	**2,355**	743
Total Capital Expenditures by Type	**6,338**	918	**10,138**	1,782

	Three Months Ended June 30,		Six Months Ended June 30,	
Capital Expenditures by Property	**2022**	2021	**2022**	2021
E&E				
Blocks 182, 183	**4,644**	245	**6,658**	534
Inventory	**859**	58	**1,150**	505
Other	**(25)**	-	**(25)**	-
Total E&E	**5,478**	303	**7,783**	1,039
PP&E				
Caburé and associated midstream assets	**75**	17	**161**	17
Murucututu	**781**	680	**2,185**	872
Other	**4**	(82)	**9**	(146)
Total PP&E	**860**	615	**2,355**	743
Total Capital Expenditures by Property	**6,338**	918	**10,138**	1,782

Capital expenditures in the quarter included $2.2 million for drilling the 183-B1 well which was spud in June, with drilling completed in July, final costs of $2.1 million for drilling the 182-C1 well which was completed in April, production facility and other development costs on our Murucututu field of $0.6 million, $0.9 million for long-lead inventory purchases and $0.4 million in capitalized G&A.

Summary of Quarterly Results

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Financial								
Natural gas, oil and condensate sales	**15,787**	13,972	9,896	9,963	8,182	6,939	5,887	5,320
Net income (loss) – restated(1)	**6,631**	11,115	2,778	(20)	3,784	(947)	2,815	9,987
Per share – basic restated ($)(1)(2)	**0.20**	0.33	0.08	(0.00)	0.11	(0.03)	0.09	0.30
Per share – diluted restated ($)(1)(2)	**0.18**	0.30	0.08	(0.00)	0.11	(0.03)	0.08	0.30
Cash flows from operating activities	**12,997**	8,333	7,088	7,234	5,665	4,304	3,124	1,971
Per share – basic ($)(2)	**0.38**	0.25	0.21	0.22	0.17	0.13	0.09	0.06
Per share diluted ($)(2)	**0.35**	0.23	0.20	0.20	0.16	0.13	0.09	0.06
Funds flow from operations (3)	**12,434**	10,904	6,480	7,930	5,471	4,756	4,252	3,610
Per share – basic ($)(2)	**0.37**	0.32	0.19	0.24	0.16	0.14	0.13	0.11
Per share diluted ($)(2)	**0.34**	0.30	0.18	0.22	0.16	0.14	0.13	0.11
Dividends declared	**2,729**	2,715	2,034	2,023	-	-	-	-
Per share ($)(2)	**0.08**	0.08	0.06	0.06	-	-	-	-
Capital expenditures	**6,338**	3,800	1,470	1,261	918	864	452	107
Operations								
Average realized prices(3):								
Natural gas ($/Mcf)	**11.90**	10.03	7.07	7.07	6.06	5.68	5.36	5.37
NGL – condensate ($/bbl)	**121.93**	106.42	84.36	79.36	74.47	64.41	46.97	44.75
Oil ($/bbl)	**94.47**	79.50	76.47	61.11	59.63	-	-	-
Average foreign exchange ($1 USD = BRL)	**4.927**	5.233	5.586	5.229	5.291	5.483	5.392	5.377
Operating netback ($/boe) (3)								
Realized sales price ($/boe) (3)	**73.54**	62.08	44.22	44.04	38.08	35.45	32.82	32.79
Royalties (3)	**(5.35)**	(4.35)	(4.22)	(4.02)	(2.82)	(3.30)	(1.51)	(2.81)
Production expenses(3)	**(4.23)**	(3.79)	(3.62)	(3.64)	(3.68)	(3.63)	(3.39)	(3.99)
Operating netback ($/boe) (3)	**63.96**	53.94	36.38	36.38	31.58	28.52	27.92	25.99
Operating netback margin(3)	**87%**	87%	82%	83%	83%	80%	85%	79%
Average daily sales:								
Natural gas (Mcfpd)	**13,546**	14,339	13,966	14,102	13,512	12,464	11,163	10,105
NGL – condensate (bopd)	**97**	99	103	107	105	98	89	79
Oil (bopd)	**5**	12	2	2	5	-	-	-
Total average daily sales (boepd)	**2,359**	2,501	2,432	2,459	2,361	2,175	1,950	1,764

Notes:

(1) The 2020 and 2021 periods in the table above have been restated. See ""Restatement of the 2021 Comparative Period" section within this MD&A for further details.

(2) Per share amounts are based on weighted average shares outstanding other than dividends per share, which is based on the number of common shares outstanding at each dividend record date. 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.

(3) See "*Non-GAAP and Other Financial Measures*" section within this MD&A.

Average daily sales volumes decreased 6% from Q1 2022 to 2,359 boepd, due to the planned five-day shut-down in May to complete necessary work in advance of the Facility expansion and to complete a plant turnaround and inspection. With improved commodity prices overall and 100% of our natural gas sales in the quarter at the February 1, 2022 contracted price, along with the appreciation of the BRL relative to the USD, our realized sales price increased $11.46 per boe from Q1 2022. As a result, natural gas, oil and condensate sales increased $1.8 million (+13% from Q1 2022) despite the 6% drop in daily production volumes. Our operating netback per boe increased to $63.96 per boe, a record for Alvopetro. Despite higher revenues and funds flow from operations, net income decreased $4.5 million due mainly to a foreign exchange loss of $3.0 million in Q2 2022 compared to a foreign exchange gain in Q1 2022 of $5.0 million, the majority of which related to foreign exchange on intercompany balances.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at June 30, 2022:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments[(1), (2)]				
Block 183	637	-	-	637
Bom Lugar	-	67	-	67
Mãe-da-lua	-	-	67	67
Minimum work commitments	637	67	67	771
Gas Treatment Agreement[(3)]	1,702	3,475	8,687	13,864
Total commitments	**2,339**	**3,542**	**8,754**	**14,635**

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) Minimum work commitments are BRL denominated commitments and reflected in the table above based on the U.S. dollar equivalent as at June 30, 2022. As a result, such commitments are therefore subject to fluctuations in the USD/BRL foreign exchange rate.

(3) With respect to the Gas Treatment Agreement, of the total $13.9 million reflected in the table above, $3.3 million is USD-denominated with the remaining being BRL-denominated (reflected in the table above based on the U.S. dollar equivalent as at June 30, 2022). The portion that is BRL-denominated is subject to fluctuations in the USD/BRL foreign exchange rate.

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 and monthly costs associated with the facility expansion which was completed subsequent to June 30, 2022. The costs associated with the facility expansion will be treated as capital lease obligation and reflected on the consolidated statements of financial position in the third quarter of 2022 when the expansion was completed.

The work commitment for Block 183 was satisfied with the completion of drilling of the 183-B1 well subsequent to June 30, 2022, subject to the approval of the ANP.

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. The outcome of adverse decisions in any pending or threatened proceedings related to these and other matters could have a material impact on the Company's financial position, results of operations or cash flows.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Working Capital

At June 30, 2022, Alvopetro's cash and cash equivalents of $13.7 million and restricted cash of $0.2 million were held as follows:

	Total	U.S. Dollar	CAD Dollar[(1)]	BRL[(1)]
Cash held in Canada	9,257	9,019	238	-
Cash held in Brazil	4,415	-	-	4,415
Restricted cash - current	232		-	232
Total	**13,904**	**9,019**	**238**	**4,647**

(1) Amounts in the table above denote the U.S. dollar equivalent as at June 30, 2022.

The Company had cash of $13.7 million and a total net working capital surplus of $11.6 million at June 30, 2022. Positive cash flows from natural gas deliveries and associated condensate sales are projected to be sufficient to fund the Company's operational activities and planned capital projects going forward. In addition, the Company expects to have sufficient cash flows to fund future dividends, following the Board of Director's decision to commence quarterly dividends in the third quarter of 2021 and to further increase the quarterly dividend in the first quarter of 2022. 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 and the Board of Directors has discretion with respect to any future dividend amounts.

Exploration work commitments to be met in Brazil have typically been 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, 2022, the total amount of LCs issued under the credit support facility was $0.6 million (December 31, 2021 - $0.6 million), the full balance of which was satisfied by EDC. In Q1 2022, Alvopetro entered into an arrangement with a local insurance provider in Brazil to provide a surety bond to extend the work commitment guarantee from the July 2022 expiry date with EDC to January 2023. In addition, the Company has a restricted cash balance of $0.2 million as at June 30, 2022 (December 31, 2021 - $0.2 million) primarily in respect of abandonment guarantees on the Company's oil fields.

The liability for decommissioning obligations of Alvopetro was $0.7 million as at June 30, 2022, 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, 2022, the Company had $2.0 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.

Credit Facility

In 2019, the Company entered into a credit facility (the "Credit Facility") which is secured by all of Alvopetro's assets and matures on October 8, 2023. The Credit Facility is subject to cash interest of 9.5% per annum, payable monthly. 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 $13.0 million, bringing the balance outstanding to $2.5 million as of June 30, 2022.

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 certain financial covenants being a minimum debt service ratio of 1.30 and a maximum leverage ratio of 2.25. For the period ended June 30, 2022, the covenants are computed for the period July 1, 2021 to June 30, 2022 and determined as follows:

Covenant	**Covenant threshold**	**June 30, 2022**	December 31, 2021
Debt Service Ratio	Minimum of 1.30:1	**6.92:1**	6.04:1
Leverage Ratio	Maximum of 2.25:1	**(0.28):1**	(0.19):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, capital expenditures, dividends and share repurchases 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. 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, 2022.

Lease Liabilities

The lease liability to Enerflex in respect of the monthly equipment rental under our Gas Treatment Agreement represents the majority of the Company's lease liabilities as at June 30, 2022. Additional lease liabilities outstanding relate to office space in Canada and Brazil and surface land access for our midstream assets. In the third quarter of 2021 Alvopetro notified Enerflex to increase the operational capacity of the Facility to 500,000 m3/d (17.7 MMcfpd) under the terms of the existing Gas Treatment Agreement. The additional firm capacity was available to Alvopetro subsequent to June 30, 2022 and will be to be reflected as an increased lease liability in the third quarter of 2022. The Company's lease liabilities are as follows:

	As at	
	June 30, 2022	December 31, 2021
Lease liabilities, beginning of period	**7,979**	8,310
Additions	**73**	190
Finance expense	**657**	1,355
Lease payments	**(925)**	(1,856)
Foreign currency translation	**4**	(20)
Lease liabilities, end of period	**7,788**	7,979
Current	**572**	516
Non-current	**7,216**	7,463
Total, end of period	**7,788**	7,979

Dividends

In 2021 Alvopetro initiated a quarterly dividend program, with dividends of $0.06 per common share declared by the board of directors (the "Board") in the third quarter and fourth quarter of 2021. In March 2022, the quarterly dividend was increased to $0.08 per common share. All dividends are designated as "eligible dividends" for the purpose of the Income Tax Act (Canada). A total of $2.7 million in dividends were declared in Q2 2022 and $5.4 million dividends in the six months ended June 30, 2022.

The Company expects future dividends to be paid quarterly as part of Alvopetro's long-standing capital allocation objective to balance spending from cash flows on reinvestment in growth opportunities with stakeholder returns. The decision to declare any future quarterly dividend and the amount of such dividend, if any, remains subject to the discretion of the Board and may vary depending on a variety of factors. There can be no assurance that dividends will be paid at the intended rate or at any rate in the future.

RESTATEMENT OF THE 2021 COMPARATIVE PERIODS

In August 2022 the Company determined that there was an error in prior periods with respect to the application of *IAS 21 – The Effects of Changes in Foreign Exchange Rates* on accounting for the purchase price adjustment associated with the original acquisition of the Company's Brazilian assets in the year-ended December 31, 2012 and the functional currency associated with such amounts. IAS 21 requires that fair value adjustments relating to acquisitions be carried in the functional currency of the subsidiary acquired, being BRL in the case of the 2012 acquisition. The Company had incorrectly carried such amounts in USD since the time of the acquisition. Given the devaluation of the BRL to USD since 2012, the adjustments as set out below were required to bring the accounting records in compliance with IAS 21 for the periods as indicated. The comparative periods included within this MD&A for the three and six months ended June 30, 2021 have been restated to reflect these adjustments. The impact of the adjustments is summarized in the tables below for all periods disclosed within this MD&A. Please also refer to Note 21 of the audited restated consolidated financial statements for the years ended December 31, 2021 and December 2020 as well as Note 14 of unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2022 and June 2021 for further details.

The restatement is not as a result of any change to the Company's operations or the Company's business. For any and all of the periods restated there is no impact on the overall cash position, net cash flows from operating, investment or financing activities on the statement of cash flows or on any of the inputs used to determine the Company's recoverable reserves.

Impact of the Restatement on the Consolidated Financial Statements

	As at					
	December 31, 2021			January 1, 2021		
	Previously Reported	Adjustment	**Restated**	Previously Reported	Adjustment	**Restated**
E&E Assets	3,713	-	**3,713**	32,262	(6,498)	**25,764**
PP&E	48,748	(8,968)	**39,780**	25,843	(2,953)	**22,890**
Deferred tax asset	3,938	1,367	**5,305**	4,576	3,213	**7,789**
Retained Earnings (Deficit)(1)	9	6,477	**6,486**	(71,172)	7,496	**(63,676)**
Accumulated Other Comprehensive Loss(1)	(32,445)	(14,078)	**(46,523)**	(35,294)	(13,734)	**(49,028)**

	June 30, 2021					
	For the Three Months Ended			For the Six Months Ended		
	Previously Reported	Adjustment	**Restated**	Previously Reported	Adjustment	**Restated**
Impact on Consolidated Statements of Operations and Comprehensive Income (2)						
Depletion and depreciation expense	(2,092)	222	**(1,870)**	(3,766)	435	**(3,331)**
Deferred tax expense	(1,464)	(75)	**(1,539)**	(2,532)	(147)	**(2,679)**
Net income	3,637	147	**3,784**	2,549	288	**2,837**
Exchange gain on translation of foreign operations	4,341	515	**4,856**	3,354	147	**3,501**
Comprehensive income	7,978	662	**8,640**	5,903	435	**6,338**
Net income per share amounts:						
Basic	0.11	-	**0.11**	0.08	0.01	**0.09**
Diluted	0.11	-	**0.11**	0.07	0.01	**0.08**
Impact on Consolidated Statements of Cash Flows(3)						
Operating Activities:						
Net income	3,637	147	**3,784**	2,549	288	**2,837**
Adjustments for non-cash items:						
Depletion and depreciation	2,092	(222)	**1,870**	3,766	(435)	**3,331**
Deferred tax	1,464	75	**1,539**	2,532	147	**2,679**
Funds flow from operations	5,471	-	**5,471**	10,227	-	**10,227**
Cash flow from operating activities	5,665	-	**5,665**	9,969	-	**9,969**

(1) Adjustments to retained earnings (deficit) and accumulated other comprehensive loss include both the impact in the year ended December 31, 2021 as well as the impact of adjustments on opening balances as at January 1, 2021 to reflect lower historical impairment expense and depletion expense and adjustments to deferred tax as a result of reductions in the carrying values of E&E and PP&E.

(2) The adjustments to reduce the carrying value of PP&E resulted in lower depletion and depreciation expense in 2021 and an associated increase to deferred tax expense. The adjustments to the exchange gain on translation of foreign operations, included in other comprehensive income in the Consolidated Statement of Operations and Comprehensive Income are due to the effect of foreign exchange on the translation of foreign operations as the E&E and PP&E carrying values are now reflected in local currency (BRL) and adjusted at each period end date for presentation purposes.

(3) There are adjustments to the individual line items within Operating Activities in the Consolidated Statements of Cash Flows. However, as reflected in the table above, there is no overall impact in funds flow from operations or cash flow from operating activities following the adjustments. Furthermore, there is no impact to any line items in Financing Activities or Investing Activities from any adjustments.

Impact of the Restatement on Disclosure Within this MD&A:

Adjustment to Depletion and Depreciation

	June 30, 2021	
	Three Months Ended	**Six Months Ended**
Depletion and depreciation – original	2,092	3,766
Adjustment	(222)	(435)
Depletion and depreciation expense - restated	**1,870**	**3,331**
Depletion and depreciation per boe -original	9.74	9.17
Adjustment	(1.04)	(1.06)
Depletion and depreciation per boe – restated	**8.70**	**8.11**

Adjustment to Deferred Income Tax Expense

	June 30, 2021	
	Three Months Ended	**Six Months Ended**
Deferred income tax expense – original	1,464	2,532
Adjustment	75	147
Deferred income tax expense - restated	**1,539**	**2,679**

Adjustment to Net Income

	June 30, 2021	
	Three Months Ended	**Six Months Ended**
Net income – original	3,637	2,549
Adjustment	147	288
Net income - restated	**3,784**	**2,837**

Adjustment to Net Income per Share

	June 30, 2021	
	Three Months Ended	**Six Months Ended**
Net income per share – basic ($) – original	0.11	0.08
Adjustment	-	0.01
Net income per share – basic ($) - restated	**0.11**	**0.09**
Net income per share – diluted ($) – original	0.11	0.07
Adjustment	-	0.01
Net income per share – diluted ($) - restated	**0.11**	**0.08**

Adjustments to Quarterly Results:

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Net income (loss) – original	2,575	1,490	3,637	(1,088)	2,754	6,483
Adjustment	203	(1,510)	147	141	61	3,504
Net income (loss) – restated	**2,778**	**(20)**	**3,784**	**(947)**	**2,815**	**9,987**
Net income (loss) per share – original - basic ($)	0.08	0.05	0.11	(0.03)	0.08	0.20
Adjustment	-	(0.05)	-	-	0.01	0.10
Net income (loss) per share – basic - restated	**0.08**	**(0.00)**	**0.11**	**(0.03)**	**0.09**	**0.30**
Net income (loss) per share – original - diluted ($)	0.07	0.04	0.11	(0.03)	0.08	0.19
Adjustment	0.01	(0.04)	-	-	-	0.11
Net income (loss) per share – diluted -restated	**0.08**	**(0.00)**	**0.11**	**(0.03)**	**0.08**	**0.30**

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, 2022, there were 34,119,772 common shares, 1,193,997 stock options, 370,557 RSUs, 196,665 DSUs and 2,685,956 warrants outstanding. There are no preferred shares outstanding.

NON-GAAP AND OTHER FINANCIAL MEASURES

This MD&A or documents referred to in this MD&A make reference to various non-GAAP financial measures, non-GAAP ratios, capital management measures and supplementary financial measures as such terms are defined in National Instrument 52-*112 Non-GAAP and Other Financial Measures Disclosure*. Such measures are not recognized measures under GAAP and do not have a standardized meaning prescribed by IFRS and therefore might not be comparable to similar financial measures disclosed 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 and other financial 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. 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.

Below is a description of the non-GAAP financial measures, non-GAAP ratios, capital management measures and supplementary financial measures used in this MD&A.

Non-GAAP Financial Measures

Operating Netback

Operating netback is calculated as natural gas, oil and condensate sales revenues less royalties and production expenses. This calculation is provided in the "*Operating Netback*" section of this MD&A using our IFRS measures. Operating netback is a common metric used in the oil and gas industry to demonstrate profitability from operations.

Non-GAAP Financial Ratios

Operating Netback per boe

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. 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. Alvopetro calculated operating netback per boe as operating netback divided by total sales volumes (barrels of oil equivalent). This calculation is provided in the "*Operating Netback*" section of this MD&A using our IFRS measures.

Operating Netback Margin

Operating netback margin is calculated as operating netback per boe divided by the realized sales price per boe. Operating netback margin is a measure of the profitability per boe relative to natural gas, oil and condensate sales revenues per boe and is calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	**2022**	2021
Operating netback - $ per boe	**63.96**	31.58	**58.84**	30.11
Average realized price - $ per boe	**73.54**	38.08	**67.68**	36.82
Operating netback margin	**87%**	83%	**87%**	82%

Funds Flow from Operations Per Share

Funds flow from operations per share is a non-GAAP ratio that includes all cash generated from operating activities and is calculated before changes in non-cash working capital, 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 June 30,		Six Months Ended June 30,	
$ per share	**2022**	2021	**2022**	2021
Per basic share:				
Cash flows from operating activities	**0.38**	0.17	**0.63**	0.30
Funds flow from operations	**0.37**	0.16	**0.69**	0.31
Per diluted share:				
Cash flows from operating activities	**0.35**	0.16	**0.59**	0.29
Funds flow from operations	**0.34**	0.16	**0.64**	0.30

Capital Management Measures

Funds Flow from Operations

Funds flow from operations is a non-GAAP capital management measure that includes all cash generated from operating activities and is calculated before changes in non-cash working capital. The most comparable GAAP measure to funds flow from operations is cash flows from operating activities. Management considers funds flow from operations important as it helps evaluate financial performance and demonstrates 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,	
	2022	2021	**2022**	2021
Cash flows from operating activities	**12,997**	5,665	**21,330**	9,969
Add back changes in non-cash working capital	**(563)**	(194)	**2,008**	258
Funds flow from operations	**12,434**	5,471	**23,338**	10,227

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,	
	2022	2021
Total current assets	**21,461**	8,413
Total current liabilities	**(9,820)**	(3,914)
Net working capital surplus	**11,641**	4,499

Working Capital Net of Debt (Net Debt)

Working capital net of debt is computed as net working capital surplus decreased by the carrying amount of the Credit Facility. Working capital net of debt is used by management to assess the Company's overall financial position.

	As at June 30,	
	2022	2021
Net working capital surplus	**11,641**	4,499
Credit Facility, balance outstanding	**(2,545)**	(7,545)
Working capital, net of debt (net debt)	**9,096**	(3,046)

Supplementary Financial Measures

"Average realized natural gas price - $/Mcf" is comprised of natural gas sales as determined in accordance with IFRS, divided by the Company's natural gas sales volumes.

"Average realized NGL – condensate price - $/bbl" is comprised of condensate sales as determined in accordance with IFRS, divided by the Company's NGL sales volumes from condensate.

"Average realized oil price - $/bbl" is comprised of oil sales as determined in accordance with IFRS, divided by the Company's oil sales volumes.

"Average realized price - $/boe" is comprised of natural gas, condensate and oil sales as determined in accordance with IFRS, divided by the Company's total natural gas, condensate and oil sales volumes (barrels of oil equivalent).

"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the total natural gas, condensate and oil sales volumes (barrels of oil equivalent).

"Royalties as a percentage of sales" is comprised of royalties, as determined in accordance with IFRS, divided by the total natural gas, condensate and oil sales, as determined in accordance with IFRS.

"Production expenses per boe" is comprised of production expenses, as determined in accordance with IFRS, divided by the total natural gas, condensate and oil sales volumes (barrels of oil equivalent).

"G&A expenses per boe" is comprised of net G&A expense, as determined in accordance with IFRS, divided by the total natural gas, condensate and oil sales volumes (barrels of oil equivalent).

"DD&A expense per boe" is comprised of DD&A expense, as determined in accordance with IFRS, divided by the total natural gas, condensate and oil sales volumes (barrels of oil equivalent).

OFF BALANCE SHEET ARRANGEMENTS

Alvopetro has off-balance sheet arrangements consisting of various contracts entered into in the normal course of operations. Contracts that contain a lease are accounted for under IFRS 16 and recorded on the balance sheet as of June 30, 2022 to the extent the lease has commenced. All other contracts which are entered into in the normal course of operations are captured in the *Commitments and Contingencies* section above. In 2021, Alvopetro notified Enerflex to increase the operational capacity of the Facility to 500,000 m^3/d (17.7 MMcfpd) under the terms of the existing Gas Treatment Agreement which increases the monthly equipment rental costs once completed. The additional firm capacity became available subsequent to June 30, 2022. The anticipated additional monthly costs associated with the expansion have been reflected in the *Commitments and Contingencies* table above and are expected to be reflected as increased lease liability and recorded on the balance sheet in the third quarter of 2022.

RISKS AND UNCERTAINTIES

Alvopetro is exposed to a variety of risks including, but not limited to: market risk, reservoir performance risk, exploration risk, operational risks, foreign operations risk, liquidity and financing risk, legal and regulatory risks including the impact of new and stricter environmental regulations, competitive risks within the oil and gas industry and physical risk associated with climate change. 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 restated Annual Information Form that can be found on SEDAR at www.sedar.com and in our restated MD&A for the year-ended December 31, 2021. There have been no significant changes in the six months ended June 30, 2022 to the risks and uncertainties identified in the restated MD&A and restated Annual information Form for the year-ended December 31, 2021.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The accounting policies used in preparation of the interim financial statements as at and for the six months ended June 30, 2022 are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2021. 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. The use of any of the words "will", "expect", "intend" and other similar words or expressions are intended to identify forward-looking information. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the expectations discussed in the forward-looking statements. These forward-looking statements reflect current assumptions and expectations regarding future events. More particularly and without limitation, this MD&A contains forward-looking statements concerning the plans relating to the Company's operational activities, potential natural gas pay in the 182-C1 well, potential hydrocarbon pay in the 183-B1 well, exploration and development prospects of Alvopetro, future results from operations, the expected natural gas price, gas sales and gas deliveries under the Company's long-term gas sales agreement, projected financial results, the Company's plans for dividends in the future, 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, capital spending levels and anticipated royalty reductions. Forward-looking statements are necessarily based upon assumptions and judgments with respect to the future including, but not limited to, equipment availability, the timing of testing the 182-C1 well and the 183-B1 well and the results from such testing, the success of future drilling, completion, recompletion and development activities, foreign exchange rates, 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. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. In addition, the declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors. 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 foreign exchange rate fluctuations and general economic conditions. Certain of these risks are set out in more detail in this MD&A and in our 2021 Annual Information Form which has been filed 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.

Testing and Well Results. Data obtained from the 182-C1 well and the 183-B1 well identified in this MD&A, including hydrocarbon shows, open-hole logging, net pay and porosities, should be considered to be preliminary until testing, detailed analysis and interpretation has been completed. Hydrocarbon shows can be seen during the drilling of a well in numerous circumstances and do not necessarily indicate a commercial discovery or the presence of commercial hydrocarbons in a well. There is no representation by Alvopetro that the data relating to the 182-C1 and the 183-B1 wells contained in this MD&A is necessarily indicative of long-term performance or ultimate recovery. The reader is cautioned not to unduly rely on such data as such data may not be indicative of future performance of the well or of expected production or operational results for Alvopetro in the future.

Abbreviations:

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
CAD	=	Canadian dollar
m^3	=	cubic metre
m^3/d	=	cubic metre per day
Mcf	=	thousand cubic feet
Mcfpd	=	thousand cubic feet per day
MMBtu	=	million British Thermal Units
MMcf	=	million cubic feet
MMcfpd	=	million cubic feet per day
NGLs	=	natural gas liquids
Q1 2022	=	three months ended March 31, 2022
Q2 2021	=	three months ended June 30, 2021
Q2 2022	=	three months ended June 30, 2022

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.