The following Management's Discussion and Analysis ("MD&A") is dated November 16, 2016 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 nine months ended September 30, 2016, MD&A for the year ended December 31, 2015 and the audited consolidated financial statements as at and for the years ended December 31, 2015 and 2014. 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 read in conjunction with Alvopetro's disclosure under the headings "*Non-GAAP Measures*" and "*Forward Looking Information*" at the end of this MD&A.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Description of Business

Alvopetro Energy Ltd. ("Alvopetro" or "the Company") is engaged in the exploration, development and production of hydrocarbons in Brazil. Alvopetro is a publicly traded company listed on the TSX Venture Exchange and was incorporated under the *Business Corporations Act* (Alberta) on September 25, 2013 as 1774501 Alberta Ltd. and subsequently changed its name to Alvopetro Energy Ltd. on November 19, 2013. Alvopetro is engaged in the exploration for, and the acquisition, development and production of, hydrocarbons in the Recôncavo, Tucano and Camamu-Almada Basins onshore Brazil. Alvopetro holds interests in two mature fields and 14 exploration blocks comprising 140,509 gross acres (123,313 net acres) onshore Brazil.

Strategy

Alvopetro Energy Ltd.'s vision is to be the premier independent exploration and production company in Brazil, maximizing shareholder value by applying innovation to underexploited opportunities. Our strategy is to focus on three core opportunities including lower risk development drilling on our mature fields, shallow conventional exploration, and the development of the significant hydrocarbon potential present in our deep Gomo tight-gas resource play. Our efforts in the near-term are concentrated on building a natural gas business by finalizing a unitization agreement and securing a gas sales contract for our 197(2) discovery.

OPERATING AND FINANCIAL RESULTS

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Financial				
($000s, except where noted)				
Oil sales	**74**	97	**353**	419
Funds flow from operations (1)	**(1,155)**	(1,240)	**(3,689)**	(3,949)
Per share – basic and diluted ($)(2)	**(0.01)**	(0.01)	**(0.04)**	(0.05)
Net loss	**(5,692)**	(84)	**(12,207)**	(2,627)
Per share – basic and diluted ($)(2)	**(0.07)**	-	**(0.14)**	(0.03)
Capital and other asset expenditures	**3,785**	2,636	**7,686**	10,592
Total assets	**80,765**	98,282	**80,765**	98,282
Debt	**-**	-	**-**	-
Net working capital surplus (1) (3)	**18,376**	32,150	**18,376**	32,150
Common shares outstanding, end of period (000s)				
Basic	**85,167**	85,167	**85,167**	85,167
Diluted (2)	**91,373**	90,568	**91,373**	90,568
Operations				
Operating netback ($/bbl) (1)				
Brent benchmark price	**46.98**	51.17	**42.48**	56.61
Discount	**(8.38)**	(12.65)	**(8.84)**	(10.94)
Sales price	**38.60**	38.52	**33.64**	45.67
Transportation expenses	**(2.09)**	(3.18)	**(2.10)**	(3.16)
Realized sales price	**36.51**	35.34	**31.54**	42.51
Royalties and production taxes	**(4.17)**	(2.78)	**(3.53)**	(3.05)
Production expenses	**(137.72)**	(71.49)	**(93.66)**	(75.43)
Operating netback	**(105.38)**	(38.93)	**(65.65)**	(35.97)
Average daily crude oil production (bopd)	**21**	27	**38**	34

Notes:

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

(2) Consists of outstanding common shares and stock options of the Company.

(3) Includes current restricted cash of $0.1 million at September 30, 2016 ($2.3 million - September 30, 2015).

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE THIRD QUARTER OF 2016

- In the third quarter of 2016, our production decreased 42% to 21 bopd. The 182(B1) well was shut-in on May 11, 2016 to replace rental equipment with Company-owned facilities and to complete a workover. Production resumed on September 19, 2016. Third quarter production was also impacted by reduced production from the Bom Lugar field which was offline from mid-June to mid-August for a pump repair.
- Capital expenditures of $3.8 million in the third quarter included $2.9 million for the 256(A1) well, $0.3 million for facilities and workover projects on our 182(B1) well and capitalized G&A of $0.4 million.
- We reported a net loss of $5.7 million in the third quarter, primarily due to the $4.5 million impairment booked, $4.4 million of which was attributable to Block 256.
- During the third quarter we entered into a farmout agreement with an independent third party (the "Farmee") to transfer a 95% interest in Block 107 in exchange for a $0.3 million cash payment and an agreement by the Farmee to drill two wells on Block 107 in satisfaction of block work commitments. The agreement is subject to the receipt of environmental permits for the two wells to be drilled and approval by the National Agency of Petroleum, Natural Gas and Biofuels of Brazil ("ANP"). Following receipt of all approvals and completion of the two wells, we will be entitled to exchange our 5% interest for a 5% gross-overriding royalty and, in the event of a drilling success on Block 107, a 5% gross-overriding royalty on an adjacent block held by the Farmee.
- Our cash and working capital resources total $18.4 million, including $21.8 million of cash and cash equivalents and $0.1 million of current restricted cash.

RECENT HIGHLIGHTS

- We have commenced site construction for our next well to be drilled, 198(A1), that will fulfil our Block 198 exploratory phase commitment. The 198(A1) well is both a step out well to our 197(2) natural gas discovery in the Caruacu Formation where our independent evaluators assigned contingent recoverable resources and the well is also targeting uphole exploration potential.

PETROLEUM AND NATURAL GAS PROPERTIES

As at September 30, 2016, Alvopetro held interests in two mature fields and 14 exploration blocks comprising 140,509 gross acres (123,313 net acres) onshore Brazil in three hydrocarbon basins: the Recôncavo, Tucano, and Camamu-Almada. The current exploration assets consist of Blocks 182, 197, 183, 106, 107, 169, 198, 255, 256, 57, 62, 71, and 145 in the Recôncavo Basin, Block 177 in the Tucano Basin and two mature producing fields (Bom Lugar and Jiribatuba). Following the successful closing of the Block 107 farmout, Alvopetro will hold and operate 13 exploration blocks and two mature fields in Brazil, totaling 132,948 gross acres (122,935 net acres).

EXPLORATION BLOCK ACTIVITY SUMMARY

Block	Gross Acres	Working Interest	Current Phase	Current Phase Expiry	Work Units(1)	Commitment ($000s)	Letter of Credit Support(2) ($000s)
Work to be completed on exploration blocks:							
182	5,239	100%	PAD(3)	October 31, 2016(3)	-	-	-
183	7,740	100%	Phase II	June 11, 2017(4)	1,000	1,027	1,233
197	5,807	100%	PAD	January 31, 2017(5)	-	-	-
106	7,759	100%	Phase I	March 1, 2017	300	351	463
T-177	46,505	100%	Phase I	March 1, 2017	1,892	2,215	2,919
169	5,280	100%	Phase I	May 15, 2017	1,000	1,171	1,543
198	7,739	100%	Phase I	May 15, 2017	1,000	1,171	1,543
255	7,734	100%	Phase I	May 15, 2017	1,197	1,401	1,847
57	7,752	65%	Phase I	January 24, 2019	303	273	279
62	7,715	65%	Phase I	January 24, 2019	303	273	279
71	5,409	65%	Phase I	January 24, 2019	207	187	191
145	7,734	65%	Phase I	January 24, 2019	303	273	279
Subtotal – work to be completed on exploration blocks					**7,505**	**8,342**	**10,576**
Work completed/farmed out on exploration blocks(6) :							
256	7,734	100%	Phase I	May 15, 2017	266	311	410
107	7,561	5%	Phase I	March 1, 2017	2,000	2,341	3,086
Subtotal – work completed/farmed out on exploration blocks					**2,266**	**2,652**	**3,496**
GRAND TOTAL – ALL EXPLORATION BLOCKS					**9,771**	**10,994**	**14,072**

(1) The minimum work units ("UT's") expressed above represent the minimum work to be carried out under the terms of the existing exploration phase of the concession contracts. UT's may be satisfied through, among other things, drilling exploration wells (1,000 work units) and shooting or reprocessing seismic (UT's based on km/km2). UT's are not applicable in the Discovery Evaluation Plan ("PAD") phase; however, the Company must notify the ANP of its work plan to be completed during this phase. UT's are expressed at 100% of the commitment, regardless of working interest.

(2) Letters of Credit ("LC's") posted in satisfaction of work units are in excess of USD equivalent amounts for the associated commitments due to foreign exchange margin requirements.

(3) A PAD was approved by the ANP on December 28, 2015 and includes plans to drill one well prior to October 31, 2016. In July 2016, the Company applied for a six-month extension to the current PAD deadline of October 31, 2016 and is currently awaiting response from the ANP.

(4) In September 2016, Alvopetro requested a suspension to the current phase applicable to Block 183 until clear regulations are established in Brazil on the use of hydraulic fracturing.

(5) The PAD for Block 197 was approved in May 2015. The PAD includes plans to test the 197(2) well (which was completed in the three months ended June 30, 2015) and perform additional analysis of our 197(1) well. The PAD may be extended to January 31, 2018 pending additional work. In October 2016, Alvopetro requested an extension to the PAD expiry date or, alternately, a suspension to the PAD activities.

(6) The work commitment for Block 256 was satisfied with the drilling of the 256(A1) well in September 2016, subject to ANP approval. Block 107 was farmed out to a third party during the three months ended September 30, 2016, subject to ANP approval. Under the terms of the agreement, the Farmee will undertake the required work commitments on Block 107, subject to the receipt of environmental permits.

FINANCIAL AND OPERATING REVIEW

Average Daily Production

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Total production (bbls)	**1,917**	2,518	**10,495**	9,174
Daily production (bopd)	**21**	27	**38**	34

Average daily production in the three months ended September 30, 2016 decreased to 21 bopd compared to 27 bopd in the third quarter of 2015, as the Bom Lugar well was offline from mid-June to mid-August for a pump repair. Production in the third quarter of 2016 decreased compared to the first and second quarters of 2016 as the 182(B1) well was shut-in as of May 11, 2016 to replace rental equipment and perform a workover, resulting in average production of 5 bopd in the third quarter compared to 33 bopd and 14 bopd in the first and second quarters of 2016, respectively. On a year-to-date basis, production increased to 38 bopd, a 12% increase over the same period in 2015 due to production from the 182(B1) well which was brought online in late 2015.

Oil Sales

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Brent ($/bbl)	**46.98**	51.17	**42.48**	56.61
Discount ($/bbl)	**(8.38)**	(12.65)	**(8.84)**	(10.94)
Sales Price ($/bbl)	**38.60**	38.52	**33.64**	45.67
Sales price discount as a % of Brent	**18%**	25%	**21%**	19%
Oil Sales	**74**	97	**353**	419
Transportation	**(4)**	(8)	**(22)**	(29)
Total sales, net of transportation expense	**70**	89	**331**	390
Realized price ($/bbl)	**36.51**	35.34	**31.54**	42.51

Alvopetro has sales contracts for the Bom Lugar and Jiribatuba fields and the 182(B1) well. Pursuant to the terms of these contracts, a discount is applied to the average Brent price as a fixed cost per barrel under the Bom Lugar contract and a fixed percentage of Brent for the Jiribatuba and 182(B1) contracts. The sales discount of 18% in the three months ended September 30, 2016 is consistent with the first and second quarters of 2016. On a year-to-date basis, the discount is higher as more sales in the year were attributable to the first quarter when Brent prices were lower.

Overall, oil sales declined 24% in the three months ended September 30, 2016 and 16% in the nine months ended September 30, 2016 compared to the same periods in 2015. The oil sales decline in the three months ended September 30, 2016 was due to the 8% decline in Brent coupled with the daily production decline of 22% compared to the same period in 2015. On a year-to-date basis, the 12% increase in daily production was more than offset by the 25% decline in Brent.

Funds Flow from Operations

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Funds flow from operations	**(1,155)**	(1,240)	**(3,689)**	(3,949)

The Company currently has negative funds flow from operations. Alvopetro funds the Company's capital and operating plans from existing cash balances on hand and is not currently dependent on cash flows from operations. Despite increased production expenses and reduced oil sales, the Company has achieved savings on general and administrative expenses in the three and nine months ended September 30, 2016 compared to the same periods in 2015, contributing to increased funds flow in 2016.

Royalties and Production Taxes

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Royalties and production taxes	**8**	7	**37**	28
Percentage of sales (%)	**10.8%**	7.2%	**10.5%**	6.7%

The mature fields held by Alvopetro are subject to a base 5% government royalty plus an additional 0.5% royalty paid to landowners according to applicable Brazil petroleum laws. All of the exploration blocks held by Alvopetro are subject to a base 10% government royalty plus a 1% landowner royalty. There is an additional 2.5% gross-overriding royalty on Blocks 182 and 197.

All royalties are paid based on an ANP minimum reference price which is typically higher than the realized sales price. Royalties and production taxes include all Social Integration Program ("PIS") taxes and Social Assistance Contribution ("COFINS") paid on oil sales at a combined rate of 9.25%, offset by credits on available expenses. The Company currently has sufficient PIS and COFINS credits to offset any amounts owing.

Royalties as a percentage of sales increased in both the three and nine months ended September 30, 2016 compared to 2015 due to production from the 182(B1) well which has higher overall royalty rates.

Production Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Production expenses by type:				
Personnel	**59**	113	**266**	376
Production facilities rental	**-**	-	**277**	-
Other fixed	**48**	43	**178**	129
Variable	**31**	24	**136**	186
Workover	**126**	-	**126**	1
Total production expenses	**264**	180	**983**	692
Production expenses per barrel ($/bbl):				
Personnel	**30.78**	44.88	**25.35**	40.99
Production facilities rental	**-**	-	**26.39**	-
Other fixed	**25.04**	17.08	**16.95**	14.06
Variable	**16.17**	9.53	**12.96**	20.27
Workover	**65.73**	-	**12.01**	0.11
Total production expenses per barrel	**137.72**	71.49	**93.66**	75.43

Production expenses for the three and nine months ended September 30, 2016 increased $0.1 million and $0.3 million, respectively, compared to the same periods in 2015. Third quarter production expenses increased due to $0.1 million in workover costs for the producing well on the Bom Lugar field. Year-to-date costs were also impacted by production facilities rental costs for the 182(B1) well. The Company ended this rental contract in May 2016.

General and Administrative ("G&A") Expenses

	Three months ended September 30,		Nine months ended September 30,	
G&A Expenses, by type:	**2016**	2015	**2016**	2015
Personnel	**795**	793	**2,286**	2,702
Travel	**46**	53	**129**	312
Office and IT	**109**	144	**354**	465
Professional fees	**202**	179	**485**	557
General corporate	**76**	154	**359**	485
Gross G&A	**1,228**	1,323	**3,613**	4,521
Capitalized G&A	**(374)**	(219)	**(878)**	(905)
Net G&A	**854**	1,104	**2,735**	3,616

The majority of the Company's G&A relates to personnel costs, representing over 60% of total gross G&A. General corporate costs include such items as public company costs and insurance. The Company's Gross G&A has declined $0.1 million in the three months ended September 30, 2016 and $0.9 million in the nine months ended September 30, 2016 compared to the same periods in 2015. The Company is prudent in the management of all G&A expenses and has implemented cost savings initiatives to reduce costs going forward largely with respect to personnel, travel, and office and IT costs. However, due to the strengthening Brazilian Real ("BRL") and Canadian dollar ("CAD"), the USD savings as a result of these initiatives are reduced compared to more recent quarters.

G&A expenses directly relating to exploration and evaluation assets and property, plant and equipment assets totaling $0.9 million were capitalized in the nine months ended September 30, 2016 (September 30, 2015 - $0.9 million).

Cash and Cash Equivalents and Restricted Cash

	As at	
	September 30, 2016	**December 31, 2015**
Cash and cash equivalents	**21,827**	28,733
Restricted cash – current	**108**	2,288
Total cash and restricted cash	**21,935**	31,021

The Company has a credit support facility (the "Facility") with a Canadian bank for up to $45.0 million CAD. This Facility allows for the issuance of LC's 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. Letters of credit and letters of guarantee issued under the Facility are supported by either cash collateral posted by Alvopetro or through an Account Performance Security Guarantee from Export Development Canada ("EDC"). EDC supports up to $15.5 million of Alvopetro's LC's issued under the Facility.

As at September 30, 2016, the total amount of LC's issued under the Facility was $14.1 million (December 31, 2015 - $17.6 million), the full balance of which was satisfied by EDC (December 31, 2015 - $15.3 million). LC's supported by restricted cash as at December 31, 2015 were released during the first quarter of 2016. The current restricted cash as at September 30, 2016 relates to abandonment guarantees posted locally in Brazil for the Bom Lugar and Jiribatuba fields which are not covered by the Facility or by EDC.

LC's supported by EDC at September 30, 2016 include $0.4 million with respect to Block 256 and $3.1 million with respect to Block 107. The work commitment for Block 256 was satisfied with the 256(A1) well, which was drilled in the three months ended September 30, 2016, subject to ANP approval. The work commitments associated with Block 107 were farmed out to a third party in three months ended September 30, 2016 subject to the receipt of environmental permits for the two wells to be drilled on the block and approval of the transfer by the ANP.

Additional letters of credit and letters of guarantee, and any required accompanying cash collateralization, will be issued and posted, as applicable and as required, for any additional work commitments assumed by Alvopetro within Brazil. In addition, to the extent EDC coverage is limited in the future for any new LC's or for any existing LC's requiring extension to the expiry date, the Company would be required to post cash collateral to support existing work commitments in Brazil.

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's and the Company incurs head office costs in both USD and CAD. In each reporting period, the change in the values of the BRL and the CAD relative to the Company's reporting currency are recognized. The period end rates used to translate the Company's BRL and CAD denominated financial statement items for the reporting periods as specified are as follows:

	As at			Change in Period	
	September 30, 2016	June 30, 2016	December 31, 2015	**Q3 2016**	**YTD 2016**
Rate at end of period:					
U.S. dollar / Brazilian real	**3.246**	3.210	3.904	**1.1%**	**-16.9%**
U.S. dollar / Canadian dollar	**1.312**	1.292	1.384	**1.5%**	**-5.2%**

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

The assets and liabilities of Alvopetro's Brazilian subsidiaries are translated to USD at the exchange rate on the reporting period date. The income and expenses of our Brazil operations are translated to USD at the exchange rates on the date of the relevant transactions. All resulting foreign currency differences are recorded in other comprehensive income (loss) in our consolidated statements of operations and comprehensive loss. The BRL appreciated 17% relative to the USD from December 31, 2015 to September 30, 2016 resulting in a $6.7 million other comprehensive gain for the nine months ended September 30, 2016. In the third quarter of 2016, the USD appreciated 1% resulting in a $0.5 million other comprehensive loss.

Share-Based Compensation Expense

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Share-based compensation	**37**	88	**89**	267

Share-based compensation expense is a non-cash expense that is based on the fair value of stock options granted and amortized over the vesting period of the options. Under Alvopetro's Stock Option Plan there were 6.2 million stock options outstanding at September 30, 2016 compared to 5.4 million at September 30, 2015. Gross share-based compensation expense for the three and nine months ended September 30, 2016 was $0.05 million and $0.12 million, respectively (September 30, 2015 - $0.1 million and $0.3 million). Overall, share-based compensation expense decreased 58% and 67% in the three and nine months ended September 30, 2016 compared to the same periods in 2015. In the first quarter of 2016, a total of 1.5 million options were forfeited and cancelled, of which 0.7 million were unvested, thereby reducing the year-to-date share-based compensation expense for any previously expensed amounts. In addition, as a result of a decline in the Company's share price, there is a lower estimated fair value of new stock options granted and a lower share-based compensation expense as higher valued grants are vested.

Depletion, Depreciation, Accretion and Impairment

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Depletion and depreciation (DD&A)	**87**	104	**312**	321
Accretion on decommissioning liabilities	**6**	18	**19**	56
Impairment	**4,491**	968	**7,480**	968
Total	**4,584**	1,090	**7,811**	1,345

Included in the depletion computation for our producing assets was $8.9 million (September 30, 2015 - $8.9 million) of estimated future development costs for undeveloped proved plus probable reserves. The decrease in depletion and depreciation expense in the three months ended September 30, 2016 compared to 2015 is due to the decrease in daily production in the quarter. The decrease in accretion expense in the third quarter and on a year-to-date basis is as a result of a revision to the estimated decommissioning liability recognized in the fourth quarter of 2015.

In the three months ended September 30, 2016, the Company recorded an impairment to Block 256 of $4.4 million. The impairment relates to all costs incurred to date on the block, primarily on drilling the 256(A1) well. As no commercial quantities of oil or gas were discovered in this well and the Company has not identified any additional prospects on the block, the full carrying amount of the block was written off as at September 30, 2016. The Company also recorded an impairment of $0.1 million on inventory balances as at September 30, 2016. The impairment in the nine months ended September 30, 2016 also includes $3.0 million incurred on Block 170 in the first quarter of 2016, primarily on drilling the 170(B1) well. Block 170 was relinquished to the ANP on March 29, 2016 and all costs incurred subsequent to this date were recorded directly as exploration and evaluation expenditures and are included in net loss on the consolidated statements of operations and comprehensive loss. The 2015 impairment loss of $1.0 million was recorded to the Bom Lugar field to reduce the carrying amount to management's estimate of the recoverable amount at that time.

Taxes

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	**2015**
Deferred income tax (recovery) expense	**(68)**	(2,544)	**731**	(3,133)
Total income tax (recovery) expense	**(68)**	(2,544)	**731**	(3,133)

The statutory corporate tax rate in Brazil is 34%. This is comprised of a basic 15% corporate income tax, plus 10% surtax and 9% social contribution on net profit tax. As the Company is currently in an overall loss position, no current tax expense was realized in the three and nine months ended September 30, 2016 or September 30, 2015.

The deferred tax expense in the nine months ended September 30, 2016 is largely as a result of an increase in the unrecognized deferred tax asset in Brazil and foreign currency fluctuations on BRL denominated tax pools. An overall deferred tax asset of $9.6 million exists at September 30, 2016, $9.4 million attributable to Brazil operations and $0.2 million attributable to Canadian operations. The benefit of this overall deferred tax asset has not been recognized for accounting purposes. The unrecognized deferred tax asset in Brazil increased from the December 31, 2015 balance of $4.3 million as a result of losses in the nine months ended September 30, 2016 and strengthening of the BRL relative to the USD. In addition, as a result of losses in Canada and a decline in the anticipated deferred tax liability associated with unrealized foreign exchange gains, there was an overall deferred tax asset in Canada of $0.2 million at September 30, 2016, the benefit of which has not been recognized.

Net Loss

The Company reported a net loss for the three and nine months ended September 30, 2016 of $5.7 million and $12.2 million, respectively, compared to a loss of $0.1 million and $2.6 million for the same periods in 2015. The Company realized a higher loss in the third quarter of 2016 compared to the same period in 2015 primarily due to the $4.5 million impairment recorded in the period compared to $1.0 million in the same period in 2015. On a year-to-date basis, the 2016 loss is impacted by total impairment of $7.5 million for the nine months ended September 30, 2016.

Capital Expenditures

Capital Expenditures by Type	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
E&E				
Drilling and completions	**2,955**	1,704	**5,798**	7,287
Inventory purchases	**4**	45	**63**	272
Facility and equipment	**-**	105	**2**	234
Land, lease and similar payments	**105**	317	**214**	768
Capitalized G&A	**302**	219	**751**	790
Other	**46**	100	**132**	301
Total E&E	**3,412**	2,490	**6,960**	9,652
PP&E				
Drilling and completions	**175**	-	**182**	285
Facilities and equipment	**118**	-	**400**	-
Land, lease and similar payments	**3**	4	**3**	7
Furniture and fixtures	**5**	98	**8**	407
Capitalized G&A	**72**	-	**127**	115
Other	**-**	26	**6**	43
Total PP&E	**373**	128	**726**	857
Other assets				
Other advances for E&E assets	**-**	18	**-**	83
Other assets	**-**	18	**-**	83
Total capital expenditures by type	**3,785**	2,636	**7,686**	10,592

Capital Expenditures by Area	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
E&E				
9th Brazil Bid Round blocks	**134**	2,115	**2,914**	8,905
11th Brazil Bid Round blocks	**102**	142	**163**	165
12th Brazil Bid Round blocks	**3,240**	112	**3,771**	126
13th Brazil Bid Round blocks	**8**	-	**43**	-
Inventory	**4**	45	**63**	272
Costs to be allocated to blocks	**(76)**	76	**6**	184
Total E&E	**3,412**	2,490	**6,960**	9,652
PP&E				
Bom Lugar	**2**	5	**17**	380
Jiribatuba	**1**	1	**1**	11
182(B1)	**364**	-	**678**	-
Corporate	**6**	122	**30**	466
Total PP&E	**373**	128	**726**	857
Other assets	**-**	18	**-**	83
Total capital expenditures by area	**3,785**	2,636	**7,686**	10,592

In the third quarter of 2016, the Company drilled the 256(A1) well, incurring costs of $2.9 million. Additional E&E costs include capitalized G&A of $0.3 million. PP&E costs of $0.3 million were incurred at our 182(B1) well to replace rental equipment previously contracted and to perform a workover on the well.

Summary of Quarterly Results

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Financial								
Oil sales	**74**	126	153	116	97	150	172	212
Funds flow from operations (1)	**(1,155)**	(1,309)	(1,225)	(1,017)	(1,240)	(1,352)	(1,357)	(1,482)
Per share – basic & diluted ($)	**(0.01)**	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)
Net loss	**(5,692)**	(2,000)	(4,515)	(9,797)	(84)	(980)	(1,563)	(24,662)
Per share – basic & diluted ($)	**(0.07)**	(0.02)	(0.05)	(0.12)	-	(0.01)	(0.02)	(0.29)
Capital and other asset expenditures	**3,785**	835	3,066	1,610	2,636	6,602	1,354	16,239
Operations								
Operating netback ($/bbl) (1)								
Brent benchmark price	**46.98**	46.97	35.08	44.71	51.17	63.50	55.16	76.98
Sales price	**38.60**	38.47	28.85	36.30	38.52	52.14	45.51	62.35
Transportation expenses	**(2.09)**	(2.44)	(1.89)	(2.50)	(3.18)	(1.74)	(4.23)	(2.65)
Realized sales price	**36.51**	36.03	26.96	33.80	35.34	50.40	41.28	59.70
Royalties and production taxes	**(4.17)**	(3.36)	(3.39)	(3.13)	(2.78)	(2.09)	(3.97)	(4.71)
Production expenses	**(137.72)**	(109.92)	(67.70)	(56.32)	(71.49)	(91.76)	(65.63)	(141.18)
Operating netback	**(105.38)**	(77.25)	(44.13)	(25.65)	(38.93)	(43.45)	(28.32)	(86.19)
Average daily crude oil production (bopd)	**21**	36	58	35	27	32	42	37

Notes:
(1) Non-GAAP measure. See "Non-GAAP Measures" section within this MD&A.

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

Q2 2016 – The Company's average daily production decreased 38% to 36 bopd in the quarter as the 182(B1) well was shut-in on May 11, 2016 to cancel the production facilities rental contract and replace this equipment with Company owned facilities. The Bom Lugar field production was also reduced in the quarter due to pump issues, which resulted in the well being offline for two weeks at the end of June. As a result of the production declines, oil sales decreased 18% from the first quarter despite the 34% increase in the average Brent price in the quarter. Capital expenditures of $0.8 million in the quarter included $0.3 million for facilities work on the 182(B1) well, $0.2 million for work on the 256(A1) well, and capitalized G&A totaling $0.2 million.

Q1 2016 – Capital expenditures of $3.1 million in the quarter were largely attributable to the 170(B1) well. The Company incurred total costs of $2.4 million on this well in the quarter. Due to the lack of any commercial discovery on this well and consistent with 2015, the Company recognized an impairment loss on this block of $3.0 million, contributing to the overall net loss in the quarter of $4.5 million. Average daily oil production increased 66% from the fourth quarter of 2015 as the 182(B1) well was on production for most of the quarter, contributing an average of 33 bopd. This production increase was partially offset by reduced production from the Bom Lugar field due to maintenance. Despite the increase in daily production, oil sales increased only 32% due to the 22% decline in Brent.

Q4 2015 – The Company realized a 30% increase in its average daily production due to the 182(B1) well, which commenced production in December 2015 contributing 4 bopd in the quarter, and the Jiribatuba field, which was brought back on production in November 2015, contributing 6 bopd in the quarter. These production increases were offset by a small decline from the Bom Lugar field as one producing well was shut-in to transfer equipment to the 182(B1) well. Despite the 30% increase in production, oil sales increased only 20% from the third quarter due to the 13% decline in Brent. Capital expenditures of $1.6 million included $0.5 million in site construction and rig mobilization costs for the 170(B1) well and $0.3 million in initial facilities construction costs for the 182(B1) well. The net loss of $9.8 million was largely as a result of the $12.1 million impairment loss recognized on E&E and PP&E assets and negative funds flow from operations of $1.0 million offset by a deferred tax recovery of $3.0 million.

Q3 2015 – The Company completed testing the 182(B1) well. Total capital and other asset expenditures were $2.6 million, including $1.7 million for testing and facilities costs for this well and capitalized G&A of $0.2 million. Production decreased 16% from the second quarter as the Jiribatuba well continued to be offline due to road access issues. The lack of production from the Jiribatuba field and the 19% decline in Brent from the second quarter resulted in a 35% decrease in oil sales. As a result of the continued decline in Brent prices, the Company recognized a $1.0 million impairment loss on the Bom Lugar field. This was more than offset by the recognition of a deferred tax recovery of $2.5 million, resulting in an overall net loss of $0.1 million in the quarter.

Q2 2015 – The Company completed drilling the 182(B1) well and completed testing the 197(2) well. Total capital and other asset expenditures were $6.6 million, including $5.2 million relating to these projects, $0.3 million for the acquisition of the remaining working interest in Block 170, and $0.4 million in capitalized G&A. Production decreased 24% from the first quarter of 2015 due to road access issues at the Jiribatuba field and maintenance on our Bom Lugar well, resulting in a 13% decrease in oil sales, despite the 15% increase in Brent during the quarter. This maintenance work also contributed to higher production expenses and higher production costs per barrel in the quarter.

Q1 2015 – The Company's daily production increased 14% from the previous quarter as a result of workover activities at Jiribatuba late in 2014. The incremental sales from these volumes were more than offset by the decline in Brent oil prices, resulting in lower oil sales. Total capital and other asset expenditures were $1.4 million. In March 2015, Alvopetro commenced testing the 197(2) well and incurred costs related to civil works in preparation of the Company's next well on Bom Lugar. During the quarter, the USD strengthened quite substantially over the CAD (9%) and the BRL (21%). As a result, the Company recorded a $0.2 million foreign exchange loss on the Canadian operations (included in net income) and a $6.7 million loss on the Brazil operations (included in other comprehensive loss).

Q4 2014 –The Company completed drilling 183(1), completed testing 197(1), drilled 197(2) and performed workovers on two wells at Jiribatuba. Total capital and other asset expenditures for the quarter were $16.2 million which included these activities as well as $5.7 million related to performance guarantees on blocks impaired at December 31, 2014, inventory purchases and advances of $2.8 million and capitalized G&A of $0.6 million. The net loss for the quarter was $24.7 million, primarily due to an impairment loss of $22.6 million as well as lower oil prices and higher production expenses from workover activities. In December, EDC agreed to guarantee up to $15.5 million of the Company's LC's issued in relation to work commitments in Brazil and prior to year-end, a total of $15.1 million of LC's were transitioned to EDC's coverage, allowing for the release of this amount from restricted cash. The BRL and the CAD declined relative to the USD by 8.4% and 3.5%, respectively. The Company reported a foreign exchange loss of $0.1 in net income related to the change in the USD relative to the CAD and a loss of $5.0 million in other comprehensive income related to the change in the USD relative to the BRL.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at September 30, 2016:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments[1]				
Block 183	1,027	-	-	1,027
Block 106	351	-	-	351
Block 107[2]	2,341	-	-	2,341
Block 177	2,215	-	-	2,215
Block 169	1,171	-	-	1,171
Block 198	1,171	-	-	1,171
Block 255	1,401	-	-	1,401
Block 256[3]	311	-	-	311
Block 57[4]	-	273	-	273
Block 62[4]	-	273	-	273
Block 71[4]	-	187	-	187
Block 145[4]	-	273	-	273
Bom Lugar	-	-	108	108
Jiribatuba	-	-	108	108
Total minimum work commitments	9,988	1,006	216	11,210
Office leases[5]	179	229	-	408
Total commitments	**10,167**	**1,235**	**216**	**11,618**

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) During the three months ended September 30, 2016, the Company entered into a farmout agreement with respect to Block 107. Under the terms of the agreement, the Farmee is responsible to drill the two wells in satisfaction of work commitments included in the table above. The farmout is subject to ANP approval and the receipt of environmental permits for the two wells to be drilled by the Farmee.

(3) During the three months ended September 30, 2016, the Company completed drilling the 256(A1) well in satisfaction of the work commitment in the table above, subject to ANP approval.

(4) Alvopetro holds a 65% interest in each of these blocks and the amounts provided in the table above represent Alvopetro's share of the related commitments.

(5) The Company is committed to future minimum payments for office space in Canada and Brazil.

As is customary in the oil and gas industry, we may at times have work plans in place to reserve or earn certain acreage positions or wells. If we do not complete such work plans in a timely manner, the acreage positions or wells may be lost, or penalties may be applied.

The Company currently has no contingent liabilities recorded; however, in the normal course of operations, we may have disputes with industry participants for which we currently cannot determine the ultimate results. The Company has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.

Alvopetro's activities in Brazil are subject to minimum local content requirements with respect to materials and supplies utilized. The specific local content requirements for the exploration phase were determined during the bidding process for each particular block and are assessed at the phase expiry date. Management undertakes considerable effort to adhere to these requirements; however, there may be circumstances when it is not advantageous or reasonably possible for the Company to do so. If the Company does not meet the local content requirements for a particular phase as specified according to the respective concession contract, a fine, which varies by concession depending on exploration phase and type of cost, will be incurred. The Company is continually monitoring its local content compliance and actual or potential fines and, as of September 30, 2016, the potential estimated fine was $0.1 million (December 31, 2015 - $0.1 million), which is included in accounts payable and accrued liabilities in the respective consolidated statements of financial position.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2016, Alvopetro's cash and cash equivalents of $21.8 million and its restricted cash of $0.1 million were held as follows:

	Total	U.S. Dollar	CAD Dollar[1]	Brazil Real[1]
Cash held in Canada	**21,489**	21,193	296	-
Cash held in Brazil	**338**	-	-	338
Restricted cash - current	**108**	-	-	108
Total	**21,935**	**21,193**	**296**	**446**

Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as at September 30, 2016.

Alvopetro does not currently derive positive cash flow from its operations. Capital expenditures and ongoing G&A and production expenses are funded from existing cash balances. At September 30, 2016 the Company's working capital of $18.4 million exceeded estimated outstanding commitments of $11.6 million by $6.8 million. Exploration work commitments in Brazil are supported by total LC's of $14.1 million as at September 30, 2016, the full balance of which is currently satisfied through EDC. EDC coverage is reviewed annually. Typically, LC's supported by EDC will continue to be supported until the expiry date of each LC; however, to the extent LC's are amended for block extensions or other changes, EDC support could be revoked. To the extent some or all of EDC coverage were limited in the future, the Company would be required to post the requisite amount from its cash balance which may impact its ability to fund future capital and operational expenditures.

Alvopetro's primary focus in 2017 will be focused on building a natural gas business from our 197(2) discovery. For the remainder of 2016, Alvopetro plans to commence site construction for our next well to be drilled, a natural gas prospect on Block 198, which is part of our existing gas discovery in the Caruacu Formation and is also targeting uphole exploration potential.

Our upcoming capital projects are expected to be funded with existing cash balances on hand. Future capital expenditures and commitments may be funded through a combination of cash on hand, cash flow from successful operations, assets sales, joint ventures, farmouts, debt, or equity.

The liability for decommissioning obligations of Alvopetro was $1.4 million as at September 30, 2016. 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 September 30, 2016 the Company had $4.1 million of equipment inventory to be utilized for future operations which is included in exploration and evaluation assets in the consolidated statement of financial position.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and preferred shares in one or more series. The aggregate number of Alvopetro common shares and stock options outstanding at November 16, 2016 was 91,145,806 (common shares – 85,166,871, stock options – 5,978,935). There are no preferred shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Alvopetro has been party to non-material office-related administrative transactions with Touchstone Exploration Inc., a related party of the Company due to common directors, summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Office rent and related costs	**13**	50	**60**	151

This contract was terminated during the three months ended September 30, 2016. As at September 30, 2016 and December 31, 2015 the amount owed by the Company to Touchstone was $nil.

RISKS AND UNCERTAINTIES

There have been no significant changes in the nine months ended September 30, 2016 to the risk and uncertainties identified in the MD&A for the year ended December 31, 2015.

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

SENSITIVITIES

The Company's earnings and cash flow are sensitive to changes in the price of crude oil. As the Company is in the early stage of its operations and has significant cash on hand, it does not depend on its cash flows from oil sales and fluctuations in the price of crude oil are not currently significant to the Company.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

On January 1, 2016, the Company adopted IFRS 11 *Joint Arrangements* which was amended regarding the accounting for the acquisition of an interest in a joint operation that constitutes a business. The adoption of this amended standard had no impact on the amounts recorded in the interim condensed consolidated financial statements. The Company continues to assess the impact of adopting the new and revised accounting pronouncements that have been issued but are not yet effective as described in the 2015 MD&A as well as amendments to IFRS 2, *Share-based Payment*, issued in June 2016.

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

Forward-Looking Statements. Certain information provided in this MD&A constitutes forward-looking statements. Specifically, this MD&A contains forward-looking statements relating to future results from operations, projected financial results, future capital and production expenses, future production rates, proposed exploration and development activities, sources of capital, dividend levels, 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 capital markets, the performance of producing wells and reservoirs, well development and operating performance, general economic and business conditions, weather and access to drilling locations, the availability and cost of labour and services, environmental regulation, including regulation relating to hydraulic fracturing and stimulation, the ability to monetize hydrocarbons discovered, the regulatory and legal environment and other risks associated with oil and gas operations. Although we believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward looking statements because we can give no assurance that they will prove to be correct. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, reliance on industry partners, availability of equipment and personnel, uncertainty surrounding timing for drilling and completion activities resulting from weather and other factors, changes in applicable regulatory regimes and health, safety and environmental risks), commodity price and exchange rate fluctuations and general economic conditions. Certain of these risks are set out in more detail in this MD&A and in our 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.

Abbreviations:

Bopd	=	barrels of oil per day

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