The following Management's Discussion and Analysis ("MD&A") is dated November 12, 2019 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, 2019, MD&A for the year ended December 31, 2018 and the audited consolidated financial statements as at and for the years ended December 31, 2018 and 2017. 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 oil fields and one other exploration block comprising 23,527 acres (gross and net) onshore Brazil.

Strategy

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

FINANCIAL & OPERATING SUMMARY

	As at and Three Months Ended September 30,		As at and Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Financial				
($000s, except where noted)				
Oil and condensate sales	**77**	125	**175**	457
Net loss	**(2,321)**	(878)	**(3,925)**	(2,895)
Per share – basic and diluted ($)(1)	**(0.02)**	(0.01)	**(0.04)**	(0.03)
Funds flow from operations (2)	**(779)**	(759)	**(2,115)**	(2,445)
Per share – basic and diluted ($)(1)	**(0.01)**	(0.01)	**(0.02)**	(0.03)
Capital expenditures(3)	**3,648**	1,889	**5,672**	4,095
Total assets	**61,995**	60,866	**61,995**	60,866
Cash and cash equivalents	**1,386**	1,690	**1,386**	1,690
Net working capital (deficit) surplus(2), (4)	**(3,364)**	4,391	**(3,364)**	4,391
Common shares outstanding, end of year (000s)				
Basic	**96,593**	85,167	**96,593**	85,167
Diluted (1)	**107,438**	93,008	**107,438**	93,008
Operations				
Operating netback ($/bbl) (2)				
Brent benchmark price	**62.00**	75.85	**64.72**	72.64
Discount	**(0.40)**	(5.70)	**(7.40)**	(4.34)
Sales price	**61.60**	70.15	**57.32**	68.30
Transportation expenses	**-**	(1.68)	**-**	(1.79)
Realized sales price	**61.60**	68.47	**57.32**	66.51
Royalties and production taxes	**(8.80)**	(7.30)	**(7.86)**	(6.73)
Production expenses	**(53.60)**	(104.94)	**(73.70)**	(89.97)
Operating netback	**(0.80)**	(43.77)	**(24.24)**	(30.19)
Average daily crude oil and condensate sales (bopd)	**14**	19	**11**	25

Notes:

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

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

(3) Includes non-cash capital expenditures of $0.6 million for the three and nine months ended September 30, 2019 (2018 - $1.5 million and $2.1 million, respectively).

(4) Includes Other Liabilities of $2.8 million as of September 30, 2019 (reclassified as current liabilities in 2019).

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE THIRD QUARTER OF 2019

- On September 20, 2019, the Company entered into a $15 million Credit Agreement (the "Credit Facility"), subject to registrations of security and other funding conditions, all of which were met on October 8, 2019 (the "Funding Date"). Proceeds from the Credit Facility will be used to fund the development of our Caburé natural gas project (including construction of the transfer pipeline, site construction costs at the gas processing facility, and Alvopetro's share of unit development costs), initial capital associated with our Gomo gas project (including the stimulation of our 183(1) well planned for November), payments associated with our 57(A1) well drilled in the third quarter and for ongoing general corporate purposes.
- Activities in the third quarter were focused on our Caburé midstream project, including construction of the 11-kilometre transfer pipeline and site construction at the gas processing facility, and drilling the 57(A1) well in satisfaction of the work commitment on Block 57. Total capital expenditures of $3.6 million included $1.2 million for the 57(A1) well, $1.3 million for Caburé midstream projects, $0.8 million in Caburé unit development costs and capitalized G&A of $0.2 million.
- Our sales volumes averaged 14 bopd in the quarter including 6 bopd in condensate sales from the Caburé unit and 8 bopd from the Mãe-da-lua field.
- We reported a net loss of $2.3 million in the quarter, primarily due to an impairment charge on Block 57 of $1.5 million and negative funds flow from operations of $0.8 million.
- Our cash and cash equivalents totaled $1.4 million as of September 30, 2019.

RECENT HIGHLIGHTS

- All conditions to funding for the Credit Facility were satisfied on October 8, 2019 (the "Funding Date"). Up to $13 million became available on the Funding Date and the final $2 million will be available upon first production from the Caburé natural gas field. In connection with the financing, we issued a total of 8,432,868 share purchase warrants on the Funding Date. Each warrant entitles the holder to acquire one common share at an exercise price of $0.60.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at September 30, 2019, Alvopetro held interests in the Caburé and Gomo natural gas assets, two oil fields (Bom Lugar and Mãe-da-lua) and four other exploration assets (Blocks 182, 169, 255, and 57) comprising 44,293 gross (41,580 net) acres in the Recôncavo basin onshore Brazil. In September 2019, Alvopetro received notification that the National Agency of Petroleum, Natural Gas and Biofuels of Brazil ("ANP") would agree to cancel the concession contracts for both Block 169 and 255 pursuant to a request filed by Alvopetro in December 2017. In October 2019, Alvopetro also notified the ANP of its intention to relinquish Block 57. Following this relinquishment and the formal cancellation of Blocks 169 and 255, Alvopetro will hold a total of 23,527 gross and net acres in the Recôncavo basin 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.

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 our operating partner's share being 50.9% Two of the initial four wells are already tied into low pressure production facilities. The development plan includes the construction of high-pressure production facilities, completion and tie-in of the remaining wells, and drilling of up to four new development wells. The first two development wells were drilled in the third quarter of 2019, one of which was an exploration commitment well drilled by our partner at their cost. Drilling of the third development well is currently underway. All remaining development is expected to be completed by January 2020 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 Unit Operating Agreement ("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 proved and probable ("2P") reserves, they will no longer be entitled to further production allocations. Our partner is entitled to 100% of the early field production (allocated against their share of 2P reserves). From when the field commenced production in September 2018, a total of 986 mmcf of gas has been produced to November 11, 2019 against our partner's share of 2P reserves. Condensate production from the unit is split based on working interest and sold by the operator on behalf of both parties. In exchange for entitlement to the early field production, our partner has agreed to initially fund the majority of the unit development capital. Alvopetro will pay for its share of the initial unit capital carried by our partner within 30 days of the earlier of commencement of production or March 31, 2020. Alvopetro's share of the unit development capital incurred to September 30, 2019 (and carried by our partner) is $2.8 million (net of inventory and equipment transferred by Alvopetro to the unit), reported as other liabilities in the consolidated statement of financial position.

Gomo Natural Gas Project:

Alvopetro's Gomo gas project extends across Blocks 183 and 197 and includes the 183(1) well and the 197(1) well, both of which were drilled in 2014. To further evaluate the Company's Gomo natural gas asset, Alvopetro plans to stimulate the 183(1) well in November and install an 8-kilometre transfer pipeline in 2020 to tie the well into our 11-kilometre pipeline currently being built from the Caburé unit facilities.

Gas Commercialization Strategy and Planned Natural Gas Development:

The Company has a long-term gas sales agreement ("GSA") with Bahiagás which 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, with a floor of $5.00/mmbtu and a ceiling of $8.50/mmbtu (both subject to United States inflation). The forecasted 2020 price under the GSA, based on the September 30, 2019 GLJ Petroleum Consultants commodity price forecast, is $7.13/mmbtu ($8.08/mcfe). The GSA has take-or-pay provisions and supply failure penalties to ensure performance by both parties which are based on the firm volumes. Firm gas deliveries under the GSA are to commence in July 2020 (the "Firm Start Date"). The GSA allows for interruptible volumes to commence in advance of the Firm Start Date upon mutual consent by both parties. Alvopetro expects to be in a position to deliver first gas, on an interruptible basis, near the end of the first quarter of 2020 and expects Bahiagás to have all infrastructure in place to accept first gas at this time. In May 2019, Bahiagás received the necessary license to construct its pipeline extension and the new city gate at our plant site. Construction along the pipeline right of way has begun and Bahiagas has commenced construction of the city gate.

As part of Alvopetro's midstream development, the Company has a Gas Treatment Agreement with Enerflex Ltd ("Enerflex"), pursuant to which Enerflex is constructing, and will own and operate a natural gas processing facility (the "Facility") for Alvopetro and will provide all operations and maintenance, and warranty 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 Facility is expected in March 2020 allowing commercial gas deliveries to commence near the end of the first quarter 2020. All equipment for the Facility has arrived at the field staging area. Alvopetro is responsible for all site construction at the Facility which is over 77% complete. Alvopetro is releasing the site to Enerflex in stages as construction is completed. Alvopetro is constructing an 11-kilometre pipeline from the Caburé unit to the Facility. Construction of the pipeline commenced in May 2019 and over 93% of the pipe for the pipeline has now been welded and 82% has been installed and buried. The pipeline is expected to be completed in December 2019.

EXPLORATION AND EVALUATION ("E&E") ASSETS

The Company has the following estimated work commitments outstanding on E&E assets as at September 30, 2019.

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[4]	801	1,233
197	3,484	100%	Suspension in place[4]	-	-
Subtotal – Work to be completed				**801**	**1,233**
Work completed and/or commitments to be terminated:					
169	5,280	100%	Suspension in place[5]	912	1,543
255	7,734	100%	Suspension in place[5]	1,092	1,847
57	7,752	65%	August 14, 2019[6]	54	279
Subtotal – Work completed and/or commitments to be terminated				**2,058**	**3,669**
GRAND TOTAL – ALL EXPLORATION BLOCKS				**2,859**	**4,902**

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

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

(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 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. Alvopetro plans to stimulate the 183(1) well in November as part of its work plan associated with the PAD phase. 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. In September 2019, the ANP notified Alvopetro that it would agree to a termination of the contracts and the commitment amounts, without a refund of any bid round bonuses. Subsequent to September 30, 2019, Alvopetro notified the ANP of its intention to agree to the termination of the contracts and is currently awaiting formal documentation of the cancellation.

(6) In the third quarter of 2019, Alvopetro drilled the 57(A1) well in satisfaction of the work commitment in the table above, subject to ANP approval. In addition to the LC support in respect of Block 57, there is an additional $0.1 million of restricted cash posted for work commitments on this Block. Following approval by the ANP of the work commitment, the LCs and the restricted cash will be released.

FINANCIAL AND OPERATING REVIEW

Sales Volumes

	Three Months Ended September 30,		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Total oil (bbls)	**666**	1,782	**2,222**	6,691
Total condensate (bbls)	**584**	-	**831**	-
Total oil and condensate (bbls)	**1,250**	1,782	**3,053**	6,691
Daily volumes (bopd)	**14**	19	**11**	25

Average daily sales volumes in the three and nine months ended September 30, 2019 decreased compared to the same periods in 2018 mainly due to reductions at the Bom Lugar well which was shut-in in early 2019 following ongoing maintenance problems, partially offset by condensate sales volumes from the Caburé unit, which are split between Alvopetro and our partner, based on working interest percentage.

Oil and Condensate Sales

	Three Months Ended September 30,		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Brent ($/bbl)	**62.00**	75.85	**64.72**	72.64
Discount ($/bbl)	**(0.40)**	(5.70)	**(7.40)**	(4.34)
Oil and condensate sales price ($/bbl)	**61.60**	70.15	**57.32**	68.30
Sales price discount as a % of Brent	**1%**	8%	**11%**	6%
Oil Sales	**34**	125	**117**	457
Condensate Sales	**43**	-	**58**	-
Oil and Condensate Sales	**77**	125	**175**	457
Transportation	**-**	(3)	**-**	(12)
Total sales, net of transportation expense	**77**	122	**175**	445
Realized price ($/bbl)	**61.60**	68.47	**57.32**	66.51

All condensate production from the unit is sold pursuant to a sales contract based on Brent price plus a small premium. With increased condensate sales volumes in the third quarter of 2019, the sales price discount was reduced. However, on a year-to-date basis, with no sales from the Bom Lugar field in 2019 (which had lower discounts relative to Brent) and increased contractual discounts under the Mãe-da-lua contract in 2019, the overall discounts as a percentage of Brent increased compared to 2018 in the nine months ended September 30, 2019.

Oil and condensate sales decreased in both the three and nine months ended September 30, 2019 compared to 2018 mainly due to the reduction in daily sales volumes and also as a result of reduced realized sales price per barrel.

Royalties and Production Taxes

	Three Months Ended September 30,		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Royalties and production taxes	**11**	13	**24**	45
Percentage of sales (%)	**14.3**	10.4	**13.7**	9.8

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

All royalties are paid based on production volumes at the greater of the sales price and an ANP minimum reference price. Due to higher proportionate sales from the Mãe-da-lua field (which has a higher overall royalty rate), royalties as a percentage of sales increased in both the three and nine months ended September 30, 2019 compared to 2018.

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	
	2019	2018	**2019**	2018
Production expenses by type:				
Personnel costs	**20**	79	**80**	241
Other fixed costs	**43**	74	**125**	192
Variable costs	**4**	34	**20**	106
Workover costs	**-**	-	**-**	63
Total production expenses	**67**	187	**225**	602
Production expenses per barrel:				
Personnel costs	**16.00**	44.33	**26.20**	36.01
Other fixed costs	**34.40**	41.53	**40.95**	28.70
Variable costs	**3.20**	19.08	**6.55**	15.84
Workover costs	**-**	-	**-**	9.42
Total production expenses per bbl ($)	**53.60**	104.94	**73.70**	89.97

Production expenses in 2019 decreased relative to 2018 primarily due to reduced personnel and workover and maintenance costs at the Bom Lugar field following the decision to shut-in the producing well.

General and Administrative ("G&A") Expenses

	Three Months Ended September 30,		Nine Months Ended September 30	
G&A Expenses, by type:	**2019**	2018	**2019**	2018
Personnel	**623**	580	**1,910**	1,831
Travel	**38**	14	**95**	64
Office and IT costs	**45**	76	**125**	247
Professional fees	**103**	85	**275**	516
General corporate costs	**163**	83	**387**	232
Gross G&A	**972**	838	**2,792**	2,890
Capitalized G&A	**(233)**	(213)	**(730)**	(793)
G&A expenses	**739**	625	**2,062**	2,097

The majority of the Company's G&A expenses relate to personnel costs. General corporate costs include public company costs, directors' fees and insurance. The Company's Gross G&A increased in the third quarter of 2019 with increased personnel and travel costs, along with additional corporate expenses with increased activity levels. On a year-to-date basis, these increases in the third quarter are offset by reduced professional fees compared to 2018 which had been impacted by additional legal fees for the UOA and the GSA finalized last year.

Funds Flow from Operations

	Three Months Ended September 30,		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Funds flow from operations	**(779)**	(759)	**(2,115)**	(2,445)

Increased G&A and reduced oil sales contributed to lower funds flow from operations in the third quarter of 2019, compared to 2018. The Company's funds flow from operations improved in the nine months ended September 30, 2019 despite reduced oil sales due to increased other income and reductions in production expenses.

Foreign Exchange

The Company's reporting currency is the USD and its functional currencies are the USD and the Brazilian real ("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, 2019	June 30, 2019	December 31, 2018	**Q3 2019**	**YTD 2019**
Rate at end of period:					
$1 USD = BRL	**4.164**	3.832	3.875	**8.7**	**7.5**
$1 USD = CAD	**1.324**	1.309	1.364	**1.1**	**(2.9)**

	Three Months Ended September 30,		Nine Months Ended September 30,		% Change in Period	
	2019	2018	**2019**	2018	**Q3**	**YTD**
Average rate in the period:						
$1 USD = BRL	3.968	3.951	3.889	3.606	**0.5**	**7.9**
$1 USD = CAD	1.320	1.307	1.329	1.287	**1.0**	**3.3**

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, 2019 the BRL depreciated 9% and 8% relative to the USD, resulting in exchange losses of $2.7 million and $2.4 million, respectively.

As a significant portion of the Company's expenditures are denominated in BRL and CAD, 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, 2019, the average BRL rate depreciated 1% and 8% respectively and the average CAD depreciated 1% and 3% respectively, contributing to lower USD equivalent production and G&A expenses.

Share-Based Compensation Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Share based compensation expense	**33**	27	**100**	54

Share-based compensation expense is a non-cash expense based on the fair value of stock options and warrants granted and amortized over the respective vesting periods. At September 30, 2019, 7.2 million stock options were outstanding compared to 7.8 million at September 30, 2018. Despite reduced stock options outstanding in 2019, with higher exercise prices as a result of Alvopetro's improving share price, share-based compensation expense increased in 2019 compare to the same periods in 2018.

Depletion and Depreciation and Impairment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Depletion and depreciation	**65**	33	**171**	120
Impairment	**1,534**	-	**1,595**	196
Total	**1,599**	33	**1,766**	316

Depreciation includes $0.05 million in the three months ended September 30, 2019 and $0.12 million in the nine months ended September 30, 2019 in respect of depreciation of right-of-use assets following the adoption of IFRS 16 on January 1, 2019, contributing to higher depletion and depreciation despite reduced volumes in 2019 compared to the same periods in 2018. Included in the depletion computation for our producing assets was $6.0 million (September 30, 2018 - $6.3 million) of estimated future development costs for undeveloped proved plus probable reserves.

Impairment of $1.5 million in the third quarter of 2019 relates to all costs incurred to date on Block 57, including drilling costs for the 57(A1) well. The block was written down to $nil following the Company's decision to relinquish the block. An additional $0.06 million of impairment was recognized in the second quarter of 2019 in respect of land held for sale and materials inventory transferred to assets held for sale on June 30, 2019. The impairment in 2018 relates to costs incurred on Block 106 to write-down the carrying value of the block to $nil as the block was relinquished.

Finance Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Accretion on decommissioning liabilities	**6**	11	**20**	31
Lease interest	**4**	-	**11**	-
Finance Expenses	**10**	11	**31**	31

Finance expenses include effective interest on lease liabilities following the adoption of IFRS 16 on January 1, 2019 as well as accretion on decommissioning liabilities.

Net Loss

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Net loss	**(2,321)**	(878)	**(3,925)**	(2,895)

Net loss in the three and nine months ended September 30, 2019 was impacted by higher impairment charges compared to 2018, largely in the third quarter.

Capital Expenditures

Capital Expenditures by Type	Three Months Ended September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
E&E				
Drilling and completions	**1,186**	28	**1,213**	820
Facility & equipment	**85**	-	**95**	519
Land, lease, and similar payments	**9**	28	**48**	91
Inventory purchases	**6**	-	**7**	-
Capitalized G&A	**47**	83	**225**	558
Other	**-**	37	**1**	60
Total E&E(1)	**1,333**	176	**1,589**	2,048
PP&E				
Facility & equipment	**1,647**	1,414	**3,056**	1,699
Drilling and completions	**418**	160	**418**	85
Land, lease and similar payments	**49**	9	**58**	26
Furniture & fixtures	**1**	-	**4**	-
Capitalized G&A	**186**	130	**505**	235
Other	**14**	-	**42**	2
Total PP&E(2)	**2,315**	1,713	**4,083**	2,047
Total Capital Expenditures by Type	**3,648**	1,889	**5,672**	4,095

Capital Expenditures by Property	Three Months Ended September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
E&E				
Caburé	**-**	-	**-**	773
9th Brazil Bid Round blocks (Blocks 182, 183, 197)	**107**	116	**317**	1,181
11th Brazil Bid Round blocks (Blocks 106, 107)	**-**	-	**5**	23
13th Brazil Bid Round blocks (Blocks 57, 62, 71, 145)	**1,220**	61	**1,260**	71
Inventory	**6**	-	**7**	-
Costs to be allocated to blocks	**-**	(1)	**-**	-
Total E&E(1)	**1,333**	176	**1,589**	2,048
PP&E				
Caburé and associated midstream assets	**2,315**	1,704	**4,076**	2,030
Bom Lugar	**-**	9	**4**	11
Jiribatuba	**-**	-	**-**	-
Corporate	**-**	-	**3**	3
Total PP&E(2)	**2,315**	1,713	**4,083**	2,047
Total Capital Expenditures by Property	**3,648**	1,889	**5,672**	4,095

(1) Includes non-cash capital expenditures of $nil in the three and nine months ended September 30, 2019 (2018 - $nil and $0.3 million, respectively).
(2) Includes non-cash capital expenditures of $0.6 million in the three and nine months ended September 30, 2019 (2018 - $1.5 million and $1.8 million, respectively).

Capital expenditures in the quarter included $1.2 million for the 57(A1) well, $0.8 million for the Caburé transfer pipeline, $0.5 million for site construction costs at the Facility and $0.8 million in Caburé unit development costs, of which $0.6 million relates to non-cash expenditures initially funded by our partner. Additional capital expenditures included capitalized G&A of $0.2 million and $0.1 million on our Gomo project.

Summary of Quarterly Results

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Financial								
Oil and condensate sales	**77**	30	68	62	125	216	116	85
Net loss	**(2,321)**	(841)	(763)	(1,445)	(878)	(1,128)	(889)	(2,079)
Per share – basic & diluted ($)	**(0.02)**	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)
Funds flow from operations (1)	**(779)**	(699)	(637)	(821)	(759)	(844)	(842)	(775)
Per share – basic & diluted ($)	**(0.01)**	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital expenditures(2)	**3,648**	775	1,249	1,249	1,889	930	1,276	434
Operations								
Operating netback ($/bbl) (1)								
Brent benchmark price	**62.00**	68.33	63.83	68.08	75.85	74.91	67.18	61.53
Sales price	**61.60**	57.80	52.96	59.85	70.15	71.10	62.00	55.05
Transportation expenses	**-**	-	-	(0.97)	(1.68)	(1.65)	(2.14)	(2.59)
Realized sales price	**61.60**	57.80	52.96	58.88	68.47	69.45	59.86	52.46
Royalties and production taxes	**(8.80)**	(7.71)	(7.01)	(9.65)	(7.30)	(6.25)	(6.95)	(6.48)
Production expenses	**(53.60)**	(123.31)	(73.21)	(229.73)	(104.94)	(58.92)	(126.14)	(112.05)
Operating netback	**(0.80)**	(73.22)	(27.26)	(180.50)	(43.77)	4.28	(73.23)	(66.07)
Average daily production (bopd)	**14**	6	14	11	19	33	21	17

Notes:
(1) Non-GAAP measure. See "Non-GAAP Measures" section within this MD&A.
(2) Includes non-cash capital expenditures of $0.6 million in Q3 2019, $0.03 million in Q2 2019, $0.6 million in Q4 2018, $1.5 million in Q3 2018 and $0.6 million in Q2 2018.

Q3 2019 –Capital expenditures of $3.6 million included $1.2 million for the 57(A1) well, $2.1 million in Caburé expenditures for the transfer pipeline, unit development and site construction costs, and capitalized G&A of $0.2 million. Average daily production increased to 14 bopd with increased condensate sales, which also contributed to higher a realized sales price per barrel, despite lower Brent prices. The Company recognized an impairment charge of $1.5 million on Block 57, contributing to the net loss to $2.3 million. Alvopetro entered into the Credit Facility in September, and all conditions for funding were satisfied on October 8, 2019. The Credit Facility provides funding for the Company's planned development of the Caburé and Gomo natural gas fields, the 57(A1) well drilled in the third quarter, and for other general corporate purposes.

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

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

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

Q3 2018 – Total capital expenditures of $1.9 million in the quarter included $1.5 million in respect of 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.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at September 30, 2019:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments(1)				
Work commitments to be completed				
Block 183(2)	-	801	-	801
Mãe-da-lua	-	-	84	84
Bom Lugar	-	-	84	84
Minimum work commitments to be completed	**-**	**801**	**168**	**969**
Work commitments completed or to be terminated				
Block 169(3)	912	-	-	912
Block 255(3)	1,092	-	-	1,092
Block 57(4)	54	-	-	54
Minimum work commitments completed or to be terminated	**2,058**	**-**	**-**	**2,058**
Gas Treatment Agreement	**1,718**	**5,646**	**20,937**	**28,301**
Total commitments	**3,776**	**6,447**	**21,105**	**31,328**

Notes:

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

(2) In February 2018, the ANP approved a suspension to the portion of Block 183 currently in the second exploration phase to which the above commitment is applicable. The Company will have 517 days from receipt of the environmental permit for the well to be drilled to meet the required work commitment.

(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 commitments noted in the table above. In September 2019, the Company received notification that the ANP would agree to the cancellation of the contracts and is currently awaiting the formal agreement to execute the termination.

(4) In the third quarter of 2019 Alvopetro drilled the 57(A1) well in satisfaction of the above noted commitment, subject to ANP approval.

The Company's GSA with Bahiagás provides penalties for supply failure in respect of the firm volumes and also take or pay penalties applicable to Bahiagás should it be unable to accept the firm volumes specified in the contract. Any potential penalties to either party do not commence until the Firm Start Date. 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 gas processing 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. Alvopetro can mitigate these risks by adjusting firm volumes annually and by meeting sales commitments under the GSA with third-party gas supplies, through development of existing gas resources, or through new gas discoveries from our prospect inventory.

Under the terms of the Gas Treatment Agreement with Enerflex, Alvopetro is committed to integrated service fees totaling $2.9 million per year once the Facility is operational. Alvopetro anticipates that the Facility will be operational late in the first quarter of 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 classification of these fees upon lease commencement. 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. While the Gas Treatment Agreement also includes strict availability requirements and downtime credits, such credits may not fully offset costs incurred by Alvopetro due to ship or pay obligations under the GSA as discussed above to the extent processing in the Facility is limited due to unplanned or longer than scheduled maintenance or repair.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility

On September 20, 2019, the Company entered into a $15 million Credit Agreement (the “Credit Facility”), subject to registrations of security and other funding conditions, all of which were met on October 8, 2019 (the “Funding Date”). Under the terms of the Credit Facility, Alvopetro will have access to up to $13 million, with the final $2 million available upon first production from the Caburé natural development. Amounts under the Credit Facility are available to be drawn from the Funding Date to October 8, 2020 (the “Availability Period”). Any undrawn amounts are cancelled as of October 8, 2020.

The Credit Facility is secured by all of Alvopetro’s assets and matures on October 8, 2022. The Credit Facility is subject to cash interest of 9.5% per annum, payable monthly, and an additional interest payable upon repayment of any Credit Facility amounts at a rate of 3.0% per annum. The Credit Facility is subject to a 1.0% per annum commitment fee on the unused available balance during the Availability Period. Amounts drawn under the Credit Facility are repayable at maturity, however after the first anniversary of the Credit Facility, amounts drawn may be repaid in part or full at Alvopetro’s option without penalty. The Credit Facility contains certain customary financial and non-financial covenants. Financial covenants are tested starting after October 8, 2020, the first anniversary of the Funding Date.

In connection with the financing, Alvopetro issued a total of 8,432,668 share purchase warrants to the lenders and to financial advisors acting on behalf of Alvopetro. Each warrant entitles the holder to purchase one common share of Alvopetro at an exercise price of $0.60 per common share. The warrants were issued on the Funding Date and expire on September 20, 2022.

Cash

At September 30, 2019, Alvopetro’s cash and cash equivalents of $1.4 million and its restricted cash of $0.3 million were held as follows:

	Total	U.S. Dollar	CAD Dollar[(1)]	Brazil Real[(1)]
Cash held in Canada	**651**	623	28	-
Cash held in Brazil	**735**	-	-	735
Restricted cash - current	**262**	-	-	262
Total	**1,648**	**623**	**28**	**997**

Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as at September 30, 2019.

The Company has cash of $1.4 million and a total net working capital deficit of $3.4 million at September 30, 2019, which includes the $2.8 million liability to our partner at the Caburé which is not to be paid until 2020. Positive cash flows are expected upon commencement of production from the Caburé natural gas field, anticipated near the end of the first quarter of 2020. For the remainder of 2019, the Company anticipates $2.2 million in payments for the Caburé development (including construction of the transfer pipeline, site construction at the Facility, and Alvopetro's share of unit development costs), with an additional $6.8 million payable in early 2020 (including repayment of the liability outstanding to our partner). In addition, the Company is completing the 183(1) stimulation in the fourth quarter of 2019 at an anticipated cost of $0.9 million. With proceeds from the new Credit Facility, along with existing cash balances, Alvopetro expects to have sufficient resources to meet these planned activities on the Caburé natural gas field and the Gomo gas project as well as its ongoing operational and administrative obligations. However, as discussed further in Note 1 to the financial statements, to the extent there are delays, cost overruns or unanticipated expenditures, additional financing may be required. Furthermore, should the Company's gas deliveries be delayed, Alvopetro may incur ship or pay penalties under the GSA and charges under the Gas Treatment Agreement prior to production commencement from the Caburé natural gas field.

Exploration work commitments to be met in Brazil are supported by a credit facility with a Canadian bank which allows for the issuance of LCs and letters of guarantee in support of the financial guarantees required by the ANP for Alvopetro's work commitments under the terms of its concession contracts associated with its exploration blocks. LCs and letters of guarantee issued may be supported by either cash collateral posted by Alvopetro or through an Account Performance Security Guarantee from Export Development Canada ("EDC"). As at September 30, 2019, the total amount of LCs issued under the credit support facility was $4.9 million (December 31, 2018 - $6.1 million), the full balance of which was satisfied by EDC. Total LCs outstanding at September 30, 2019 include $0.3 million for work commitments satisfied by Alvopetro in the third quarter 2019 on Block 57, subject to ANP approval, and $3.4 million for work commitments on Blocks 169 and 255, which the ANP has agreed to cancel pursuant to a 2017 request by Alvopetro. Once the ANP has approved the Block 57 commitment and formally cancelled the Block 169 and Block 255 commitments, Alvopetro will apply to have the associated LCs released by all involved banks. The Company also has a restricted cash balance of $0.3 million as at September 30, 2019 (December 31, 2018 - $0.1 million), which includes $0.2 million in respect of the abandonment guarantees on the Company's oil fields and $0.1 million in respect of a portion of the Company's exploration work commitment on Block 57.

The liability for decommissioning obligations of Alvopetro was $1.6 million as at September 30, 2019, with $0.1 million expected to be incurred within one year. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows, if applicable.

At September 30, 2019 the Company had $1.4 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 November 12, 2019, there were 96,628,492 common shares outstanding, 7,168,750 stock options outstanding and 12,073,868 warrants outstanding. There are no preferred shares outstanding.

NON-GAAP MEASURES

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

Funds Flow from Operations and Funds Flow from Operations Per Share

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2019	2018	**2019**	2018
Cash flows from operating activities	**(546)**	(790)	**(1,898)**	(2,553)
Add back changes in non-cash working capital	**(233)**	31	**(217)**	108
Funds flow from operations	**(779)**	(759)	**(2,115)**	(2,445)

The Company also refers to funds flow per share, which is funds flow from operations divided by the weighted average shares outstanding for the respective period. For the periods reported in this document there was no difference between cash flow from operating activities per share and funds flow from operations per share:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
$ per share	**2019**	2018	**2019**	2018
Cash flows from operating activities per share	**(0.01)**	(0.01)	**(0.02)**	(0.03)
Funds flow from operations per share	**(0.01)**	(0.01)	**(0.02)**	(0.03)

Net Working Capital (Deficit) Surplus

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

	As at September 30,	
	2019	2018
Total current assets	**2,670**	5,220
Total current liabilities	**(6,034)**	(829)
Working capital (deficit) surplus	**(3,364)**	4,391

Operating Netback per Barrel

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Oil and condensate sales	**77**	125	**175**	457
Royalties and production taxes	**(11)**	(13)	**(24)**	(45)
Production expenses	**(67)**	(187)	**(225)**	(602)
Transportation	**-**	(3)	**-**	(12)
Operating netback	**(1)**	(78)	**(74)**	(202)
Operating netback per barrel ($)	**(0.80)**	(43.77)	**(24.24)**	(30.19)

RISKS AND UNCERTAINTIES

An investment in Alvopetro should be considered speculative due to the nature of our activities and the stage of our development. Alvopetro is exposed to a variety of risks, including but not limited to liquidity and financing risks, legal and regulatory risks, market risks, operational risks, reservoir performance risks, exploration risks, and competitive risks. Investors should carefully consider the risk factors set forth under the heading "Risk Factors" in our Annual Information Form that can be found on SEDAR at www.sedar.com. There have been no significant changes in the nine months ended September 30, 2019 to the risk and uncertainties identified in the MD&A and in our Annual Information Form for the year ended December 31, 2018 other than with respect to the Credit Facility entered into on September 20, 2019. While the Credit Facility provides the necessary funds to execute the Company's planned activities on the Caburé natural gas field and initial plans on the Company's Gomo project, thereby reducing its liquidity and financing risk, the Company's ability to make payments of interest and principal on future amounts borrowed will depend on its future operating performance and cash flows from operations, which are subject to the timing of capital activities, regulatory approvals, reservoir performance, prevailing economic conditions and commodity prices, among other factors, many of which are beyond its control. The Company's cash flow from operations will be in part dedicated to the payment of principal and interest on future amounts drawn and there can be no assurance that the Company will be able to repay the Credit Facility.

The Credit Facility also imposes certain restrictions on the Company, including on the payment of dividends, incurring of additional indebtedness, acquisition and dispositions of assets, entering into amalgamations, mergers, among other restrictions. In addition, the Credit Facility includes certain financial covenants with which the Company must comply. A breach of any of the terms of the Credit Facility could cause an event of default, resulting in some or all of the amounts borrowed becoming immediately due and payable, which could adversely affect the Company's financial condition. Pursuant to the terms of the Credit Facility, the lender has been provided with security over all of the assets of the Company. A failure to comply with the obligations in the Credit Facility and related agreements could result in an event of default which, if not cured or waived, could permit acceleration of future amounts owing under the Credit Facility. It is uncertain whether the Company's assets would be sufficient to generate the funds necessary to repay such amounts in the event of an acceleration.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New and revised accounting standards

On January 1, 2019, the Company adopted IFRS 16 Leases, under the modified retrospective approach. IFRS 16 replaces IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* to provide one framework requiring the recognition of a right-of-use ("ROU") asset and corresponding lease liability on the statement of financial position for substantially all contracts that contain a lease.

Pursuant to IFRS 16, a contract where a party has the right to control the use of an identified asset in exchange for consideration is or contains a lease. At commencement, determined to be when the leased asset is available for use, a ROU asset and corresponding lease liability are recognized, measured at the present value of the remaining lease payments discounted using the rate implicit in the lease or the party's incremental borrowing rate if the implicit rate is not readily determinable. The ROU asset is depreciated over the shorter of: 1) the asset's useful life; and 2) the lease term on a straight-line basis. Lease payments are allocated between repayment of the lease liability and finance expense which is charged to the statements of operations and comprehensive loss.

The modified retrospective approach does not require restatement of prior period financial information as the cumulative effect of adoption is recognized as an adjustment to the Company's opening accumulated deficit and the standard is applied prospectively. As such, comparative information in the Company's financial statements are not restated. The ROU assets and lease liabilities are measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate. The Company applied the optional practical expedients to not recognize certain short-term leases or leases of low value and has elected to separate non-lease components from lease components for all underlying asset classes at January 1, 2019.

Upon adoption of IFRS 16 on January 1, 2019 the Company recognized ROU assets of $0.3 million, lease liabilities of $0.2 million, an increase to its accumulated deficit of $0.02 million and a nominal effect on accumulated other comprehensive loss. See note 6 to the financial statements for further details with respect to the ROU assets and lease liabilities.

Standards issued but not yet effective

The Company has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective and may have a potential impact on the consolidated financial statements of the Company.

Standard and Description	Date of Adoption	Expected Adoption Impact on Consolidated Financial Statements
IFRS 3 *Business Combinations* – IFRS 3 was amended to revise the definition of a business.	January 1, 2020	The Company is assessing the effect of this future pronouncement on its financial statements.
IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* have been amended to more effectively align the definition of materiality throughout all accounting standards.	January 1, 2020	The Company is assessing the effect of this future pronouncement on its financial statements.

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 use of proceeds from financing, the anticipated timing of construction and development projects, the anticipated timing and outcomes of regulatory determinations, expected timing of commencement of gas sales under Alvopetro's long-term gas sales agreement, future results from operations, projected financial results, future capital and operating costs, future production rates, proposed exploration and development activities and the timing for such activities, sources and availability of capital, and capital spending levels. Forward-looking statements are necessarily based upon assumptions and judgments with respect to the future including, but not limited to, the timing of regulatory licenses and approvals, the success of future drilling, completion, recompletion and development activities, the outlook for commodity markets and ability to access capital markets, the performance of producing wells and reservoirs, well development and operating performance, general economic and business conditions, weather and access to drilling locations, the availability and cost of labour and services, environmental regulation, including regulation relating to hydraulic fracturing and stimulation, the ability to monetize hydrocarbons discovered, the regulatory and legal environment and other risks associated with oil and gas operations. Although we believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because we can give no assurance that they will prove to be correct. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, reliance on industry partners, availability of equipment and personnel, uncertainty surrounding timing for drilling and completion activities resulting from weather and other factors, changes in applicable regulatory regimes and health, safety and environmental risks), commodity price and exchange rate fluctuations and general economic conditions. Certain of these risks are set out in more detail in our 2018 MD&A and 2018 Annual Information Form which are available on SEDAR and can be accessed at www.sedar.com. Except as may be required by applicable securities laws, Alvopetro assumes no obligation to publicly update or revise any forward-looking statements made herein or otherwise, whether as a result of new information, future events or otherwise.

Abbreviations:

m3/d	=	cubic metre per day
mcf	=	thousand cubic feet
mcfe	=	thousand cubic feet of gas equivalent
mcfpd	=	thousand cubic feet per day
mmbtu	=	million British Thermal Units
mmcf	=	million cubic feet
mmcfpd	=	million cubic feet per day
bopd	=	barrels of oil and condensate 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 (6 mcf/bbl) of natural gas to barrels of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this MD&A are derived from converting gas to oil in the ratio mix of six thousand cubic feet of gas to one barrel of oil.