The following Management's Discussion and Analysis ("MD&A") is dated November 8, 2023 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, 2023, MD&A for the year-ended December 31, 2022 and the audited consolidated financial statements as at and for the years ended December 31, 2022 and 2021. Additional information for the Company, including the Annual Information Form ("AIF"), can be found on SEDAR+ at www.sedarplus.ca or at www.alvopetro.com. This MD&A contains financial terms that are not considered measures under International Financial Reporting Standards ("IFRS") and forward-looking statements. As such, the MD&A should be used in conjunction with Alvopetro's disclosure under the headings "Non-GAAP and Other Financial Measures" and "Forward Looking Information" at the end of this MD&A.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Description of Business

Alvopetro is engaged in the exploration for and the acquisition, development and production of hydrocarbons in Brazil. Alvopetro is a pioneer in the development of Brazil's independent onshore natural gas industry anchored by the Company's core Caburé natural gas asset and midstream projects. Alvopetro's shares are traded on the TSX Venture Exchange (TSX: ALV.V) and are also traded on the OTCQX® Best Market in the United States (OTCQX: ALVOF).

Strategy

Alvopetro's strategy is to unlock the on-shore natural gas potential in the state of Bahia, building off the development of our Caburé and Murucututu natural gas assets and our strategic midstream infrastructure. Our objective is to create a balanced reinvestment and long-term stakeholder return model where approximately half of our cash flows are reinvested in organic growth opportunities and the other half is distributed to stakeholders.

FINANCIAL & OPERATING SUMMARY

	As at and Three Months Ended September 30,			As at and Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Financial						
($000s, except where noted)						
Natural gas, oil and condensate sales	**12,313**	16,672	(26)	**44,387**	46,431	(4)
Net income	**5,819**	8,795	(34)	**27,873**	26,541	5
Per share – basic ($)(1)	**0.16**	0.26	(38)	**0.75**	0.78	(4)
Per share – diluted ($)(1)	**0.15**	0.24	(38)	**0.74**	0.72	3
Cash flows from operating activities	**12,469**	13,838	(10)	**39,798**	35,168	13
Per share – basic ($)(1)	**0.34**	0.40	(15)	**1.07**	1.03	4
Per share – diluted ($)(1)	**0.33**	0.37	(11)	**1.05**	0.96	9
Funds flow from operations (2)	**9,618**	13,348	(28)	**35,637**	36,686	(3)
Per share – basic ($)(1)	**0.26**	0.39	(33)	**0.96**	1.08	(11)
Per share – diluted ($)(1)	**0.25**	0.36	(31)	**0.94**	1.00	(6)
Dividends declared	**5,122**	2,896	77	**15,335**	8,340	84
Per share(1)	**0.14**	0.08	75	**0.42**	0.24	75
Capital expenditures	**10,703**	8,713	23	**22,515**	18,851	19
Cash and cash equivalents	**22,779**	17,380	31	**22,779**	17,380	31
Net working capital(2)	**11,392**	12,225	(7)	**11,392**	12,225	(7)
Weighted average shares outstanding						
Basic (000s)(1)	**37,138**	34,434	8	**37,086**	34,107	9
Diluted (000s)(1)	**37,868**	36,939	3	**37,748**	36,693	3
Operations						
Natural gas, NGLs and crude oil sales:						
Natural gas (Mcfpd), by field:						
Caburé (Mcfpd)	**8,949**	15,139	(41)	**11,757**	14,344	(18)
Murucututu (Mcfpd)	**726**	-	-	**467**	-	-
Total natural gas (Mcfpd)	**9,675**	15,139	(36)	**12,224**	14,344	(15)
NGLs – condensate (bopd)	**81**	117	(31)	**101**	104	(3)
Oil (bopd)	**3**	2	50	**4**	6	(33)
Total (boepd)	**1,696**	2,642	(36)	**2,142**	2,501	(14)
Average realized prices(2):						
Natural gas ($/Mcf)	**13.06**	11.18	17	**12.57**	11.03	14
NGLs – condensate ($/bbl)	**89.43**	101.57	(12)	**85.31**	109.38	(22)
Oil ($/bbl)	**73.08**	80.92	(10)	**69.18**	83.59	(17)
Total ($/boe)	**78.90**	68.59	15	**75.90**	68.00	12
Operating netback ($/boe)(2)						
Realized sales price	**78.90**	68.59	15	**75.90**	68.00	12
Royalties	**(2.04)**	(5.42)	(62)	**(2.14)**	(5.05)	(58)
Production expenses	**(6.52)**	(3.34)	95	**(5.22)**	(3.77)	38
Operating netback	**70.34**	59.83	18	**68.54**	59.18	16
Operating netback margin(2)	**89%**	87%	2	**90%**	87%	3

Notes:

(1) Per share amounts are based on weighted average shares outstanding other than dividends per share, which is based on the number of common shares outstanding at each dividend record date. The weighted average number of diluted common shares outstanding in the computation of funds flow from operations and cash flows from operating activities per share is the same as for net income per share.

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

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE THIRD QUARTER OF 2023

- With reduced offtake from Bahiagás during the quarter following reductions in end user consumption, our average daily sales decreased to 1,696 boepd (-14% from Q2 2023 and -36% from Q3 2022).
- Our average realized natural gas price increased to $13.06/Mcf, a 17% increase from Q3 2022 with the 3% increase in our contracted natural gas price, enhanced sales tax credits available in 2023 and a 7% appreciation in the average BRL to USD in Q3 2023 compared to Q3 2022. With the higher natural gas price, our overall realized price per boe increased to $78.90 (+15% from Q3 2022 and +2% from Q2 2023).
- Our natural gas, condensate and oil revenue was $12.3 million in Q3 2023, a decrease of $4.4 million (-26%) compared to Q3 2022 and a decrease of $1.6 million (-12%) compared to Q2 2023.
- Our operating netback improved to $70.34 per boe (+$10.51 per boe from Q3 2022 and +$0.73 per boe from Q2 2023) with higher realized sales prices, partially offset by the impact of fixed operating costs with lower sales volumes.
- We generated funds flows from operations of $9.6 million ($0.26 per basic and $0.25 per diluted share), a decrease of $3.7 million compared to Q3 2022 and $1.4 million compared to Q2 2023.
- We reported net income of $5.8 million in Q3 2023, a decrease of $3.0 million (-34%) compared to Q3 2022 and $4.0 million (-41%) compared to Q2 2023.
- Capital expenditures totaled $10.7 million, including drilling costs for the 183-A3 well on our Murucututu natural gas field, drilling and completion costs for the BL-06 well on our Bom Lugar field, and long-lead purchases for future capital projects.
- Our working capital surplus was $11.4 million as of September 30, 2023, decreasing $6.7 million from June 30, 2023, and $3.3 million from December 31, 2022.

RECENT HIGHLIGHTS

- October sales volumes averaged 1,839 boepd including natural gas sales of 10.6 MMcfpd, associated natural gas liquids sales from condensate of 67 bopd and oil sales of 8 bopd based on field estimates.
- In October we completed drilling the 183-A3 well on our Murucututu natural gas field. Based on open-hole logs, the well encountered potential natural gas pay across two separate formations totaling 127.7 metres, with an average porosity of 10.3%. Subject to equipment availability and regulatory approvals, we plan to complete the well later in the fourth quarter and expect to put the well on production directly to the adjacent field production facility.
- In October we completed the BL-06 well on our Bom Lugar field and placed the well on production following an organic acid stimulation. The well is currently producing at an average rate of 14 bopd, based on field estimates. We are currently evaluating alternatives to improve production rates from the well.

NATURAL GAS AND OIL PROPERTIES

As at September 30, 2023, Alvopetro held interests in the Caburé and Murucututu natural gas assets, two exploration blocks (Block 182 and Block 183) and two oil fields (Bom Lugar and Mãe-da-lua), in the Recôncavo basin onshore Brazil.

NATURAL GAS ASSETS AND MIDSTREAM INFRASTRUCTURE:

Alvopetro's flagship asset, the Caburé natural gas field (the "Caburé Field"), commenced commercial natural gas deliveries on July 5, 2020. The Caburé Field extends across four blocks in the Recôncavo Basin in the state of Bahia in Brazil, two of which are held by Alvopetro and two of which are held by our partner, with Alvopetro's share of the unitized area (the "Unit") being 49.1%. Under the terms of the Unit Operating Agreement ("UOA"), each party is entitled to nominate for their working interest share of field production and for any natural gas not nominated for by the other party. Once a party produces their share of proved plus probable reserves, they will no longer be entitled to further production allocations. Under the terms of the UOA, natural gas liquids ("NGLs") production from the unit (relating to condensate production) is split based on working interest.

Alvopetro's Murucututu natural gas project extends across Blocks 183 and 197, both held 100% by Alvopetro. In 2022, Alvopetro completed installation of a 9-kilometre transfer pipeline extension to connect the 183(1) well to our Caburé transfer pipeline and constructed and commissioned field production facilities. We also completed pipeline construction to tie-in our 197(1) well. In mid-October 2022, we commenced production from the 183(1) well and in Q2 2023 we completed the stimulation of our 197(1) well and the well commenced production at the end of May 2023. In October 2023 we completed drilling the 183-A3 well, the first of two planned "fit-for-purpose" development wells on the field. We are planning a testing program on the well for later in the fourth quarter and expect the well to be on production through our adjacent field production facility thereafter.

Alvopetro's share of natural gas from the Caburé natural gas field and the Murucututu natural gas field is shipped via our 11-kilometre Caburé transfer pipeline and processed through the natural gas processing facility (the "Facility") owned and operated by Enerflex Ltd. ("Enerflex") pursuant to our Gas Treatment Agreement. All natural gas is sold to Bahiagás, the local state distribution company, under the terms of our gas sales agreement ("GSA").

The GSA provides for the sale of firm volumes and interruptible volumes and has take-or-pay provisions and ship-or-pay penalties to ensure performance by both parties which are based on the firm volumes. For 2023, the Company has agreed to firm volumes of 10.6 MMcfpd (300 10^3m^3/d) and interruptible volumes of up to 7.1 MMcfpd (200 10^3m^3/d) and Alvopetro can adjust the firm volumes by up to 7.9 MMcfpd (225 10^3m^3/d) and the interruptible volumes by up to 9.7 MMcfpd (275 10^3m^3/d) with at least 60 days notice. In September 2023, Bahiagas demand was below the firm volumes set out in the GSA and the take-or-pay provisions applied. See "*Sales Volumes*" below for further details.

OIL ASSETS:

The Company has two oil fields (Bom Lugar and Mãe-da-lua). In Q2 2023, Alvopetro drilled the first of two initially planned development wells on the Bom Lugar field (BL-06). The well was drilled to a total measured depth of 3,244 metres and in Q3 the well was completed, equipped with an artificial lift system and tied into the existing production facility. The well was brought on production in October 2023 and is currently producing 14 bopd based on field estimates. The Company is evaluating potential solutions to improve production rates from the well. On the Mãe-da-lua field Alvopetro has planned a stimulation of the existing well to improve oil recovery.

EXPLORATION ASSETS (Block 182 & Block 183)

Alvopetro's E&E assets include Block 182 and the portion of Block 183 that is not part of the Murucututu project. In 2022, Alvopetro drilled and tested the 183-B1 well on Block 183 and drilled and commenced testing the 182-C2 well on Block 182 (with testing completed in January 2023). Initial testing results from the 182-C2 and 183-B1 wells indicated lower than anticipated permeability. Alvopetro is evaluating alternatives to remediate possible permeability impacts from near wellbore damage. Future capital expenditures on these projects will depend on these initial results.

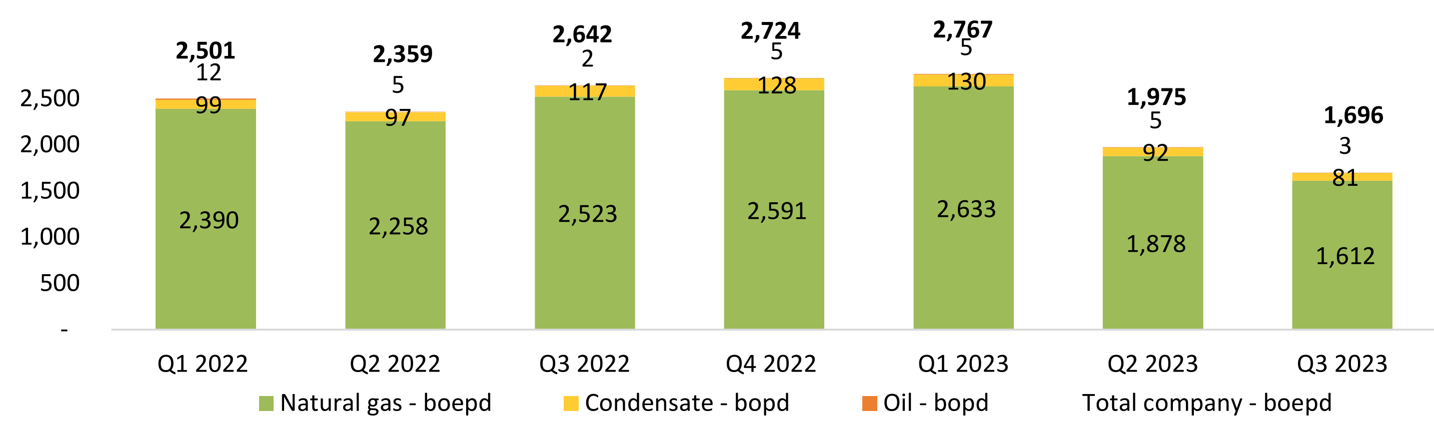
FINANCIAL AND OPERATING REVIEW

Sales Volumes

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Total sales volumes by product:						
Caburé (Mcf)	**823,284**	1,392,792	(41)	**3,209,754**	3,915,988	(18)
Murucututu (Mcf)	**66,773**	-	-	**127,369**	-	-
Total natural gas (Mcf)	**890,057**	1,392,792	(36)	**3,337,123**	3,915,988	(15)
NGLs – condensate (bbls)	**7,447**	10,761	(31)	**27,534**	28,480	(3)
Oil (bbls)	**260**	173	50	**1,113**	1,651	(33)
Total sales (boe)	**156,050**	243,066	(36)	**584,835**	682,797	(14)
Average daily sales by product:						
Caburé (Mcfpd)	**8,949**	15,139	(41)	**11,757**	14,344	(18)
Murucututu(Mcfpd)	**726**	-	-	**467**	-	-
Total natural gas (Mcfpd)	**9,675**	15,139	(36)	**12,224**	14,344	(15)
NGLs – condensate (bopd)	**81**	117	(31)	**101**	104	(3)
Oil (bopd)	**3**	2	50	**4**	6	(33)
Average daily sales (boepd)	**1,696**	2,642	(36)	**2,142**	2,501	(14)

Sales volumes in Q3 2023 decreased compared to Q3 2022 and compared to prior quarters in 2023 due to reduced demand from Bahiagás as a result of a reduction in end user consumption, specifically in the month of September. In October 2023, natural gas sales increased back to 10.6 MMcfpd, based on field estimates. Natural gas sales earlier in 2023 were also impacted by reduced availability from the Caburé natural gas field (49.1% working interest). Throughout 2022 and the first quarter of 2023, Alvopetro was able to sell additional production volumes above our working interest from the field pursuant to the terms of the UOA as our partner was not utilizing their working interest share of production from the field. In Q2 2023 our partner increased their production nominations from the field resulting in reduced availability for Alvopetro.

Average Daily Sales, by Quarter (boepd)



Take-or-pay provisions

Under the terms of the GSA, Bahiagás must prepay for gas volumes where demand is below 80% of the firm volumes under the contract. Any prepayment will be recovered through future natural gas deliveries where future offtake exceeds 90% of the firm volumes. Prepayment under the take-or-pay provisions in the GSA is reflected as unearned revenue through other liabilities on the Corporation's consolidated statement of financial position and only recognized as revenue when the volumes are delivered.

In September 2023, Bahiagás demand was below 80% of the firm volumes and Alvopetro was entitled to receive a total of $0.4 million in prepayments in addition to the actual sales volumes delivered to Bahiagás in the month of September.

Average Realized Sales Prices

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Average realized prices[1]:						
Natural gas ($/Mcf)	**13.06**	11.18	17	**12.57**	11.03	14
NGL – condensate ($/bbl)	**89.43**	101.57	(12)	**85.31**	109.38	(22)
Oil ($/bbl)	**73.08**	80.92	(10)	**69.18**	83.59	(17)
Total ($/boe)	**78.90**	68.59	15	**75.90**	68.00	12
Average benchmark prices:						
Brent oil ($/bbl)	**86.65**	100.71	(14)	**81.99**	105.00	(22)
Henry Hub ($/MMBtu)	**2.59**	8.03	(68)	**2.46**	6.74	(64)
National Balancing Point ($/MMBtu)	**10.37**	33.16	(69)	**12.27**	27.10	(55)
Average contracted natural gas price[2]						
BRL/m^3	**2.00**	1.94	3	**1.99**	1.87	6
Average foreign exchange rate:						
$1 USD = BRL	**4.880**	5.246	(7)	**5.008**	5.136	(2)

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

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

The natural gas price under our long-term GSA with Bahiagas is set semi-annually (as of February 1st and August 1st) based on a trailing weighted average of USD benchmark prices for Brent, Henry Hub and National Balancing Point, incorporating both a floor and ceiling price, which were $6.19/MMBtu and $10.52/MMBTU, respectively, as of August 1, 2023, $6.02/MMBtu and $10.23/MMBtu, respectively, as of February 1, 2023, and $6.01/MMBtu and $10.22/MMBtu, respectively, as of August 1, 2022. The floor and ceiling prices are adjusted for US inflation under the terms of the GSA. The natural gas price is then converted to a BRL-denominated natural gas price based on historical average foreign exchange rates and billed monthly in BRL until the next price reset. As all invoices are issued in BRL, actual receipts and revenue recognized in equivalent USD will be subject to exchange rate variations. See "*Foreign Exchange*" discussion below.

Alvopetro's natural gas price under the GSA has been set to the ceiling price since February 1, 2022, adjusting semi-annually with US inflation. As of January 1, 2023, Alvopetro became entitled to a sales tax credit of 3.43% on all natural gas, oil and condensate sales. This new tax credit reduces the 12% ICMS tax otherwise owing on natural gas sales from January 1, 2023 to December 31, 2023. With contracted prices continuing at the ceiling price, enhanced sales tax credits applicable as of January 1, 2023, and the appreciation of the BRL relative to the USD, Alvopetro's realized natural gas price increased by 17% from $11.18/Mcf in Q3 2022 to $13.06/Mcf in Q3 2023 and increased by 14% to $12.57/Mcf for the nine months ended September 30, 2023 compared to 2022.

Condensate production from the Caburé Unit, the Murucututu natural gas field and the Facility is sold pursuant to contracts based on Brent. With average Brent prices decreasing 14% compared to Q3 2022, our realized sales price on condensate decreased.

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

All sales and realized prices are reported net of applicable sales taxes.

Natural Gas, Oil and Condensate Sales Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Natural gas	**11,628**	15,565	(25)	**41,961**	43,178	(3)
Condensate	**666**	1,093	(39)	**2,349**	3,115	(25)
Oil	**19**	14	36	**77**	138	(44)
Total	**12,313**	16,672	(26)	**44,387**	46,431	(4)

Alvopetro's total natural gas, oil and condensate revenues decreased by $4.4 million compared to Q3 2022 with the 36% decrease in average daily volumes (resulting in $6.9 million in reduced revenues), partially offset by the 15% increase in the average realized price per boe (resulting in $2.5 million in additional revenues). For the nine months ended September 30, 2023, revenues decreased $2.0 million compared to the same period in 2022 with the 12% increase in the realized sales price per boe partially offsetting the 14% reduction in sales volumes.

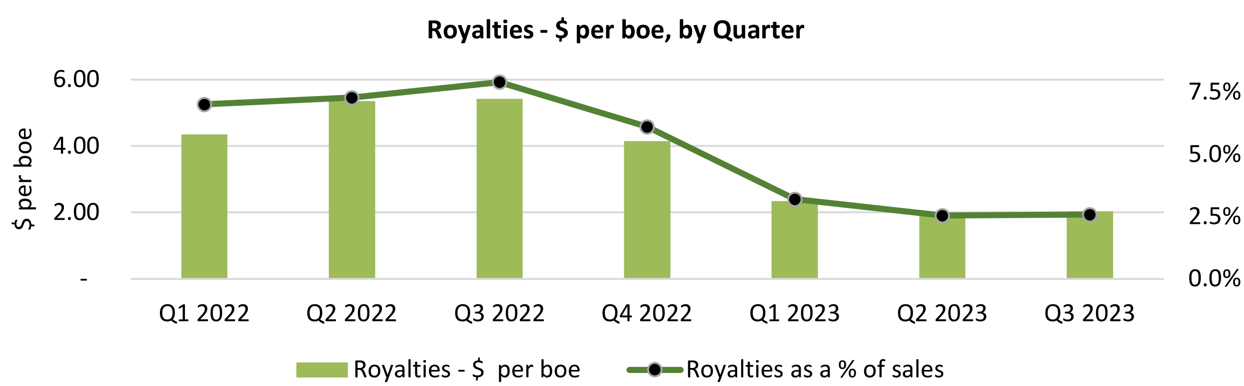
Royalties

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Royalties	**318**	1,318	(76)	**1,254**	3,445	(64)
Royalties per boe ($)(1)	**2.04**	5.42	(62)	**2.14**	5.05	(58)
Royalties as a % of sales(1)	**2.6%**	7.9%	(67)	**2.8%**	7.4%	(62)

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

Alvopetro's sales (other than sales from the Bom Lugar Field) are subject to a base 7.5% 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 portion of the Caburé and Murucututu natural gas assets that were previously on Block 197, the Mãe-da-lua field and on Block 182.

Royalties on natural gas are based on production volumes at an inherent reference price attributable to the raw natural gas produced at the wellhead (prior to midstream processing), resulting in lower effective royalty rates compared to base royalty rates. As Henry Hub spot prices are a significant component of the reference price used for natural gas royalties, Alvopetro's effective royalty rate fluctuates with changes in Henry Hub prices relative to Alvopetro's contracted natural gas price. While Alvopetro's contracted natural gas price under the GSA increased 3% compared to Q3 2022, with the 68% reduction in average Henry Hub prices in Q3 2023 compared to Q3 2022, Alvopetro's overall effective royalty rate decreased to 2.6% in Q3 2023 compared to 7.9% in Q3 2022. Similarly in the nine months ended September 30, 2023, Alvopetro's natural gas price under the GSA increased 6% compared to 2022 while Henry Hub decreased 64% resulting in an effective royalty rate in the nine months ended September 30, 2023 of 2.8% compared to 7.4% in 2022.



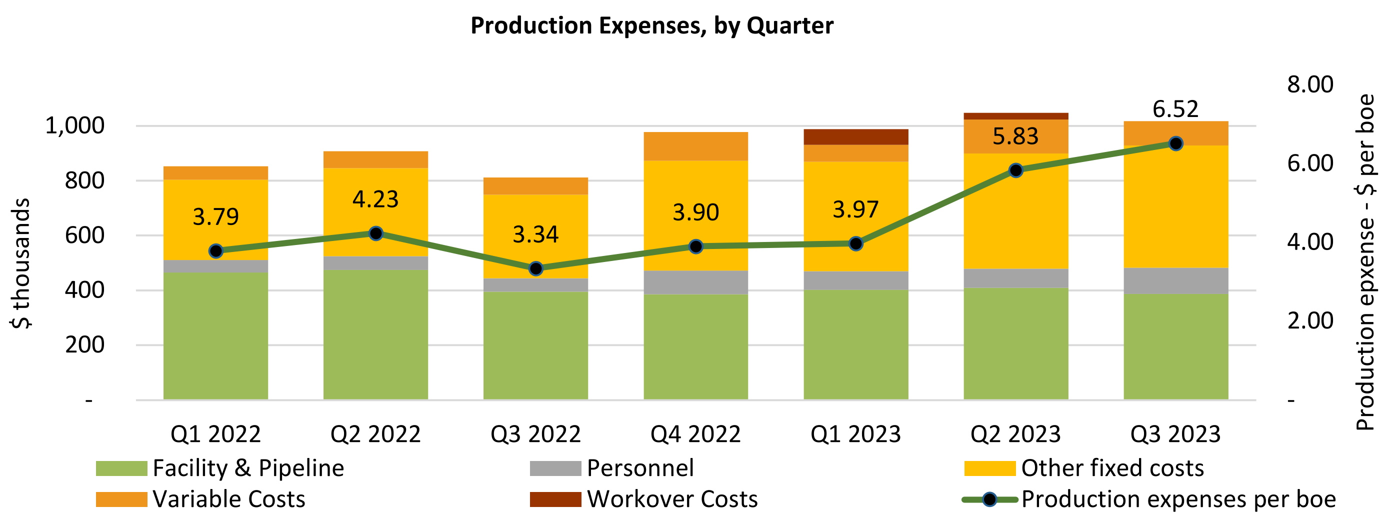
Production Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Production expenses by type:						
Personnel costs	**95**	49	94	**233**	146	60
Facility and pipeline costs	**387**	395	(2)	**1,198**	1,334	(10)
Other fixed costs	**446**	305	46	**1,265**	918	38
Variable costs	**89**	63	41	**275**	174	58
Workover costs	**-**	-	-	**82**	-	-
Total production expenses	**1,017**	812	25	**3,053**	2,572	19

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Production expenses per boe($)[(1)]:						
Personnel costs	**0.61**	0.20	205	**0.40**	0.21	90
Facility and pipeline costs	**2.48**	1.63	52	**2.05**	1.95	5
Other fixed costs	**2.86**	1.25	129	**2.16**	1.35	60
Variable costs	**0.57**	0.26	119	**0.47**	0.26	81
Workover costs	**-**	-	-	**0.14**	-	-
Total	**6.52**	3.34	95	**5.22**	3.77	38

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

With commencement of production from the Murucututu natural gas field in the fourth quarter of 2022, personnel costs and other fixed costs increased in 2023 compared to 2022, increasing 94% and 46% respectively in Q3 2023 compared to Q3 2022 and increasing 60% and 38% for the nine months ended September 30, 2023 compared to 2022. These increases were partially offset by lower facility and pipeline costs. Following completion of the Facility expansion in the third quarter of 2022, a portion of these costs are reported as part of Alvopetro's right-of-use asset, resulting in lower Facility and pipeline costs in the nine months ended September 30, 2023 compared to 2022. Workover costs in 2023 represent Alvopetro's share of workover costs at the Caburé Unit. On a per boe basis, production expenses are higher compared to 2022 due to fixed costs combined with the reduction in sales volumes.

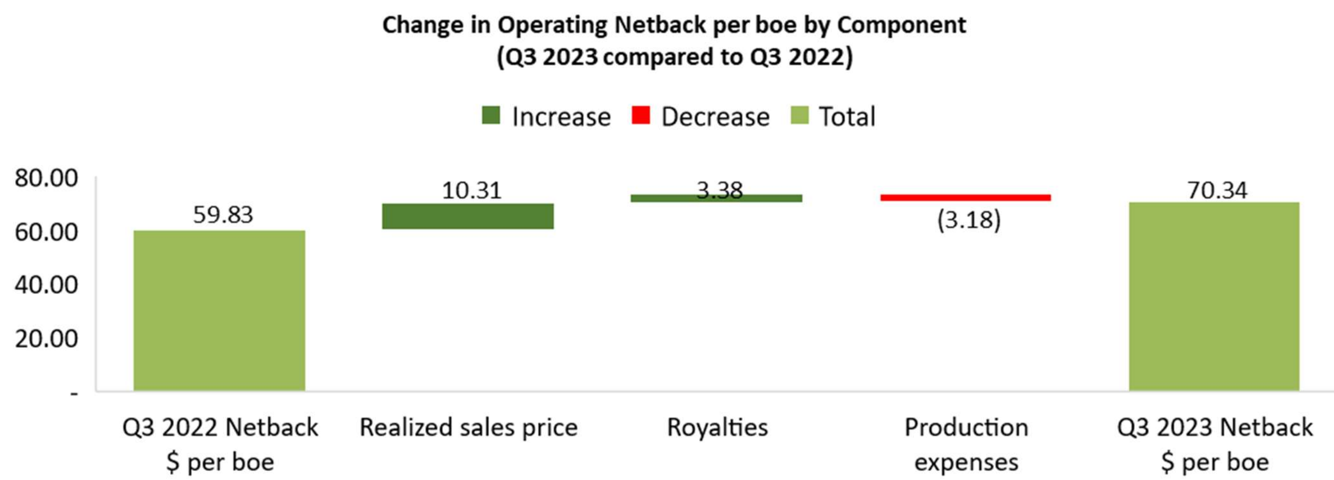


Operating Netback

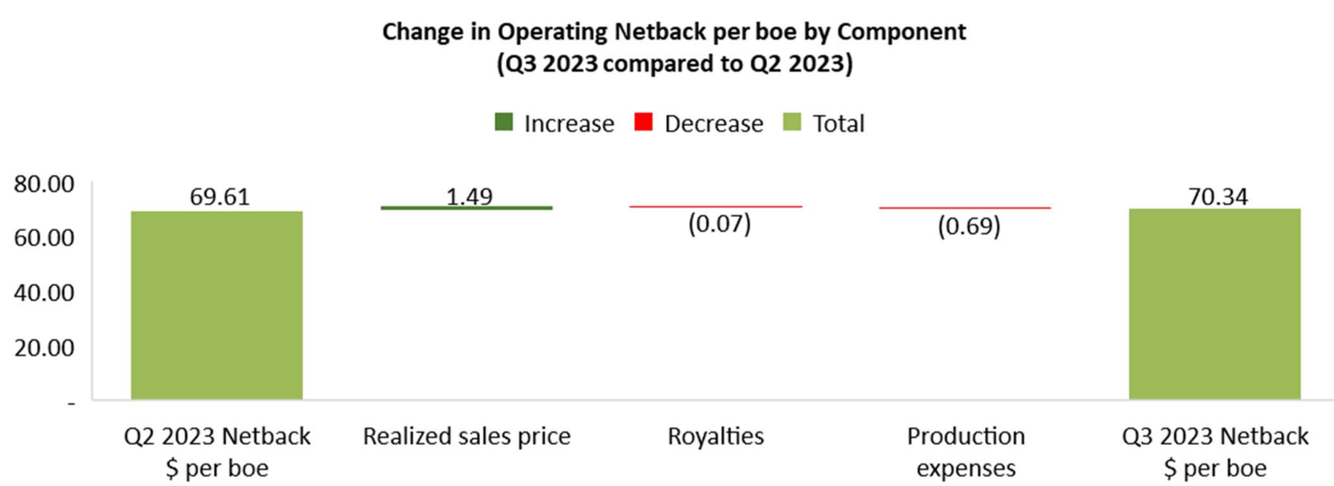
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Operating netback[(1)]						
Natural gas, oil and condensate sales	**12,313**	16,672	(26)	**44,387**	46,431	(4)
Royalties	**(318)**	(1,318)	(76)	**(1,254)**	(3,445)	(64)
Production expenses	**(1,017)**	(812)	25	**(3,053)**	(2,572)	19
Operating netback	**10,978**	14,542	(25)	**40,080**	40,414	(1)
Operating netback per boe[(1)]:						
Average realized sales price - $ per boe[(1)]	**78.90**	68.59	15	**75.90**	68.00	12
Royalties - $ per boe[(1)]	**(2.04)**	(5.42)	(62)	**(2.14)**	(5.05)	(58)
Production expenses - $ per boe[(1)]	**(6.52)**	(3.34)	95	**(5.22)**	(3.77)	38
Operating netback per boe	**70.34**	59.83	18	**68.54**	59.18	16
Operating netback margin[(1)]	**89%**	87%	2	**90%**	87%	3

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

Alvopetro's operating netback increased by $10.51 per boe (+18%) in Q3 2023 compared to Q3 2022 due to improved realized sales prices and lower royalties, offset by higher production expenses.



Alvopetro's operating netback increased by $0.73 per boe (+1%) in Q3 2023 compared to Q2 2023 due to improved realized sales prices, offset by higher production expenses.



Other Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Interest income	**360**	86	319	**1,019**	169	503
Tax recoveries from operations	**98**	120	(18)	**349**	315	11
Water disposal income and other	**13**	34	(62)	**7**	82	(91)
Total	**471**	240	96	**1,375**	566	143

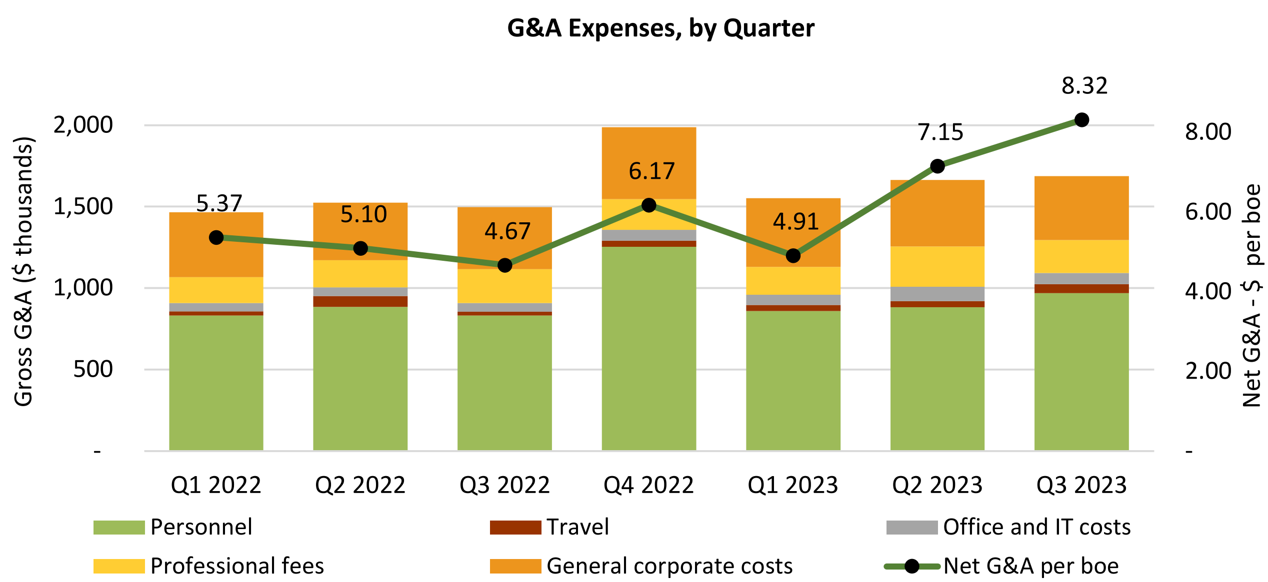
The majority of other income relates to interest income on cash and cash equivalent deposits and tax credits arising from ongoing operations. With rising cash balances and higher interest rates in 2023 compared to 2022, Alvopetro's interest income has increased. Tax recoveries from operations have decreased with lower sales volumes.

General and Administrative ("G&A") Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
G&A Expenses, by type:	**2023**	2022	Change (%)	**2023**	2022	Change (%)
Personnel	**968**	831	16	**2,708**	2,546	6
Travel	**56**	23	143	**131**	116	13
Office and IT costs	**67**	54	24	**217**	157	38
Professional fees	**203**	207	(2)	**621**	533	17
General corporate costs	**392**	381	3	**1,222**	1,132	8
Gross G&A	**1,686**	1,496	13	**4,899**	4,484	9
Capitalized G&A	**(388)**	(361)	7	**(1,093)**	(1,047)	4
G&A expenses	**1,298**	1,135	14	**3,806**	3,437	11
$ per boe[(1)]	**8.32**	4.67	78	**6.51**	5.03	29

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

The Company's growth, coupled with global inflation and the overall cost of doing business in 2023 has resulted in increased G&A expenses compared to 2022. To date, this has primarily affected personnel costs, professional fees, information technology services and insurance. On a per boe basis, G&A expenses were impacted by lower production volumes in both the three and nine months ended September 30, 2023 compared to 2022.

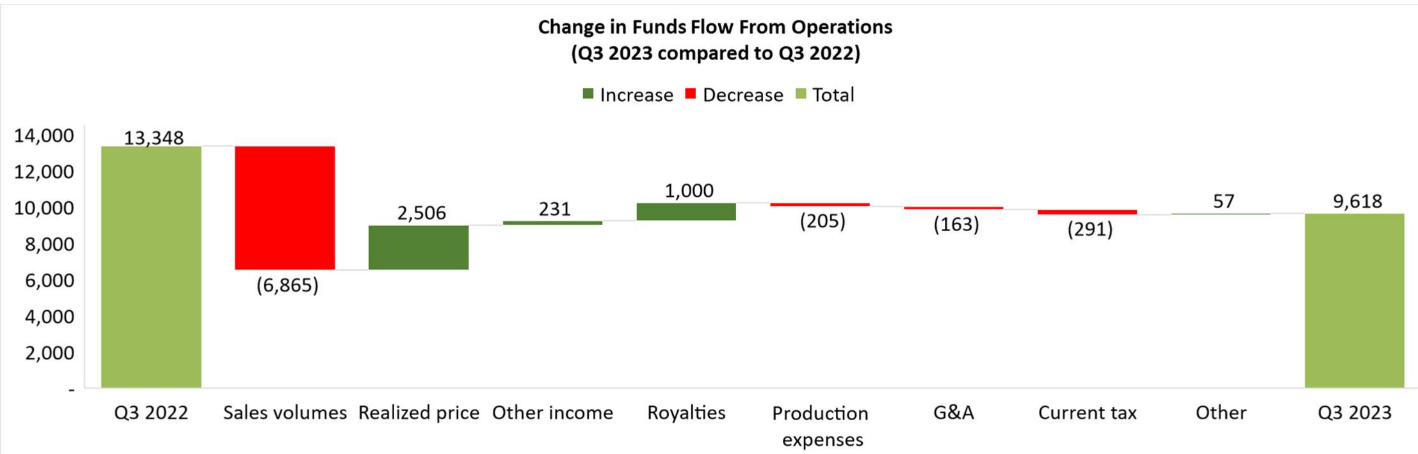


Cash Flows from Operating Activities and Funds Flow from Operations

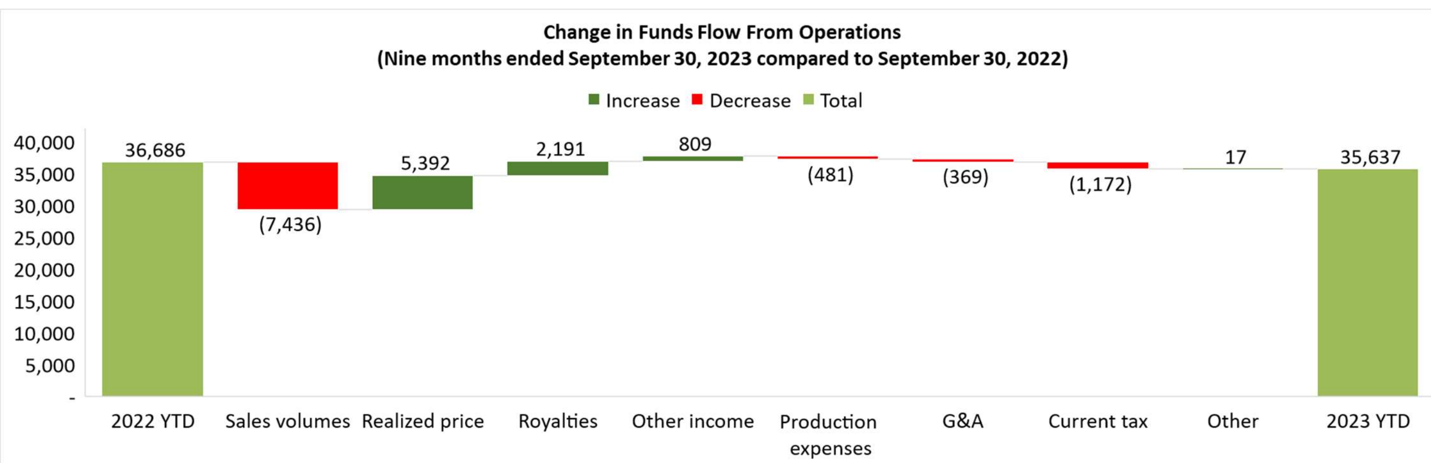
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Cash flows from operating activities	**12,469**	13,838	(10)	**39,798**	35,168	13
Per share – basic ($)	**0.34**	0.40	(15)	**1.07**	1.03	4
Per share – diluted ($)	**0.33**	0.37	(11)	**1.05**	0.96	9
Funds flow from operations[(1)]	**9,618**	13,348	(28)	**35,637**	36,686	(3)
Per share – basic ($)	**0.26**	0.39	(33)	**0.96**	1.08	(11)
Per share – diluted ($)	**0.25**	0.36	(31)	**0.94**	1.00	(6)

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

Q3 2023 funds flow from operations decreased $3.7 million compared to Q3 2022 due mainly to reduced revenues with the reduction in average daily sales volumes.



In the nine months ended September 30, 2023, funds flow from operations decreased $1.0 million compared to the same period in 2022 with lower daily sales volumes and higher production expenses, G&A and current tax, partially offset by higher realized sales prices, lower royalties and higher interest income.



Foreign Exchange

	As at			% Appreciation (Depreciation) of BRL/CAD to USD	
	September 30, 2023	June 30, 2023	December 31, 2022	**Q3 2023**	**YTD 2023**
Rate at end of period:					
$1 USD = BRL	**5.008**	4.819	5.218	**(3.9)**	**4.0**
$1 USD = CAD	**1.352**	1.324	1.354	**(2.1)**	**0.1**

The Company's reporting currency is the USD, and its functional currencies are the USD and the BRL. Substantially all costs incurred in Brazil are in BRL and the Company incurs head office costs in both USD and CAD. In each reporting period, the change in the values of the BRL and the CAD relative to the Company's reporting currency are recognized. Foreign exchange rates for the reporting periods as specified are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		% Appreciation (Depreciation) of BRL/CAD to USD	
	2023	2022	**2023**	2022	**Change from Q3 2022**	**Change from YTD 2022**
Average rate in the period:						
$1 USD = BRL	**4.880**	5.246	**5.008**	5.136	**7.0**	**2.5**
$1 USD = CAD	**1.341**	1.305	**1.345**	1.282	**(2.8)**	**(4.9)**

The assets and liabilities of Alvopetro's Brazilian subsidiaries are translated to USD at the exchange rate on the reporting period date. The income and expenses of BRL-denominated items are translated to USD at the exchange rates on the date of the relevant transactions. All resulting foreign currency differences are recorded in exchange gain or loss on translation of foreign operations in other comprehensive income or loss. The BRL depreciated 4% from June 30, 2023 but appreciated 4% from December 31, 2022, resulting in an exchange loss in other comprehensive loss of $1.6 million in Q3 2023 but an exchange gain of $0.7 million for the nine months ended September 30, 2023.

Foreign exchange fluctuations on USD-denominated intercompany amounts advanced to the Brazilian subsidiaries are recorded in exchange gains or losses on translation of foreign operations and included in other comprehensive income, to the extent settlement is neither forecasted nor likely to occur in the foreseeable future. Where future settlement is anticipated in the foreseeable future, foreign exchange gains or losses on the amount expected to be settled are recognized in earnings. The Company recorded $1.2 million of foreign exchange losses on intercompany advances in Q3 2023 (Q3 2022 - $0.5 million loss) and a foreign exchange gain of $1.8 million for the nine months ended September 30, 2023 (2022 – $1.1 million gain) due to the appreciation of the BRL relative to the USD.

As discussed above, the Company is exposed to foreign exchange fluctuations on its natural gas revenues. With respect to Alvopetro's natural gas price resets on August 1, 2023 and February 1, 2023, respectively, the price determined in BRL was based on average historical exchange rates of 5.07 BRL to 1.00 USD and 5.25 BRL to 1.00 USD. In Q3 2023, the actual average rate was 4.88, an appreciation of 4% compared to the August 1, 2023 reset and an appreciation of 7% compared to the February 1, 2023 reset. The following table denotes the overall estimated impact on natural gas revenues of a 5% and 10% depreciation and appreciation of the BRL relative to the USD:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Increase (Decrease) to Natural Gas Revenues from:				
5% Appreciation of BRL to USD	**612**	819	**2,208**	2,272
10% Appreciation of BRL to USD	**1,292**	1,729	**4,662**	4,797
5% Depreciation of BRL to USD	**(554)**	(741)	**(1,998)**	(2,056)
10% Depreciation of BRL to USD	**(1,057)**	(1,415)	**(3,815)**	(3,925)

To mitigate exposure to foreign exchange volatility with respect to the BRL, the Company has periodically entered into BRL/USD forward exchange rate contracts. The Company recognized the fair value of these contracts in the statement of financial position with changes in fair value recognized as an unrealized gain or loss included in net income. Realized gains or losses are recognized in the period the contracts are settled. No forward contracts were entered into or outstanding at any time in the nine months ended September 30, 2023 and as a result no gains or losses were recognized in 2023 (nine months ended September 30, 2022 – losses of $0.1 million).

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

Depletion and Depreciation

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Depletion and depreciation on PP&E	**1,324**	1,494	(11)	**4,596**	4,122	11
Depreciation of right-of-use assets	**297**	277	7	**880**	747	18
Depletion and depreciation expense	**1,621**	1,771	(8)	**5,476**	4,869	12
$ per boe(1)	**10.39**	7.29	43	**9.36**	7.13	31

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

Depletion is calculated on a unit-of-production basis for all upstream PP&E assets. All midstream PP&E assets are depreciated over the estimated useful life of the assets on a straight-line basis. Depletion and depreciation on PP&E was lower in Q3 2023 compared to Q3 2022 due to lower production volumes. However, for the nine months ended September 30, 2023, depletion increased compared to 2022 despite reduced production volumes due to a higher depletable base which includes all of the Murucututu midstream assets as of Q3 2022.

The Company's right-of-use assets are depreciated over the lease term on a straight-line basis. With the expansion of the Facility completed in the third quarter of 2022, the increase in future facility costs associated with the expansion was recognized as a right-of-use asset, resulting in higher depreciation commencing in Q3 2022.

Share-Based Compensation Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Share-based compensation expense	**249**	158	58	**813**	592	37

Share-based compensation expense is based on the fair value of stock options, restricted share units ("RSUs") and deferred share units ("DSUs") granted and amortized over the respective vesting periods. As of September 30, 2023, a total of 2.0 million awards were outstanding (September 30, 2022 – 1.8 million) with 1,212,550 stock options (September 30, 2022 – 1,193,997) and 739,560 RSUs and DSUs (September 30, 2022 – 567,222). With the overall awards increasing 11% along with higher share prices, share-based compensation increased in 2023 compared to 2022.

Finance Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Lease interest	**373**	373	-	**1,135**	1,030	10
Accretion on decommissioning liabilities	**13**	14	(7)	**43**	41	5
Amortization of deferred financing costs	**-**	180	(100)	**-**	496	(100)
Interest on Credit Facility	**-**	61	(100)	**-**	306	(100)
Finance expenses	**386**	628	(39)	**1,178**	1,873	(37)

Finance expenses decreased in the three and nine months ended September 30, 2023 compared to the same periods in 2022 due to decreased interest on the credit facility, which was fully repaid in the third quarter of 2022. For the nine months ended September

30, 2023, lease interest increased compared to 2022 following completion of the Facility expansion and the associated incremental lease liabilities recognized in the third quarter of 2022.

Income Tax Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Current income tax expense	**512**	221	132	**1,865**	693	169
Deferred income tax expense	**93**	1,386	(93)	**2,596**	4,237	(39)
Total	**605**	1,607	(62)	**4,461**	4,930	(10)
Effective tax rate	**9.4%**	15.4%	(39)	**13.8%**	15.7%	(12)

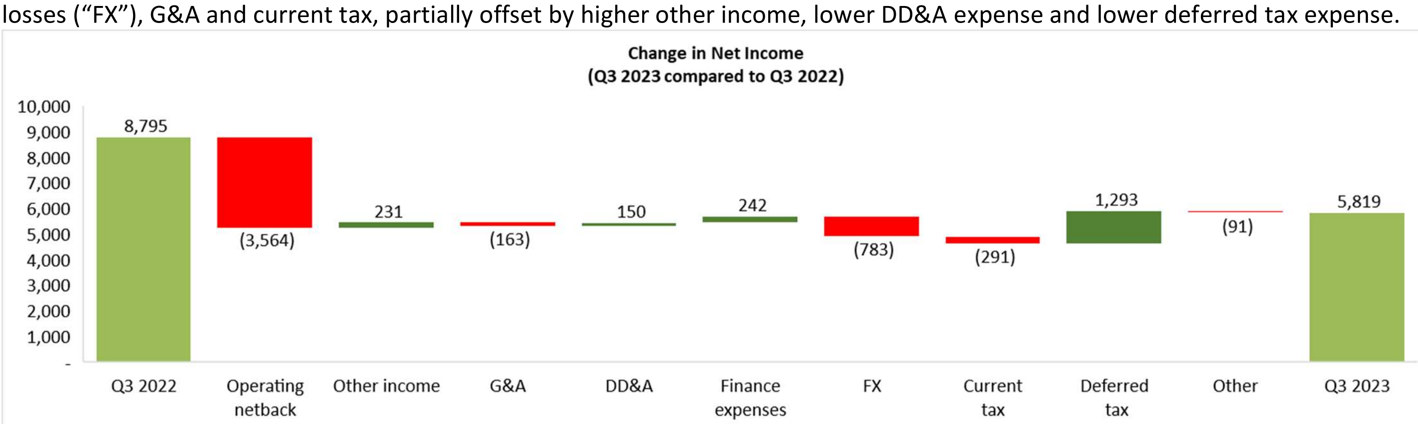
The statutory corporate tax rate in Brazil is 34%. This is comprised of a basic 15% corporate income tax, plus 10% surtax and a 9% social contribution tax. In 2021 the Company received approval from tax authorities in Brazil for Supertintendência de Desenvolvimento do Nordeste ("SUDENE"), a regional tax incentive offered in Bahia State. Under the incentive, special deductions reduce the inherent current tax payable on qualifying projects to an effective rate of 15.25% where SUDENE profits align with taxable income under the actual profit regime. The SUDENE incentive applies to natural gas profits Alvopetro earns for a period of ten taxation years, commencing January 1, 2021, and ending December 31, 2030. The incentive generally reduces corporate tax and surtax on qualifying projects by 75% where SUDENE profits align with taxable income under the actual profit regime, resulting in an effective tax rate of 15.25%. Where SUDENE profits exceed taxable income, it is possible to further reduce corporate income tax and surtax to a tax rate below 15.25%. As Alvopetro expects the majority of temporary differences to reverse during the SUDENE period, for deferred tax purposes Alvopetro has estimated the future tax rate applicable to temporary differences based on the SUDENE rate of 15.25%.

For the three and nine months ended September 30, 2023 the Company's current tax expense increased compared to 2022 as a result of lower tax deductions available on E&E assets due to lower capital expenditures on such projects. Expenditures on these assets are eligible for immediate deduction under Brazil tax legislation. Similarly, deferred tax expense is lower in 2023 compared to 2022 as these tax deductions in 2022 contributed to higher deferred tax expense in the prior period.

Net Income

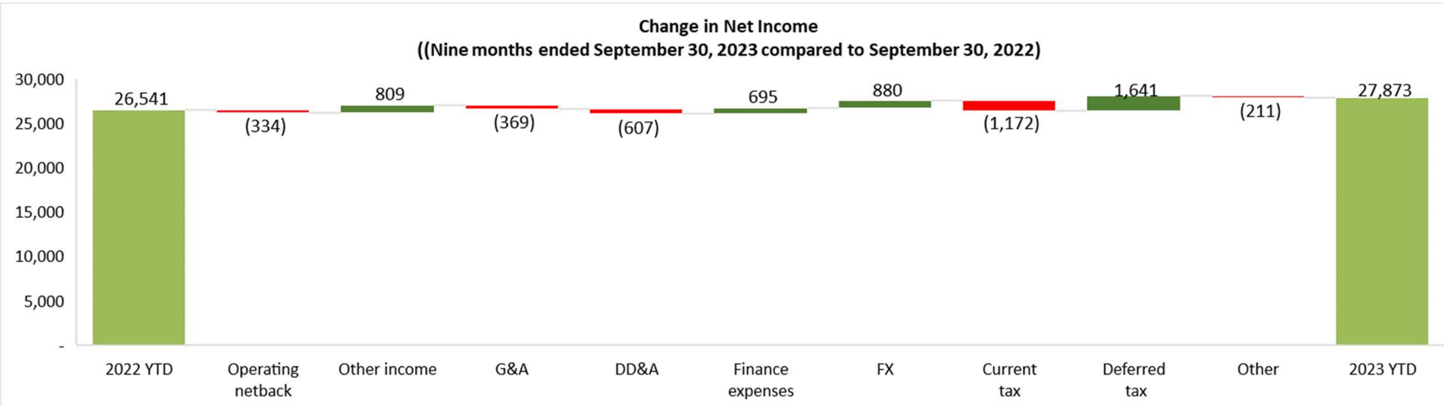
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Net income	**5,819**	8,795	(34)	**27,873**	26,541	5
Per share – basic ($)	**0.16**	0.26	(38)	**0.75**	0.78	(4)
Per share – diluted ($)	**0.15**	0.24	(38)	**0.74**	0.72	3

Net income in Q3 2023 decreased $3.0 million compared to Q3 2022 due mainly to lower operating netback[1], higher foreign exchange losses ("FX"), G&A and current tax, partially offset by higher other income, lower DD&A expense and lower deferred tax expense.



[1] Non-GAAP Financial Measure. See "*Non-GAAP and Other Financial Measures*".

In the nine months ended September 30, 2023 net income increased $1.3 million compared to 2022 with higher FX gains and other income and lower deferred tax expense and finance expense partially offset by lower operating netback and higher G&A, DD&A and current tax.



Capital Expenditures

Capital Expenditures by Type	Three Months Ended September 30, 2023	2022	Nine Months Ended September 30, 2023	2022
E&E				
Drilling and completions	**3**	5,131	**292**	11,368
Facility & equipment	**-**	42	**-**	96
Land, lease, and similar payments	**14**	7	**52**	(7)
Equipment inventory purchases	**2,256**	512	**4,004**	1,662
Capitalized G&A	**13**	228	**101**	584
Total E&E	**2,286**	5,920	**4,449**	13,703
PP&E				
Facility & equipment	**205**	1,157	**630**	2,985
Drilling & completions	**7,741**	1,303	**16,313**	1,354
Land, lease, and similar payments	**(6)**	54	**17**	91
Capitalized G&A	**375**	133	**992**	463
Furniture & fixtures and other	**102**	146	**114**	255
Total PP&E	**8,417**	2,793	**18,066**	5,148
Total Capital Expenditures	**10,703**	8,713	**22,515**	18,851

Capital Expenditures by Property	Three Months Ended September 30, 2023	2022	Nine Months Ended September 30, 2023	2022
E&E				
Blocks 182, 183	**30**	5,408	**445**	12,066
Equipment Inventory purchases	**2,256**	512	**4,004**	1,662
Other	**-**	-	**-**	(25)
Total E&E	**2,286**	5,920	**4,449**	13,703
PP&E				
Caburé and associated midstream assets	**54**	1,255	**527**	1,416
Murucututu	**7,057**	1,423	**10,414**	3,608
Bom Lugar	**1,298**	-	**7,079**	-
Mãe-da-lua	**-**	-	**29**	-
Other	**8**	115	**17**	124
Total PP&E	**8,417**	2,793	**18,066**	5,148
Total Capital Expenditures	**10,703**	8,713	**22,515**	18,851

Capital expenditures in Q3 2023 included $6.7 million in drilling costs for the 183-A3 well on our Murucututu field, $1.0 million in drilling and completion costs for our BL-06 well and $0.1 million on facility upgrades on the Bom Lugar field, $2.3 million for long-lead inventory purchases and $0.4 million in capitalized G&A.

Summary of Quarterly Results

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Financial								
Natural gas, oil and condensate sales	**12,313**	13,914	18,160	17,077	16,672	15,787	13,972	9,896
Net income	**5,819**	9,852	12,202	5,191	8,795	6,631	11,115	2,778
Per share – basic ($)(1)	**0.16**	0.27	0.34	0.14	0.26	0.20	0.33	0.08
Per share – diluted ($)(1)	**0.15**	0.26	0.33	0.14	0.24	0.18	0.30	0.08
Cash flows from operating activities	**12,469**	13,473	13,856	12,366	13,838	12,997	8,333	7,088
Per share – basic ($)(1)	**0.34**	0.37	0.38	0.34	0.40	0.38	0.25	0.21
Per share - diluted ($)(1)	**0.33**	0.36	0.37	0.33	0.37	0.35	0.23	0.20
Funds flow from operations (2)	**9,618**	11,047	14,972	13,193	13,348	12,434	10,904	6,480
Per share – basic ($)(1)	**0.26**	0.30	0.41	0.36	0.39	0.37	0.32	0.19
Per share - diluted ($)(1)	**0.25**	0.29	0.40	0.35	0.36	0.34	0.30	0.18
Dividends declared	**5,122**	5,109	5,104	4,357	2,896	2,728	2,716	2,034
Per share ($)(1)(2)	**0.14**	0.14	0.14	0.12	0.08	0.08	0.08	0.06
Capital expenditures	**10,703**	8,521	3,291	5,944	8,713	6,338	3,800	1,470
Net working capital(2)	**11,392**	18,084	20,915	14,698	12,225	11,641	12,302	9,097
Working capital, net of debt(2)	**11,392**	18,084	20,915	14,698	12,225	9,096	7,257	2,552
Operations								
Average realized prices(2):								
Natural gas ($/Mcf)	**13.06**	12.86	12.06	11.18	11.18	11.90	10.03	7.07
NGL – condensate ($/bbl)	**89.43**	83.35	84.10	89.29	101.57	121.93	106.42	84.36
Oil ($/bbl)	**73.08**	63.93	72.29	79.50	80.92	94.47	79.50	76.47
Average foreign exchange ($1 USD = BRL)	**4.880**	4.949	5.196	5.255	5.246	4.927	5.230	5.586
Operating netback ($/boe) (2)								
Realized sales price ($/boe) (2)	**78.90**	77.41	72.92	68.13	68.59	73.54	62.08	44.22
Royalties (2)	**(2.04)**	(1.97)	(2.34)	(4.15)	(5.42)	(5.35)	(4.35)	(4.22)
Production expenses(2)	**(6.52)**	(5.83)	(3.97)	(3.90)	(3.34)	(4.23)	(3.79)	(3.62)
Operating netback ($/boe) (2)	**70.34**	69.61	66.61	60.08	59.83	63.96	53.94	36.38
Operating netback margin(2)	**89%**	90%	91%	88%	87%	87%	87%	82%
Average daily sales:								
Natural gas (Mcfpd)	**9,675**	11,269	15,795	15,546	15,139	13,546	14,339	13,966
NGL – condensate (bopd)	**81**	92	130	128	117	97	99	103
Oil (bopd)	**3**	5	5	5	2	5	12	2
Total average daily sales (boepd)	**1,696**	1,975	2,767	2,724	2,642	2,359	2,501	2,432

Notes:

(1) Per share amounts are based on weighted average shares outstanding other than dividends per share, which is based on the number of common shares outstanding at each dividend record date. The weighted average number of diluted common shares outstanding in the computation of funds flow from operations and cash flows from operating activities per share is the same as for net income per share.

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

Average daily sales volumes decreased 14% to 1,696 boepd with reduced demand from Bahiagás, resulting in a $1.6 million decrease in natural gas, oil and condensate sales (-12%) despite natural gas prices continuing at record prices in Q3 (+2% from Q2 2023) and Alvopetro's overall average realized price increasing to $78.90 per boe. With higher realized sales prices per boe, our operating netback improved to $70.34 per boe (+1%) despite higher production expenses. Funds flow from operations decreased $1.4 million with the reduction in sales volumes while net income decreased $4.0 million due to foreign exchange losses of $1.5 million in Q3 2023 compared to a gain of $2.3 million in Q2 2023.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at September 30, 2023:

	< 1 Year	1-3 Years	Thereafter	Total
Gas Treatment Agreement(1)	1,418	2,836	5,317	9,571
Total commitments	**1,418**	**2,836**	**5,317**	**9,571**

(1) Abandonment guarantees and all amounts for the Gas Treatment Agreement are BRL denominated commitments and reflected in the table above based on the U.S. dollar equivalent as at September 30, 2023. As a result, such commitments are subject to fluctuations in the USD/BRL foreign exchange rate.

Amounts presented above for the Gas Treatment Agreement represent the monthly service fees for operation and maintenance of the Facility and operating fees for Alvopetro's 11-kilometre transfer pipeline. All capital costs associated with the facility, including the expansion that occurred in 2022 are treated as a lease obligation and reflected on the statements of financial position.

The Company has abandonment guarantees that are required to be posted with the ANP for the Bom Lugar, Mãe-da-lua, Caburé and Murucututu fields under the terms of the concession contract for each field. Alvopetro has recognized the estimated abandonment costs relating to these and all exploration assets as part of decommissioning liabilities on the interim condensed consolidated statements of financial position. Alvopetro previously reported a minimum work commitment for Block 183. This commitment was satisfied with the completion of drilling of the 183-B1 well in July 2022, subject to the approval of the ANP.

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

The Company currently has no contingent liabilities recorded; however, in the normal course of operations, we may have disputes with industry participants for which we currently cannot determine the ultimate results. The Company has a policy to record contingent liabilities as the amounts become determinable and the probability of loss is more likely than not. The outcome of adverse decisions in any pending or threatened proceedings related to these and other matters could have a material impact on the Company's financial position, results of operations or cash flows.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Working Capital

At September 30, 2023, Alvopetro's cash and cash equivalents of $22.8 million and restricted cash of $0.1 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	BRL(1)
Cash and cash equivalents held in Canada	18,001	17,476	525	-
Cash and cash equivalents held in Brazil	4,778	-	-	4,778
Restricted cash - current	122	-	-	122
Total	**22,901**	**17,476**	**525**	**4,900**

(1) Amounts in the table above denote the U.S. dollar equivalent as at September 30, 2023.

The Company had cash and cash equivalents of $22.8 million and a total net working capital surplus of $11.4 million at September 30, 2023. Positive cash flows from natural gas deliveries and associated condensate sales are projected to be sufficient to fund the Company's operational activities, planned capital projects and future dividends. The Company is exposed to a variety of risks which may adversely impact future cash flows. The Company manages these risks by forecasting cash flows for a minimum period of twelve months, which involves preparation of capital expenditure, operating and general and administrative budgets, all of which are monitored closely, and adjusted as necessary. The Board of Directors has discretion with respect to any future dividend amounts and the Company has flexibility on future capital plans, other than with respect to work commitments.

The liability for decommissioning obligations of Alvopetro was $0.7 million as at September 30, 2023, 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, 2023, the Company had $5.3 million of equipment inventory to be utilized for future operations which is included in exploration and evaluation assets in the interim condensed consolidated statements of financial position.

Credit Facility

In 2019, the Company entered into a credit facility (the "Credit Facility") which was secured by all of Alvopetro's assets. The Credit Facility was subject to cash interest of 9.5% per annum, payable monthly. In September 2022, Alvopetro repaid all final amounts outstanding, and the Credit Facility was cancelled.

Lease Liabilities

The lease liability to Enerflex in respect of the monthly facility payments under our Gas Treatment Agreement represents the majority of the Company's lease liabilities as at September 30, 2023 and December 31, 2022. Additional lease liabilities outstanding relate to office space in Canada and Brazil and surface land access for our midstream assets. The Company's lease liabilities are as follows:

	As at	
	September 30, 2023	December 31, 2022
Lease liabilities, beginning of period	**9,428**	7,979
Additions	**14**	1,930
Finance expense	**1,135**	1,525
Lease payments	**(1,670)**	(2,027)
Foreign currency translation	**(32)**	21
Lease liabilities, end of period	**8,875**	9,428
Current	**933**	855
Non-current	**7,942**	8,573
Total, end of period	**8,875**	9,428

Dividends

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change (%)	**2023**	2022	Change (%)
Dividends declared	**5,122**	2,896	77	**15,335**	8,340	84
Dividends declared – per share ($)[1]	**0.14**	0.08	75	**0.42**	0.24	75

(1) See "*Non-GAAP and Other Financial Measures*" section within this MD&A. Dividends per share is based on the number of common shares outstanding at each dividend record date.

In the third quarter of 2021, Alvopetro initiated a quarterly dividend program and increased dividends in Q1 2022, Q4 2022 and again in Q1 2023, resulting in a 75% increase in dividends per share in both the three and nine months ended September 30, 2023 compared to the same periods in 2022. Total dividends declared are also impacted by increased common shares outstanding in 2023 compared to 2022. All dividends are designated as "eligible dividends" for the purpose of the Income Tax Act (Canada).

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

Normal Course Issuer Bid

On January 3, 2023, Alvopetro announced the approval from the TSX Venture Exchange ("TSXV") for a normal course issuer bid ("NCIB"). The terms of the NCIB permit Alvopetro to repurchase up to 2,876,414 common shares from January 6, 2023, to the earlier of January 5, 2024 or when the NCIB is completed or terminated by Alvopetro. In March 2023, Alvopetro received approval from the TSXV to enter into an automatic share purchase plan ("ASPP") which allows for the purchase of common shares under the NCIB at times when the Company may not normally be permitted to purchase common shares due to regulatory restrictions and customary self-imposed blackout periods. Any shares purchased under the ASPP are included in the number of common shares available for repurchase under the NCIB and any shares repurchased under the NCIB (whether through the ASPP or not) will be cancelled.

No repurchases have occurred under the NCIB to-date.

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 8, 2023, there were 36,603,908 common shares, 1,192,550 stock options, 500,420 RSUs and 239,140 DSUs outstanding. There are no preferred shares outstanding.

NON-GAAP AND OTHER FINANCIAL MEASURES

This MD&A or documents referred to in this MD&A make reference to various non-GAAP financial measures, non-GAAP ratios, capital management measures and supplementary financial measures as such terms are defined in National Instrument 52-*112 Non-GAAP and Other Financial Measures Disclosure*. Such measures are not recognized measures under GAAP and do not have a standardized meaning prescribed by IFRS and therefore might not be comparable to similar financial measures disclosed by other issuers. While these measures may be common in the oil and gas industry, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. The non-GAAP and other financial measures referred to in this report should not be considered an alternative to, or more meaningful than measures prescribed by IFRS and they are not meant to enhance the Company's reported financial performance or position. These are complementary measures that are used by management in assessing the Company's financial performance, efficiency and liquidity and they may be used by investors or other users of this document for the same purpose.

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

Non-GAAP Financial Measures

Operating Netback

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

Non-GAAP Financial Ratios

Operating Netback per boe

Operating netback on a per unit basis, which is per barrel of oil equivalent ("boe"), is a common non-GAAP measure used in the oil and gas industry and management believes it assists in evaluating the operating performance of the Company. It is a measure of the economic quality of the Company's producing assets and is useful for evaluating variable costs as it provides a reliable measure regardless of fluctuations in production. Alvopetro calculated operating netback per boe as operating netback divided by total sales volumes (barrels of oil equivalent). This calculation is provided in the "*Operating Netback*" section of this MD&A using our IFRS measures.

Operating Netback Margin

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Operating netback - $ per boe	**70.34**	59.83	**68.54**	59.18
Average realized price - $ per boe	**78.90**	68.59	**75.90**	68.00
Operating netback margin	**89%**	87%	**90%**	87%

Funds Flow from Operations Per Share

Funds flow from operations per share is a non-GAAP ratio that includes all cash generated from operating activities (as calculated below) divided by the weighted average shares outstanding for the respective period. For the periods reported in this document the cash flows from operating activities per share and funds flow from operations per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ per share	**2023**	2022	**2023**	2022
Per basic share:				
Cash flows from operating activities	**0.34**	0.40	**1.07**	1.03
Funds flow from operations	**0.26**	0.39	**0.96**	1.08
Per diluted share:				
Cash flows from operating activities	**0.33**	0.37	**1.05**	0.96
Funds flow from operations	**0.25**	0.36	**0.94**	1.00

Capital Management Measures

Funds Flow from Operations

Funds flow from operations is a non-GAAP capital management measure that includes all cash generated from operating activities and is calculated before changes in non-cash working capital. The most comparable GAAP measure to funds flow from operations is cash flows from operating activities. Management considers funds flow from operations important as it helps evaluate financial performance and demonstrates the Company's ability to generate sufficient cash to fund future growth opportunities. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash flows from operating activities however management finds that the impact of working capital items on the cash flows reduces the comparability of the metric from period to period. A reconciliation of funds flow from operations to cash flows from operating activities is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**12,469**	13,838	**39,798**	35,168
(Deduct) add back changes in non-cash working capital	**(2,851)**	(490)	**(4,161)**	1,518
Funds flow from operations	**9,618**	13,348	**35,637**	36,686

Net Working Capital

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

	As at September 30,	
	2023	2022
Total current assets	**27,354**	24,545
Total current liabilities	**(15,962)**	(12,320)
Net working capital	**11,392**	12,225

Working Capital Net of Debt

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

	As at September 30,	
	2023	2022
Net working capital	**11,392**	12,225
Credit Facility, balance outstanding	**-**	-
Working capital, net of debt	**11,392**	12,225

Supplementary Financial Measures

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

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

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

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

"Dividends per share" is comprised of dividends declared, as determined in accordance with IFRS, divided by the number of shares outstanding at the dividend record date.

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

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

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

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

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

OFF BALANCE SHEET ARRANGEMENTS

Alvopetro has off-balance sheet arrangements consisting of various contracts entered into in the normal course of operations. Contracts that contain a lease are accounted for under IFRS 16 and recorded on the balance sheet as of September 30, 2023 to the extent the lease has commenced. All other contracts which are entered into in the normal course of operations are captured in the *Commitments and Contingencies* section above.

RISKS AND UNCERTAINTIES

Alvopetro is exposed to a variety of risks including, but not limited to: market risk, reservoir performance risk, exploration risk, operational risks, including those associated with production from non-operated properties, foreign operations risk, liquidity and financing risk, legal and regulatory risks including the impact of new and stricter environmental regulations, competitive risks within the oil and gas industry and physical risk associated with climate change. An investment in Alvopetro should be considered speculative due to the nature of our activities and the stage of our development. Investors should carefully consider the risk factors set forth under the heading "Risk Factors" in our Annual Information Form that can be found on SEDAR+ at www.sedarplus.ca and in our MD&A for the year-ended December 31, 2022. There have been no significant changes in the three and nine months ended September 30, 2023 to the risks and uncertainties identified in the MD&A and Annual information Form for the year-ended December 31, 2022.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The accounting policies used in preparation of the interim financial statements as at and for the three and nine months ended September 30, 2023 are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2022. The Company has not early adopted any standard, interpretation, or amendment that has been issued but is not yet effective.

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

Dividend and NCIB Advisory. The decision to declare any future quarterly dividend and the amount and timing of such dividend, if any, remains subject to the discretion of the Board and may vary depending on numerous factors, including, without limitation, the Company's operational performance, available financial resources and financial requirements, capital requirements and growth plans. There can be no assurance that dividends will be paid at the intended rate or at any rate in the future. Similarly, the decision by the Corporation to repurchase shares pursuant to its NCIB and the amount and timing of such repurchases is also uncertain and there can be no assurance that the Company will repurchase any shares in the future.

Testing and Well Results. Data obtained from the 183-A3 well and identified in this MD&A, including hydrocarbon shows, open-hole logging, net pay and porosities, should be considered to be preliminary until testing, detailed analysis and interpretation has been completed. Hydrocarbon shows can be seen during the drilling of a well in numerous circumstances and do not necessarily indicate a commercial discovery or the presence of commercial hydrocarbons in a well. There is no representation by Alvopetro that the data relating to the 183-A3 well contained in this MD&A is necessarily indicative of long-term performance or ultimate recovery. The reader is cautioned not to unduly rely on such data as such data may not be indicative of future performance of the well or of expected production or operational results for Alvopetro in the future***.***

Forward-Looking Statements. Certain information provided in this MD&A constitutes forward-looking statements. The use of any of the words "will", "expect", "intend" and other similar words or expressions are intended to identify forward-looking information. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the expectations discussed in the forward-looking statements. These forward-looking statements reflect current assumptions and expectations regarding future events. More particularly and without limitation, this MD&A contains forward-looking statements concerning the expected timing of testing the 183-A3 well and production commencement from the 183-A3 well, anticipated production rates from the BL-06 well, plans relating to the Company's operational activities, proposed exploration development activities and the timing for such activities, exploration and development prospects of Alvopetro, capital spending levels, future capital and operating costs, plans for dividends in the future, plans for share repurchases under the NCIB and the duration of the NCIB, future production and sales volumes, production allocations from the Caburé natural gas field, the expected natural gas price, gas sales and gas deliveries under Alvopetro's long-term gas sales agreement, future plans for the 182-C2 and 183-B1 wells, anticipated timing for upcoming drilling and testing of other wells, projected financial results, the expected timing and outcomes of certain of Alvopetro's testing activities, and sources and availability of capital. Forward-looking statements are necessarily based upon assumptions and judgments with respect to the future including, but not limited to, expectations and assumptions concerning the timing of regulatory licenses and approvals, equipment availability, the success of future drilling, completion, testing, recompletion and development activities and the timing of such activities, the performance of producing wells and reservoirs, well development and operating performance, expectations regarding Alvopetro's working interest and the outcome of any redeterminations, environmental regulation, including regulation relating to hydraulic fracturing and stimulation, the ability to monetize hydrocarbons discovered, the outlook for commodity markets and ability to access capital markets, foreign exchange rates, general economic and business conditions, forecasted demand for oil and natural gas, the impact of global pandemics, weather and access to drilling locations, the availability and cost of labour and services, the regulatory and legal environment and other risks associated with oil and gas operations. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. In addition, the declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors. Although we believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because we can give no assurance that they will prove to be correct. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, reliance on industry partners, availability of equipment and personnel, uncertainty surrounding timing for drilling and completion activities resulting from weather and other factors, changes in applicable regulatory regimes and health, safety and environmental risks), commodity price and foreign exchange rate fluctuations and general economic conditions. Certain of these risks are set out in more detail in our MD&A for the year ended December 31, 2022 and in our 2022 Annual Information Form which has been filed on SEDAR+ and can be accessed at www.sedarplus.ca. 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:

ANP	=	The National Agency of Petroleum, Natural Gas and Biofuels of Brazil
ASPP	=	automatic share purchase plan
bbls	=	barrels of oil and/or natural gas liquids (condensate)
boepd	=	barrels of oil equivalent (“boe”) per day
bopd	=	barrels of oil and/or natural gas liquids (condensate) per day
BRL	=	Brazilian real
CAD	=	Canadian dollar
$10^3m^3/d$	=	thousand cubic metre per day
m^3	=	cubic metre
m^3/d	=	cubic metre per day
Mcf	=	thousand cubic feet
Mcfpd	=	thousand cubic feet per day
MMBtu	=	million British Thermal Units
MMcf	=	million cubic feet
MMcfpd	=	million cubic feet per day
NCIB	=	normal course issuer bid
NGLs	=	natural gas liquids
Q1 2023	=	three months ended March 31, 2023
Q2 2022	=	three months ended June 30, 2022
Q2 2023	=	three months ended June 30, 2023
Q3 2022	=	three months ended September 30, 2022
Q3 2023	=	three months ended September 30, 2023
USD	=	United States dollar

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.