The following Management's Discussion and Analysis ("MD&A") is dated November 14, 2018 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of Alvopetro Energy Ltd. ("Alvopetro" or the "Company") as at and for the three and nine months ended September 30, 2018, MD&A for the year ended December 31, 2017 and the audited consolidated financial statements as at and for the years ended December 31, 2017 and 2016. Additional information for the Company, including the Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com or at www.alvopetro.com. This MD&A contains financial terms that are not considered measures under International Financial Reporting Standards ("IFRS") and forward-looking statements. As such, the MD&A should be used in conjunction with Alvopetro's disclosure under the headings "*Non-GAAP Measures*" and "*Forward Looking Information*" at the end of this MD&A.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Description of Business

Alvopetro Energy Ltd. ("Alvopetro" or "the Company") is engaged in the exploration for and the acquisition, development and production of, hydrocarbons in the Recôncavo basin onshore Brazil. Alvopetro holds interests in the Caburé and Gomo natural gas assets, two producing oil fields and seven other exploration blocks comprising 65,151 gross acres (55,138 net acres) onshore Brazil.

Strategy

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

SELECTED QUARTERLY RESULTS

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Financial				
($000s, except where noted)				
Oil sales	**125**	120	**457**	377
Net loss	**(878)**	(3,331)	**(2,895)**	(5,038)
Per share – basic and diluted ($)[1]	**(0.01)**	(0.04)	**(0.03)**	(0.06)
Funds flow from operations [2]	**(759)**	(959)	**(2,445)**	(2,479)
Per share – basic and diluted ($)[1]	**(0.01)**	(0.01)	**(0.03)**	(0.03)
Capital expenditures[3]	**1,889**	1,663	**4,095**	4,998
Total assets	**60,866**	73,440	**60,866**	73,440
Long-term liabilities	**1,690**	-	**1,690**	-
Net working capital surplus [2] [4]	**4,391**	9,980	**4,391**	9,980
Common shares outstanding, end of period (000s)				
Basic	**85,167**	85,167	**85,167**	85,167
Diluted [1]	**93,008**	91,806	**93,008**	91,806
Operations				
Operating netback ($/bbl) [2]				
Brent benchmark price	**75.85**	52.18	**72.64**	52.59
Discount	**(5.70)**	(5.27)	**(4.34)**	(5.39)
Sales price	**70.15**	46.91	**68.30**	47.20
Transportation expenses	**(1.68)**	(2.35)	**(1.79)**	(2.38)
Realized sales price	**68.47**	44.56	**66.51**	44.82
Royalties and production taxes	**(7.30)**	(4.69)	**(6.73)**	(5.13)
Production expenses	**(104.94)**	(72.71)	**(89.97)**	(81.50)
Operating netback	**(43.77)**	(32.84)	**(30.19)**	(41.81)
Average daily crude oil production (bopd)	**19**	28	**25**	29

Notes:

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

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

(3) Includes non-cash capital expenditures of $0.1 million and $0.4 million, respectively in three and nine months ended September 30, 2017.

(4) Includes current restricted cash of $0.1 million (September 30, 2017 - $0.1 million) and assets held for sale of $0.2 million (September 30, 2017 - $0.2 million).

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE THIRD QUARTER OF 2018

- In September 2018 we entered into a 10-year contract (the "Gas Treatment Agreement") with Enerflex Ltd. ("Enerflex") to build, own, operate and maintain our natural gas treatment facility (the "Facility") as part of our natural gas development in the state of Bahia. Under the terms of the Gas Treatment Agreement, Enerflex will construct and own the Facility, provide ongoing operations and maintenance, and warranty the delivery schedule and on-stream performance of the Facility. The Facility is scheduled to begin commissioning in November 2019 and be operational by January 1, 2020. Alvopetro will pay an integrated service fee for the Facility of US$2.9 million per year over the 10-year term of the agreement once the Facility is operational.
- Our third quarter production decreased to 19 bopd, a 42% decrease from the second quarter 2018, largely due to reduced production from our Bom Lugar well which has been offline since mid-August awaiting a down-hole pump replacement.
- Capital expenditures of $1.9 million in the third quarter included $1.5 million for our share of Caburé unit development costs, Caburé permitting costs of $0.1 million and capitalized G&A of $0.2 million.
- We reported a net loss of $0.9 million in the quarter largely due to negative funds flow from operations of $0.8 million.
- On September 27, 2018, we entered into an agreement to sell our Jiribatuba field, eliminating all associated obligations with respect to this mature field, including abandonment obligations. Total proceeds on the sale were $0.1 million, with $0.03 million received on signing of the agreement and the remainder receivable on approval of the transfer by the National Agency of Petroleum, Natural Gas and Biofuels ("ANP"). A loss of $0.06 million was recognized in the third quarter on this disposition.
- Our cash, restricted cash and working capital resources total $4.4 million, including cash and cash equivalents of $4.5 million. Long-term liabilities of $1.7 million as at September 30, 2018 relate to our share of Caburé unit development costs. Under the terms of the Unit Operating Agreement ("UOA"), these costs are initially funded by our partner and are to be repaid by Alvopetro when we commence production allocations, or March 2020, whichever occurs first.

RECENT HIGHLIGHTS

- In October 2018, we completed a private placement (the "Private Placement") for aggregate gross proceeds of $4.0 million, issuing 11,504,000 common shares and 3,676,000 warrants, with each warrant entitling the holder to acquire one common shares at an exercise price of $0.50 (CAD$0.64). Three insiders of the Company participated in the Private Placement, subscribing for 860,000 common shares and 215,000 warrants.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at September 30, 2018, Alvopetro held interests in the Caburé and Gomo natural gas assets, two producing oil fields (Bom Lugar and Mãe-da-lua) and seven other exploration assets (Blocks 182, 169, 255, 57, 62, 71, and 145) comprising 65,151 gross (55,138 net) acres onshore Brazil.

NATURAL GAS ASSETS:

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

Caburé natural gas field:

Alvopetro's Caburé natural gas field and Caburé Leste natural gas field (the 197(2) and 198(A1) wells), collectively referred to as the Caburé natural gas field throughout this MD&A, extend across four blocks in the Recôncavo basin in Bahia state in Brazil, two of which are held by Alvopetro (Blocks 197 and 198) and two of which are held by our partner (Blocks 211 and 212), with Alvopetro's share of the Unitized area being 49.1% and Imetame's share being 50.9% In April 2018, Alvopetro and Imetame finalized the terms of the UOA, the unit development plan and all related agreements. The unit has four existing wells and the development plan includes the construction of low and high-pressure production facilities, tie-in of existing wells, and drilling of up to four new development wells. As of September 30, 2018, all low-pressure facilities have been constructed and two of the four existing wells have been completed, tied-in and placed on early production. All remaining development will be completed by the end of 2019 with a planned gross field production plateau rate of 15.9 mmcfpd (450,000 m3/d) when Alvopetro commences production allocations.

Under the terms of the UOA, each party will be entitled to nominate for its working interest share of field production and for any natural gas not nominated by the other party. Once a party produces its share of 2P reserves, they will no longer be entitled to further production. Our partner is entitled to 100% of the early field production (allocated against their share of 2P reserves). As of September 30, 2018, the field has commenced production at the maximum early field production rate of 5.3 mmcfpd (150,000 m3/d), all of which is attributable to our partner. In exchange for entitlement to the early field production, our partner has agreed to fund virtually all of the unit development capital in 2018 and 2019. Alvopetro will pay for its share of the initial unit capital, when we commence production or in March 2020, whatever comes first. Alvopetro's share of the unit development capital incurred to September 30, 2018 is $2.1 million and the resulting liability, net of Alvopetro inventory and equipment transferred to the unit, has been reflected as non-current in the consolidated statement of financial position.

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

Gomo natural gas project:

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

Gas commercialization strategy and planned natural gas development:

In May 2018, Alvopetro entered into a long-term gas sales agreement ("GSA") with Bahiagás. The reserves values assigned to both the Caburé and Gomo natural gas assets are based on the terms of this GSA. The GSA provides for the sale of 5.3 mmcfpd (150,000 m3/d) on a firm basis and up to 12.4 mmcfpd (350,000 m3/d) on an interruptible basis, adjustable by Alvopetro annually. The natural gas price to be received under the GSA is set semi-annually (in February and August) using a trailing weighted average basket of benchmark prices including Henry Hub and National Balancing Point gas prices and Brent crude oil prices, with a floor of $5.00/mmbtu and a ceiling of $8.50/mmbtu (both subject to United States inflation). The forecasted 2020 natural gas price from the GLJ Report is $7.86/mmbtu. The GSA has take-or-pay provisions and supply failure penalties to ensure performance by both parties. Firm gas deliveries under the GSA are currently set to commence on January 1, 2020 (the "Firm Start Date") with interruptible volumes commencing earlier with the mutual consent of both parties. Under the terms of the GSA, the Firm Start Date is automatically extended to the extent either Bahiagás or Alvopetro has not received regulatory permits by December 1, 2018. Alvopetro has secured the land for the natural gas processing facility, completed all field survey and permitting work, and the application for construction was submitted for regulatory approval in April 2018. We are responding to a supplemental request from the regulator and expect to receive the necessary regulatory approvals in the first quarter of 2019 and be in a position to deliver first gas, on an interruptible basis, on or before January 1, 2020.

As part of Alvopetro's midstream development, Alvopetro executed the Gas Treatment Agreement with Enerflex in September 2018. Under the terms of the Gas Treatment Agreement, Enerflex will construct, own and operate a natural gas processing facility (the "Facility") for Alvopetro and will provide all operations and maintenance of the Facility, warrantying the delivery schedule and on-stream performance of the Facility. Alvopetro will pay an integrated service fee of $2.9 million over the 10-year-term of the agreement once the Facility is operational. Commissioning of the gas plant is currently scheduled for November 2019, with gas deliveries set to commence on January 1, 2020. In addition to the Facility, Alvopetro will construct an 11-kilometre pipeline from the Caburé unit facilities to the Facility. The pipe has been ordered and we expect to award the pipeline construction contract on a turnkey basis later in 2018, with construction planned for 2019. The Gomo natural gas asset will connect to the midstream development via an 8-kilometre transfer pipeline to be built in 2019 following the stimulation of the 183(1) well planned for late-2018 or early-2019.

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

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

Block	Gross Acres	Working Interest	Current Phase Expiry	Estimated Net Work Commitment(1) ($000's)	Letter of Credit Support(2) ($000's)
182	4,807	100%	Suspension in place(3)	-	-
183	7,740	100%	December 31, 2019/Suspension in place(4)	833	1,233
197	3,484	100%	Suspension in place(4)	-	-
169	5,280	100%	Suspension in place(5)	949	1,543
255	7,734	100%	Suspension in place(5)	1,136	1,847
57	7,752	65%	January 24, 2019	37	279
62	7,715	65%	January 24, 2019	37	279
71	5,409	65%	January 24, 2019	31	191
145	7,734	65%	January 24, 2019	37	279
GRAND TOTAL – ALL E&E ASSETS				**3,060**	**5,651**

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

(2) Letters of Credit ("LCs") posted in satisfaction of work units may be in excess of USD equivalent amounts for the associated commitments due to foreign exchange fluctuations and foreign exchange margin requirements. Total LCs outstanding include an additional $0.5 million in respect of Block 106 not reflected in the table above. Block 106 was relinquished in July 2018 and the work commitment has been approved by the ANP, however we are awaiting release of the related LC by all banks.

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

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

(5) Due to an ongoing injunction against unconventional activities on all 12th Brazil Bid Round Blocks, in December 2017 the Company filed a request with the ANP to cancel the Block 169 and 255 concession contracts, including the commitments noted in the table above, and return the bid round bonuses paid.

FINANCIAL AND OPERATING REVIEW

Average Daily Production

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Total production (bbls)	**1,782**	2,558	**6,691**	7,988
Daily production (bopd)	**19**	28	**25**	29

Average daily production decreased to 19 bopd in the third quarter of 2018, a 32% decrease from the prior year largely due to reductions from our Bom Lugar well which was offline from mid-August pending down-hole pump replacement. This also contributed to reduced production on a year-to-date basis.

Oil Sales

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Brent ($/bbl)	**75.85**	52.18	**72.64**	52.59
Discount ($/bbl)	**(5.70)**	(5.27)	**(4.34)**	(5.39)
Sales Price ($/bbl)	**70.15**	46.91	**68.30**	47.20
Sales price discount as a % of Brent	**8%**	10%	**6%**	10%
Oil Sales	**125**	120	**457**	377
Transportation	**(3)**	(6)	**(12)**	(19)
Total sales, net of transportation expense	**122**	114	**445**	358
Realized price ($/bbl)	**68.47**	44.56	**66.51**	44.82

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

Oil sales were consistent in the third quarter of 2018 despite the 32% decline in the average daily production as the Brent benchmark price increased 45%. On a year-to-date basis, despite decreased production volumes, the 38% increase in Brent and reduced sales price discounts resulted in a 21% increase in oil sales.

Royalties and Production Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Royalties and production taxes	**13**	12	**45**	41
Percentage of sales (%)	**10.4**	10.0	**9.8**	10.9

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

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

Production Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Production expenses by type:				
Personnel costs	**79**	88	**241**	274
Other fixed costs	**74**	58	**192**	178
Variable costs	**34**	40	**106**	91
Workover costs	**-**	-	**63**	108
Total production expenses	**187**	186	**602**	651
Production expenses per barrel:				
Personnel costs	**44.33**	34.40	**36.01**	34.31
Other fixed costs	**41.53**	22.67	**28.70**	22.28
Variable costs	**19.08**	15.64	**15.84**	11.39
Workover costs	**-**	-	**9.42**	13.52
Total production expenses per bbl ($)	**104.94**	72.71	**89.97**	81.50

Production expenses for the nine months ended decreased relative to 2017 mainly due to reduced workover costs, partially offset by increased fixed costs for maintenance repairs at our Bom Lugar facility in the three and nine months ended September 30, 2018. On a per barrel basis, costs increased in both the three and nine months ended September 30, 2018 compared to 2017 due to the decrease in production levels.

General and Administrative ("G&A") Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
G&A Expenses, by type:	**2018**	2017	**2018**	2017
Personnel	**580**	670	**1,831**	1,959
Travel	**14**	33	**64**	88
Office and IT costs	**76**	96	**247**	279
Professional fees	**85**	132	**516**	397
General corporate costs	**83**	66	**232**	135
Gross G&A	**838**	997	**2,890**	2,858
Capitalized G&A	**(213)**	(328)	**(793)**	(887)
G&A expenses	**625**	669	**2,097**	1,971

The Company's G&A expenses have decreased in the third quarter of 2018 due to reduced personnel and professional fees. On a year-to-date basis, costs were higher due to increased professional fees earlier in 2018 with additional legal fees with respect to the Cabure unitization and gas sales agreements and reserve report fees relating to the GLJ Report. Both periods were impacted by the devaluation of the Brazilian Real ("BRL"), which contributed to reduced USD equivalent costs in 2018 compared to 2017. The BRL depreciated to an average rate of 3.951 in the third quarter of 2018 (compared to 3.164 in the third quarter of 2017) and to an average rate of 3.606 in the nine months ended September 30, 2018 (compared to an average rate of 3.175 in the same period in 2017).

Funds Flow from Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Funds flow from operations	**(759)**	(959)	**(2,445)**	(2,479)

As a result of reduced G&A expenses and E&E expenses, the Company's funds flow from operations improved in the third quarter of 2018.

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

	As at			% Change in Period	
	September 30, 2018	June 30, 2018	December 31, 2017	**Q3 2018**	**YTD 2018**
Rate at end of period:					
U.S. dollar / Brazilian real	**4.004**	3.856	3.308	**3.8**	**21.0**
U.S. dollar / Canadian dollar	**1.294**	1.317	1.255	**(1.7)**	**3.1**

	Three Months Ended September 30,		**Nine Months Ended September 30,**		**% Change in Period**	
	2018	2017	**2018**	2017	**Q3**	**YTD**
Average rate in the period:						
U.S. dollar / Brazilian real	**3.951**	3.164	**3.606**	3.175	**24.9**	**13.6**
U.S. dollar / Canadian dollar	**1.307**	1.252	**1.287**	1.306	**4.4**	**(1.5)**

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 exchange loss on translation of foreign operations in our consolidated statements of operations and comprehensive loss. In the three and nine months ended September 30, 2018, the BRL depreciated 4% and 21%, resulting in exchange losses of $1.1 million and $6.1 million, respectively.

As a significant portion of the Company's expenditures are denominated in CAD and BRL, the Company is exposed to fluctuations in these currencies relative to the USD which may have a material impact on costs in the future. In the three and nine months ended September 30, 2018, the average BRL rate depreciated 25% and 14%, respectively, resulting in lower USD equivalent production and G&A expenses. The CAD depreciated 4% from Q3 2017 to 2018, resulting in reduced USD costs and on a year-to-date basis, the CAD appreciated 2%.

Share-Based Compensation Expense

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	2017	**2018**	2017
Share based compensation expense	**27**	20	54	66

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 7.8 million stocks options outstanding at September 30, 2018 compared to 6.6 million at September 30, 2017. Despite increased options outstanding at September 30, 2018, as the Company had deferred the December 2017 routine annual grant of stock options to directors, officers and certain employees to May 2018 (until the Caburé unitization and GSA were finalized), share-based compensation expense declined on a year-to-date basis.

Depletion, Depreciation, Accretion and Impairment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Depletion and depreciation (DD&A)	**33**	70	**120**	183
Accretion on decommissioning liabilities	**11**	10	**31**	28
Impairment	**-**	2,384	**196**	2,384
Total	**44**	2,464	**347**	2,595

Included in the depletion computation for our producing assets was $6.3 million (September 30, 2017 - $7.5 million) of estimated future development costs for undeveloped proved plus probable reserves. The decrease in depletion expense for the three and nine months ended September 30, 2018 was due to both the decrease in production in 2018 as well as the depletable base, primarily as a result of the reduction in future development costs.

In the three months ended June 30, 2018, the Company recorded an impairment of $0.2 million related to Block 106. The Company relinquished this block to the ANP in July 2018 and the impairment relates to all costs incurred to June 30, 2018 including costs incurred in the second quarter in satisfaction of a portion of the work commitment outstanding as well as past costs on the block including bid round bonuses, costs associated with LCs, retention fees and capitalized G&A. The Company also recognized E&E expense of $0.2 million in the three months ended June 30, 2018 with respect to the remaining work commitment paid on block relinquishment. In the three months ended September 30, 2017, the Company recorded an impairment of $2.4 million with respect to Block 177.

Net Loss

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Net loss	**(878)**	(3,331)	**(2,895)**	(5,038)

Net loss in the three and nine months ended September 30, 2018 improved relative to the same periods in 2017 due to reduced impairment charges.

Long-Term Liabilities

	As at	
	September 30, 2018	December 31, 2017
Balance, beginning of period	**-**	-
Alvopetro's share of expenditures incurred	**2,118**	-
Partner's share of equipment contributed by Alvopetro	**(405)**	-
Foreign currency translation	**(23)**	-
Balance, end of period	**1,690**	-

The Company's long-term liabilities at September 30, 2018 represent the accrued payable related to Alvopetro's share (49.1%) of costs incurred to date with respect to the joint upstream development of the Caburé natural gas field. Under the terms of the UOA, Alvopetro will reimburse the operating partner for its share of the development costs on the earlier of March 2020 or commencement of production allocations to Alvopetro, which is anticipated to be January 1, 2020.

Capital Expenditures

Capital Expenditures by Type	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
E&E				
Drilling and completions[1]	**28**	1,177	**820**	3,702
Facility & equipment	**-**	-	**519**	47
Land, lease, and similar payments	**28**	76	**91**	241
Inventory purchases	**-**	58	**-**	58
Capitalized G&A	**83**	315	**558**	855
Other	**37**	26	**60**	54
Total E&E[1]	**176**	1,652	**2,048**	4,957
PP&E				
Drilling and completions	**160**	-	**85**	-
Facility & equipment	**1,414**	-	**1,699**	7
Furniture, fixtures and equipment	**-**	5	**-**	8
Land, lease, and similar payments	**9**	-	**26**	-
Capitalized G&A	**130**	13	**235**	32
Other	**-**	(7)	**2**	(6)
Total PP&E	**1,713**	11	**2,047**	41
Total capital expenditures by type	**1,889**	1,663	**4,095**	4,998

Capital Expenditures by Property	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	**2017**
E&E				
Caburé	**-**	94	**773**	3,004
9th Brazil Bid Round blocks (Blocks 182, 183, 197)	**116**	62	**1,181**	180
11th Brazil Bid Round blocks (Blocks 106, 107, 177)	**-**	1,414	**23**	1,590
12th Brazil Bid Round blocks (Blocks 169, 255, 256)	**-**	14	**-**	93
13th Brazil Bid Round blocks (Blocks 57, 62, 71, 145)	**61**	10	**71**	32
Inventory	**-**	58	**-**	58
Costs to be allocated to blocks	**(1)**	-	**-**	-
Total E&E[1]	**176**	1,652	**2,048**	4,957
PP&E				
Caburé	**1,704**	-	**2,030**	-
Bom Lugar	**9**	2	**11**	14
Jiribatuba	**-**	2	**3**	7
Mãe-da-lua	**-**	2	**-**	12
Corporate and other	**-**	5	**3**	8
Total PP&E	**1,713**	11	**2,047**	41
Total capital expenditures by property	**1,889**	1,663	**4,095**	4,998

[1] Includes non-cash capital expenditures of $0.1 million and $0.4 million, respectively in the three and nine months ended September 30, 2017.

The carrying value of the Caburé natural gas field was transferred to PP&E as of May 31, 2018. Capital expenditures incurred on this field from June 1, 2018 onwards have been included in PP&E. Capital expenditures in the third quarter of $1.9 million include $1.5 million in respect of Alvopetro's 49.1% share of Caburé joint unit development costs, Caburé permitting costs of $0.1 million and capitalized G&A of $0.2 million.

Summary of Quarterly Results

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Financial								
Oil sales	**125**	216	116	85	120	86	171	208
Net loss	**(878)**	(1,128)	(889)	(2,079)	(3,331)	(814)	(893)	(371)
Per share – basic & diluted ($)	**(0.01)**	(0.01)	(0.01)	(0.02)	(0.04)	(0.01)	(0.01)	-
Funds flow from operations (1)	**(759)**	(844)	(842)	(775)	(959)	(723)	(797)	(1,006)
Per share – basic & diluted ($)	**(0.01)**	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital and other asset expenditures(2)	**1,889**	930	1,276	434	1,663	566	2,769	708
Operations								
Operating netback ($/bbl) (1)								
Brent benchmark price	**75.85**	74.91	67.18	61.53	52.18	50.92	54.67	51.13
Sales price	**70.15**	71.10	62.00	55.05	46.91	43.77	49.35	42.31
Transportation expenses	**(1.68)**	(1.65)	(2.14)	(2.59)	(2.35)	(2.04)	(2.60)	(2.24)
Realized sales price	**68.47**	69.45	59.86	52.46	44.56	41.73	46.75	40.07
Royalties and production taxes	**(7.30)**	(6.25)	(6.95)	(6.48)	(4.69)	(6.11)	(4.91)	(4.48)
Production expenses	**(104.94)**	(58.92)	(126.14)	(112.05)	(72.71)	(127.23)	(62.05)	(34.58)
Operating netback	**(43.77)**	4.28	(73.23)	(66.07)	(32.84)	(91.61)	(20.21)	1.01
Average daily crude oil production (bopd)	**19**	33	21	17	28	22	39	53

Notes:
(1) Non-GAAP measure. See "Non-GAAP Measures" section within this MD&A.
(2) Q3 2017 and Q1 2017 capital expenditures include non-cash expenditures of $0.1 million and $0.4 million, respectively.

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

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

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

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

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

Q2 2017 – Average daily production decreased 44% in the quarter as the Bom Lugar producing well was offline in April and May awaiting a pump repair. As a result of the production decline and the 7% decline in Brent, oil sales decreased 50% compared to the first quarter of 2017. Increased production expenses for workover costs on the Bom Lugar well and the reduced production volumes contributed to higher production expenses per barrel and decreased operating netbacks. Funds flow from operations and net loss both improved compared to the first quarter of 2017 despite reduced oil sales and increased production expenses, largely due to a $0.1 million decrease in general and administrative expenses. Total capital expenditures of $0.6 million included capitalized G&A, LC fees on block extensions and suspensions approved by the ANP, preliminary surveying and planning for our upcoming Caburé development, and initial site construction costs for the 177(A1) well to be drilled in the third quarter of 2017.

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

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

Commitments and Contingencies

The following is a summary of Alvopetro's net contractual commitments as at September 30, 2018:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments[1]				
Minimum work commitments to be completed				
Block 183[2]	-	833	-	833
Block 169[3]	949	-	-	949
Block 255[3]	1,136	-	-	1,136
Block 57	37	-	-	37
Block 62	37	-	-	37
Block 71	31	-	-	31
Block 145	37	-	-	37
Bom Lugar	-	-	87	87
Total minimum work commitments	**2,227**	**833**	**87**	**3,147**
Gas Treatment Agreement	**-**	**5,017**	**23,652**	**28,669**
Office leases[4]	**109**	**-**	**-**	**109**
Total commitments	**2,336**	**5,850**	**23,739**	**31,925**

Notes:

(1) Under the terms of the ANP concession contracts for each of our exploration blocks, the Company has commitments which must be completed prior to the applicable phase expiry date. The Company is required to post a performance guarantee with the ANP for all commitments in the table above.

(2) The ANP approved a suspension to the portion of Block 183 currently in the second exploration phase to which the above commitment is applicable. The Company will have 517 days from receipt of the environmental permit for the well to be drilled to meet the required work commitment.

(3) Due to an ongoing injunction against unconventional activities on all 12th Brazil Bid Round Blocks, in December 2017 the Company filed a request with the ANP to cancel the Block 169 and 255 concession contracts, including the commitment noted in the table above, and return the bid round bonuses paid.

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

In May 2018, Alvopetro entered into the long-term GSA which provides for the sale of 5.3 mmcfpd (150,000 m3/d) on a firm basis and 12.4 million mmcfpd (350,000 m3/d) on an interruptible basis and provides standard penalties for supply failure in respect of the firm volumes. The Company believes it can meet the firm sales commitments under the GSA solely with our production from the Caburé natural gas field, however supply failure penalties may arise where construction of the Facility or pipeline is delayed (other than due to permitting delays), unit development is delayed, where there are unplanned production interruptions, or to the extent reservoir performance is below expected production rates. Supply failure penalties are a function of the shortfall of firm volumes and the prevailing natural gas price under the GSA at the time, which is determined based on a trailing weighted average basket of benchmark reference prices including Henry Hub and National Balancing Point natural gas prices and Brent crude oil prices. We can mitigate these risks by meeting these sales commitments under the GSA with third-party gas supplies, through development of existing gas resources, or through new gas discoveries from our conventional exploration inventory. Firm gas deliveries under the GSA are currently set to commence on January 1, 2020 (the Firm Start Date) with interruptible deliveries commencing earlier with mutual consent. Under the terms of the GSA, the Firm Start Date is automatically extended if either Bahiagás or Alvopetro has not received regulatory permits by December 1, 2018. The extension to the Firm Start Date will be for an equivalent number of days from December 1, 2018 to the date both parties are in receipt of the required permits.

In September 2018, Alvopetro entered into the 10-year Gas Treatment Agreement with Enerflex. Under the terms of the Gas Treatment Agreement, Alvopetro is committed to integrated service fees totaling approximately $2.9 million per year once the Facility is operational. Alvopetro anticipates that the Facility will be operational by January 1, 2020 and has reflected the associated commitment in the table above based on this start date. A portion of the payments are in BRL and therefore exposed to foreign exchange fluctuations. Management has assessed that this agreement contains a lease component under IFRS 16 which will affect the presentation of these fees in future consolidated financial statements of the Company. The Gas Treatment Agreement includes customary penalties and standby charges to the extent Alvopetro is unable to receive the services on the start date. In addition, the Gas Treatment Agreement includes early termination penalty provisions which vary depending on timing of the termination.

The Company has a credit support 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. Letters of credit 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 September 30, 2018, the total amount of LCs issued under the credit support facility was $6.1 million (December 31, 2017 - $12.1 million), the full balance of which was satisfied by EDC. Total LCs outstanding at September 30, 2018 include $0.5 million in respect of Block 106, the work commitment of which has been satisfied and approved by the ANP but Alvopetro is awaiting release of the LC by all involved banks. Work commitments for the Bom Lugar field relate to an abandonment guarantee which is supported by cash collateral posted by Alvopetro and classified as current restricted cash. Half of the current restricted cash balance at September 30, 2018 also relates to cash collateral posted by Alvopetro in respect of an abandonment guarantee on the Jiribatuba field (which has been sold as of September 30, 2018). Upon approval by the ANP of the transfer of this field, the abandonment guarantee and associated restricted cash will be released.

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

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

Alvopetro's activities in Brazil are subject to minimum local content requirements with respect to materials and supplies utilized. The specific local content requirements for the exploration phase were determined during the bidding process for each particular block and are assessed at the phase expiry date. Management undertakes considerable effort to adhere to these requirements; however, there may be circumstances when it is not advantageous or reasonably practical for the Company to do so. If the Company does not meet the local content requirements for a particular phase as specified according to the respective concession contract, a penalty, which varies by concession depending on exploration phase and type of cost, will be incurred. In 2018, the ANP introduced revised local content regulations which reduced the local content requirements and, as a result, the Company's estimated local content penalties decreased from $0.3 million at December 31, 2017 to $0.1 million at September 30, 2018, the full balance of which is included in accounts payable and accrued liabilities.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2018, Alvopetro's cash and cash equivalents of $4.5 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	4,333	4,280	53	-
Cash held in Brazil	194	-	-	194
Restricted cash - current	131	-	-	131
Total	**4,658**	**4,280**	**53**	**325**

Notes:

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

In the three months ended June 30, 2018 we concluded the unitization process for our Caburé natural gas field and entered into a long-term GSA with respect to our share of gas to be produced from our Caburé and Gomo natural gas assets. Gas deliveries under the GSA are set to commence in 2020 and construction of the Facility and an 11-kilometre pipeline is planned to be completed in 2019. The Facility is being constructed by Enerflex and will be operated and maintained by Enerflex over the 10-year term of the Gas Treatment Agreement. This arrangement covers all costs associated with the Facility. Alvopetro anticipates approximately $0.5 million in cash capital expenditures for Caburé later in 2018 and up to $4.1 million in 2019, largely related to the construction of our 100% owned 11-kilometre transfer pipeline from the Caburé unit to the Facility. In addition, under the terms of the UOA, the majority of the unit development capital (including drilling additional development wells, tie-in of existing and new wells, and construction of low and high-pressure facilities) is initially funded by our partner with Alvopetro's share (estimated at $7.0 million) due on the earlier of when Alvopetro starts production from the unit or in March 2020. Alvopetro's share of unit development capital incurred to September 30, 2018 is $2.1 million, partially offset by Alvopetro equipment and inventory transfers to the unit, with the net balance of $1.7 million at September 30, 2018 classified as non-current on the consolidated statement of financial position. With respect to the Gomo gas project, Alvopetro plans to stimulate the 183(1) well in the coming months at an estimated cost of $0.8 million and tie-in the well to the Caburé midstream development via an 8-kilometre transfer pipeline to be built in 2019 (at an estimated cost of $1.3 million), with additional development pending results of this stimulation.

On October 16, 2018, Alvopetro completed the Private Placement, raising $4.0 million in gross proceeds. Funds from the Private Placement will be used to fund the development of our Caburé natural gas field and for ongoing general corporate purposes. Alvopetro will require additional financing to fund the remaining development of our Caburé natural gas field as well as the additional capital associated with our Gomo natural gas project and is currently pursuing financing alternatives which may include project financing, vendor financing, strategic partnerships, other debt issuances, or additional equity issuances. Future capital expenditures associated with Alvopetro's work commitments on its other exploration blocks as well as development prospects on our mature fields may also require financing. The Company may also explore asset sales or farmouts to assist with funding. If we are unable to execute a financing arrangement or a financing arrangement on terms acceptable to Alvopetro and are unable to generate funds from asset sales or farmouts, the Company's current cash balances will be insufficient to fund the Caburé and Gomo development and the Company's plans and commitments on its other exploration blocks and mature fields. In addition, if financing is delayed or construction of the Facility or the pipeline is delayed, Alvopetro may incur supply failure penalties under the GSA.

Alvopetro does not currently generate positive cash flow from its operations. Capital expenditures and ongoing G&A and production expenses have been funded to date from existing cash balances. Exploration work commitments to be met in Brazil are supported by total LCs of $5.7 million as at September 30, 2018, the full balance of which is currently satisfied through EDC. To the extent new or revised work commitments are required to be issued in the future, EDC coverage may be limited, and the Company may be required to post the requisite amount from its cash balance which would impact its ability to fund future capital and operational expenditures.

The liability for decommissioning obligations of Alvopetro was $1.2 million as at September 30, 2018. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows, if applicable.

At September 30, 2018 the Company had $1.8 million of equipment inventory to be utilized for future operations which is included in exploration and evaluation assets in the consolidated statement of financial position.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and preferred shares in one or more series. As of September 30, 2018, the Company had 85,166,871 common shares outstanding. On October 16, 2018, the Company completed the Private Placement for aggregate gross proceeds of $4.0 million issuing a total of 11,504,000 common shares. An additional 3,676,000 warrants to purchase common shares were also issued as part of the arrangement. All warrants issued have an exercise price of $0.50 (CAD$0.64). Of the 3,676,000 warrants issued, 2,876,000 warrants have an expiry date of December 15, 2019 and 800,000 warrants have an expiry date of October 16, 2020. The aggregate number of Alvopetro common shares, stock options and warrants outstanding at November 14, 2018 was 108,188,057 (common shares – 96,670,871, stock options – 7,841,186, warrants – 3,676,000). There are no preferred shares outstanding.

RISKS AND UNCERTAINTIES

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

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.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New and revised accounting standards and changes in accounting policies

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

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

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

Standards issued but not yet effective

The IASB issued IFRS 16 *Leases* in January 2016 which is effective for fiscal years beginning on or after January 1, 2019. IFRS 16 replaces the current guidance (IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*) with a single lessee accounting model. Under the current guidance lessees classify leases as finance, which are recognized on the statement of financial position, or operating, which are recognized in the statement of operations when the expense is incurred. Under IFRS 16 substantially all lease contracts, with the exception of those that qualify for certain exemptions as provided by the guidance, require recognition of a lease liability and a corresponding right-of-use asset. This revised standard results in an increase in assets, liabilities, depletion, depreciation and amortization and finance expenses and a decrease in production and/or transportation costs. The Company is currently implementing this standard and will adopt using a modified retrospective approach.

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

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

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

Abbreviations:

m3	=	cubic metre
m3/d	=	cubic metre per day
mcf	=	thousand cubic feet
mcfpd	=	thousand cubic feet per day
mmboe	=	million barrels of oil equivalent
mmbtu	=	million British Thermal Units
mmcf	=	million cubic feet
mmcfpd	=	million cubic feet per day
boepd	=	barrels of oil equivalent per day
bopd	=	barrels of oil per day

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

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