The following Management's Discussion and Analysis ("MD&A") is dated November 12, 2020 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, 2020, MD&A for the year ended December 31, 2019 and the audited consolidated financial statements as at and for the years ended December 31, 2019 and 2018. 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, natural gas and oil 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. Natural gas sales from the Caburé natural gas field, the Company's main producing asset, commenced in the third quarter of 2020. Alvopetro's shares are traded on the TSX Venture Exchange (TSX: ALV.V) and are also traded on the OTCQX® Best Market in the United States (OTCQX: ALVOF).

Strategy

Alvopetro's strategy is to unlock the on-shore natural gas potential in the state of Bahia, building off the development of our Caburé and Gomo natural gas assets and our 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 reinvestment and long-term stakeholder return model where approximately half of our cashflows are distributed to stakeholders as dividends, share repurchases, 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,	
	2020	**2019**	**2020**	**2019**
Financial				
($000s, except where noted)				
Natural gas, oil and condensate sales	**5,320**	77	**5,421**	175
Net income (loss)	**6,483**	(2,321)	**2,952**	(3,925)
Per share – basic ($)	**0.07**	(0.02)	**0.03**	(0.04)
Per share – diluted ($)(1)	**0.06**	(0.02)	**0.03**	(0.04)
Funds flow from operations (2)	**3,610**	(779)	**1,964**	(2,115)
Per share – basic ($)	**0.04**	(0.01)	**0.02**	(0.02)
Per share – diluted ($)(1)	**0.03**	(0.01)	**0.02**	(0.02)
Capital expenditures(3)	**107**	3,648	**3,362**	5,672
Total assets	**75,746**	61,995	**75,746**	61,995
Cash and cash equivalents	**3,167**	1,386	**3,167**	1,386
Net working capital surplus (deficit)(2)	**2,233**	(3,364)	**2,233**	(3,364)
Net debt(2)	**13,103**	3,364	**13,103**	3,364
Weighted average shares outstanding (000s)				
Basic	**98,453**	96,593	**98,399**	96,612
Diluted (1)	**105,315**	96,593	**105,080**	96,612
Operations				
Natural gas, crude oil and natural gas liquids sales:				
Natural gas (mcfpd)	**10,105**	-	**3,393**	-
NGLs – condensate (bopd)	**79**	7	**29**	3
Oil (bopd)	**-**	7	**6**	8
Total (boepd)	**1,764**	14	**601**	11
Average realized prices:				
Natural gas ($/mcf)	**5.37**	-	**5.37**	-
NGL – condensate ($/bbl)	**44.75**	73.63	**46.16**	69.80
Oil ($/bbl)	**-**	51.05	**36.81**	52.66
Total ($/boe)	**32.79**	61.60	**32.94**	57.32
Operating netback ($/boe) (2)				
Realized sales price	**32.79**	61.60	**32.94**	57.32
Royalties	**(2.81)**	(8.80)	**(2.85)**	(7.86)
Production expenses	**(3.99)**	(53.60)	**(4.42)**	(73.70)
Operating netback	**25.99**	(0.80)	**25.67**	(24.24)

Notes:

(1) In determining the weighted average number of diluted common shares outstanding for the three and nine months ended September 30, 2019, all stock options, warrants and restricted share units (RSUs) have been excluded because the effect would be anti-dilutive.

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

(3) Includes non-cash capital expenditures of $nil and $0.4 million for the three and nine months ended September 30, 2020 (September 30, 2019 - $0.6 million for the three and nine months ended).

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE THIRD QUARTER OF 2020

- On July 5, 2020, we commenced natural gas deliveries to Bahiagás under our long-term gas sales agreement (“GSA”), with average daily natural gas sales in the quarter of 10.1 mmcfpd (286 $10^3m^3/d$). Natural gas liquids sales from condensate averaged 79 bopd, and overall sales volumes totaled 1,764 boepd in the quarter.
- We had an average realized natural gas sales price of $5.37/mcf.
- We generated natural gas and condensate revenues of $5.3 million, with an operating netback of $25.99 per boe and funds flow from operations of $3.6 million ($0.04 per basic share and $0.03 per diluted share).
- We reported net income of $6.5 million in the quarter, compared to a net loss of $2.3 million in the same period in 2019 and a net loss of $1.2 million in the second quarter of 2020. Net income was positively impacted by a deferred income tax recovery of $4.9 million for recognition of a previously unrecognized deferred tax asset.
- As all Caburé development was completed by the end of the second quarter, capital expenditures reduced to $0.1 million, compared to $3.6 million in the same period in 2019 and $1.6 million in the second quarter of 2020.
- As at September 30, 2020, we had a net working capital surplus of $2.2 million, including $3.2 million in cash and cash equivalents. A total of $15.3 million was outstanding under our credit facility, bringing the Company’s net debt to $13.1 million at the end of the quarter.

RECENT HIGHLIGHTS

- In October, Alvopetro’s daily average natural gas sales increased to 10.8 mmcfpd with condensate sales of 84 bopd, resulting in overall daily sales in October of 1,892 boepd, based on field estimates.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at September 30, 2020, Alvopetro held interests in the Caburé and Gomo natural gas assets, two oil fields (Bom Lugar and Mãe-da-lua) and Block 182 comprising 23,527 acres (gross and net) 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 flagship asset, the Caburé natural gas field, commenced commercial natural gas deliveries on July 5, 2020, averaging daily natural gas sales of 10.1 mmcfpd in the third quarter. The Caburé and Caburé Leste natural gas field, 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 (the “Unit”) being 49.1% and our operating partner’s share being 50.9%. There are seven wells in the unit and six of these wells are tied-in to the Unit’s central production facility. The field has a planned gross production plateau rate of 15.9 mmcfpd (450 $10^3m^3/d$).

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 by the other party. Once a party produces their share of 2P 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 and sold by the operator on behalf of both parties.

Natural Gas Sales:

Alvopetro’s share of natural gas from the Caburé natural gas field is shipped via our 11-kilometre Caburé transfer pipeline and processed through the natural gas processing facility (the “Facility”) owned and operated by Enerflex Ltd. (“Enerflex”) pursuant to our Gas Treatment Agreement. All natural gas is sold to Bahiagás, the local state distribution company, under the terms of our long-term gas sales agreement (“GSA”), which provides for the sale of firm volumes and interruptible volumes. The GSA has take-or-pay provisions and ship-or-pay penalties to ensure performance by both parties which are based on the firm volumes. The original GSA provided for firm volumes of 5.3 mmcfpd (150 $10^3m^3/d$) and interruptible volumes of 12.4 mmcfpd (350 $10^3m^3/d$) on an interruptible basis, adjustable by Alvopetro annually. In May 2020, Alvopetro and Bahiagás agreed to amend the firm volumes from the start of supply in 2020 to 10.6 mmcfpd (300 $10^3m^3/d$) for the remainder of 2020. As part of the May 2020 amendment, Bahiagás agreed to commence prepayments of natural gas effective May 1, 2020 at a rate of 120 $10^3m^3/d$. Alvopetro agreed to a 15% discount to the contractual price during this early prepayment period. In the second quarter of 2020, Bahiagás prepaid for a total of 7.3 million m^3 (259 mmcf) for $1.2 million. A total of 5.6 million m^3 of the natural gas prepayments have been repaid as of September 30, 2020 through natural gas deliveries in the third quarter, and the remaining balance was fully repaid in October.

Gomo Natural Gas Project:

Alvopetro's Gomo natural gas project extends across Blocks 183 and 197 and includes the 183(1) and 197(1) wells, both of which were drilled in 2014. In the fourth quarter of 2019 Alvopetro commenced the stimulation and initial production testing of the 183(1) well to further evaluate the Gomo natural gas asset. The pressure recorders were recovered from the wellbore in the first quarter of 2020 and Alvopetro completed pressure transient analysis in April. Due to operational challenges during the stimulation, we were unable to recover all completions and stimulation fluids from the wellbore and cannot fully validate the results of the fracture stimulation with the pressure transient analysis. Alvopetro plans to install a plunger lift system to remove the remaining fluids and undertake a production test to obtain improved estimates of the deliverability of the well.

EXPLORATION AND EVALUATION ("E&E) ASSETS:

The Company's E&E assets as at September 30, 2020 are as follows:

Block	Gross Acres	Current Phase Expiry	Estimated Commitment(1) ($000s)	Letter of Credit Support(2) ($000s)
182	4,807	November 21, 2021(3)	-	-
183	7,740	May 15, 2021 and January 13, 2022(4)	591	638
197	3,484	Suspension in place(4)	-	-
TOTAL – ALL EXPLORATION BLOCKS			**591**	**638**

(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. Work to be completed under the PAD includes the drilling of one well in advance of the phase expiry date. Alvopetro plans to drill the 182-C1 well on this block in 2021.

(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. The portion of Block 183 attributable to the Gomo gas project is currently in the PAD phase with an expiry date of May 15, 2021. The remainder of the block is in the second exploration phase with an expiry date of January 13, 2022. Alvopetro plans to drill the 183-B1 well in 2021 in satisfaction of the work commitment above. 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.

OUTLOOK

Production from the Caburé natural gas field and associated natural gas sales are expected to continue at levels consistent with the third quarter. The Company anticipates average daily natural gas sales and associated condensate sales in the fourth quarter of 2020 and for the year-ended December 31, 2021 to be over 1,800 boepd.

At our Gomo natural gas project, we are planning to undertake the production test of the 183(1) well later in the fourth quarter of 2020 to forecast longer-term productivity of the well. The Company estimates total capital expenditures of $0.2 million for this project. Future capital plans for the Gomo project, including an 8-kilometre flowline to connect the 183(1) well to the 11-kilometre Caburé transfer pipeline, will be dependent on results from this production test.

In the fourth quarter of 2020, we expect to commence civil construction on our 182-C1 and 183-B1 natural gas exploration prospects, on Block 182 and 183, respectively with plans to drill these wells in the first half of 2021. Total drilling costs of $7.4 million are forecasted for these two wells.

FINANCIAL AND OPERATING REVIEW

Sales Volumes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Total sales volumes by product:				
Natural gas (mcf)	**929,655**	-	**929,655**	-
NGLs – condensate (bbls)	**7,308**	584	**7,951**	831
Oil (bbls)	**-**	666	**1,657**	2,222
Total sales (boe)	**162,250**	1,250	**164,550**	3,053
Average daily sales volumes by product:				
Natural gas (mcfpd)	**10,105**	-	**3,393**	-
NGLs – condensate (bopd)	**79**	7	**29**	3
Oil (bopd)	**-**	7	**6**	8
Average daily sales (boepd)	**1,764**	14	**601**	11

Alvopetro commenced natural gas sales under its long-term GSA on July 5, 2020. Average daily natural gas volumes were consistent throughout the quarter, averaging 10.1 mmcfpd. With the increased natural gas production, associated condensate production from both the Caburé unit and the gas processing at the Facility also increased to 79 bopd on average in the quarter.

Average Realized Sales Prices

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Average realized prices:				
Natural gas ($/mcf)	**5.37**	-	**5.37**	-
NGL – condensate ($/bbl)	**44.75**	73.63	**46.16**	69.80
Oil ($/bbl)	**-**	51.05	**36.81**	52.66
Total ($/boe)	**32.79**	61.60	**32.94**	57.32
Average benchmark prices:				
Brent oil ($/bbl)	**43.37**	62.00	**42.53**	64.72
Henry Hub ($/mmbtu)	**2.13**	2.33	**1.92**	2.57
National Balancing Point ($/mmbtu)	**2.87**	3.90	**2.54**	4.76
Contracted natural gas price under GSA(1)				
BRL/m^3	**0.98**	-	**0.98**	-
Average Foreign Exchange Rate ($1 USD = BRL)	**5.377**	3.968	**5.079**	3.889

(1) The natural gas price under the GSA is set semi-annually effective February 1st and August 1st. The price in the table above is based on the average contractual natural price over the three months ended September 30, 2020. As natural gas sales commenced July 5, 2020, the contracted natural gas price for the three and nine months ended September 30, 2020 is equivalent. 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 6% to the contracted natural gas price, which contributes to a higher realized price overall relative to the contractual price.

Alvopetro's natural gas price under its 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, currently $5.23/mmbtu and $8.89/mmbtu, respectively, as of August 1, 2020. The natural gas price is then converted to a Brazilian real ("BRL") denominated natural gas price based on a historical average foreign exchange rate and billed monthly in BRL at the BRL denominated natural gas price 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.

As a result of the decline in the global commodity prices, Alvopetro's natural gas price was reset to the floor price of $5.23/mmbtu as of August 1, 2020 and converted to a BRL denominated natural gas price of BRL 0.96/m^3 (BRL 27.18/mcf). All natural gas volumes (other than take or pay volumes delivered) are sold at this new BRL price as of August 1, 2020 until the next price reset in February 2021. Volumes delivered prior to the price reset on August 1, 2020 were based on the previous BRL price of BRL 1.02/ m^3 (BRL 28.88/mcf). Approximately 20% of the Company's volumes delivered in the third quarter were attributable to repayment of take-or-pay volumes pre-sold in the second quarter of 2020. Under the terms of the prepayments, such volumes were sold at BRL 0.87/m^3 (BRL 24.64/mcf) which represented a 15% discount to the contractual natural gas price at the time. For the take-or-pay volumes delivered/re-paid in the third quarter, such revenue is recognized based on the discounted price, contributing to lower realized prices in the quarter. The remaining take-or-pay balance outstanding as of September 30, 2020 was fully repaid through volumes delivered in October.

Condensate production from both the Caburé unit and gas processing facility is sold pursuant to contracts based on Brent plus a premium whereas oil sales from Alvopetro's Mãe-da-lua field is sold at a discount to the average Brent price.

Natural Gas, Oil and Condensate Sales Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Natural gas, oil and condensate revenues				
Natural gas	**4,993**	-	**4,993**	-
Condensate	**327**	43	**367**	58
Oil	**-**	34	**61**	117
Total revenues	**5,320**	77	**5,421**	175

With the commencement of natural gas deliveries, Alvopetro generated $5.3 million in total revenues in the quarter, with over 93% attributable to natural gas sales.

All natural gas, oil and condensate sales are reflected net of sales taxes.

Royalties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Royalties	**456**	11	**469**	24
Royalties ($ per boe)	**2.81**	8.80	**2.85**	7.86
Royalties as a percentage of sales (%)	**8.6%**	14.3%	**8.7%**	13.7%

The Caburé natural gas field, the Mãe-da-lua field and all exploration blocks held by Alvopetro are subject to a base 10% government royalty plus a 1% landowner royalty. 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.

Royalties on natural gas are based on production volumes at an inherent reference price below the sales price, which results in reduced royalties as a percentage of sales compared to the base government and landowner royalty rates.

Production Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Production expenses by type:				
Personnel costs	**105**	20	**130**	80
Other fixed costs	**526**	43	**567**	125
Variable costs	**17**	4	**31**	20
Total production expenses	**648**	67	**728**	225
Production expenses per boe:				
Personnel costs	**0.65**	16.00	**0.79**	26.20
Other fixed costs	**3.24**	34.40	**3.44**	40.95
Variable costs	**0.10**	3.20	**0.19**	6.55
Total production expenses per boe ($)	**3.99**	53.60	**4.42**	73.70

The majority of the Company's production expenses are fixed in nature, including Enerflex services for operation of the Facility and the transfer pipeline, and agreed unit operating costs with our partner on the Caburé upstream assets. With commencement of natural gas deliveries at the beginning of the third quarter, production expenses increased significantly, however, on a per barrel of oil equivalent, production expenses were $3.99 per boe in the third quarter and $4.42 per boe in the nine months ended September 30, 2020.

General and Administrative ("G&A") Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
G&A Expenses, by type:	**2020**	2019	**2020**	2019
Personnel	**365**	623	**2,173**	1,910
Travel	**1**	38	**14**	95
Office and IT costs	**35**	45	**88**	125
Professional fees	**104**	103	**262**	275
General corporate costs	**170**	163	**458**	387
Gross G&A	**675**	972	**2,995**	2,792
Capitalized G&A	**(21)**	(233)	**(669)**	(730)
G&A expenses	**654**	739	**2,326**	2,062
$ per boe	**4.03**	591.20	**14.14**	675.40

G&A expenses declined in the third quarter due mainly to the impact of staffing reductions earlier in 2020. For the nine-months ended September 30, personnel costs were higher in 2020 due to severance costs and one-time bonuses recognized in the second quarter.

Funds Flow from Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Funds flow from operations	**3,610**	(779)	**1,964**	(2,115)
Per share – basic ($)	**0.04**	(0.01)	**0.02**	(0.02)
Per share – diluted ($)	**0.03**	(0.01)	**0.02**	(0.02)

With the commencement of natural gas sales in the third quarter, the Company recognized funds flow from operations of $3.6 million in the quarter and $2.0 million on a year-to-date basis compared to net cash outflows in all prior periods.

Foreign Exchange

The Company's reporting currency is the USD and its functional currencies are the USD and the BRL. Substantially all costs incurred in Brazil are in BRL 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			% Appreciation (Depreciation) of BRL/CAD to USD	
	September 30, 2020	June 30, 2020	December 31, 2019	**Q3 2020**	**YTD 2020**
Rate at end of period:					
$1 USD = BRL	**5.641**	5.476	4.031	**(3.0%)**	**(39.9%)**
$1 USD = CAD	**1.334**	1.363	1.299	**2.1%**	**(2.7%)**

	Three Months Ended September 30,		Nine Months Ended September 30,		% Appreciation (Depreciation) of BRL/CAD to USD	
	2020	2019	**2020**	2019	**Q3**	**YTD**
Average rate in the period:						
$1 USD = BRL	**5.377**	3.968	**5.079**	3.889	**(35.5%)**	**(30.6%)**
$1 USD = CAD	**1.332**	1.320	**1.353**	1.329	**(0.9%)**	**(1.8%)**

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 income (loss). The BRL depreciated 3% and 40% relative to the USD in the three and nine months ended September 30, 2020, resulting in an exchange loss of $1.1 million and $10.8 million in each respective period as the USD equivalent carrying value of BRL denominated assets (including E&E and PP&E) depreciated with the BRL, partially offset by exchange gains as a result of reductions in the USD equivalent carrying value of BRL denominated liabilities.

As discussed above, the Company is exposed to foreign exchange fluctuations on its natural gas revenues. When Alvopetro's natural gas price was reset on August 1, 2020, the price determined in BRL was based on an average historical exchange rate of 4.92. In the third quarter of 2020, the actual average rate was 5.377, a devaluation of 9.3% compared to the foreign exchange rate utilized for purposes of determining the BRL denominated natural gas price. 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 for the three and nine months ended September 30, 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Increase (Decrease) to Natural Gas Revenues from:				
5% Appreciation of BRL to USD	**263**	-	**263**	-
10% Appreciation of BRL to USD	**555**	-	**555**	-
5% Depreciation of BRL to USD	**(238)**	-	**(238)**	-
10% Depreciation of BRL to USD	**(454)**	-	**(454)**	-

The Company has expenditures denominated in BRL and CAD. In the third quarter of 2020 and for nine months ended September 30, 2020 both the BRL and the CAD depreciated on average relative to the USD, contributing to lower USD equivalent costs in 2020 compared to 2019.

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.

Depletion and Depreciation

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Depletion and depreciation	**931**	65	**1,043**	171
$ per boe	**5.74**	52.00	**6.34**	56.01

With the commencement of natural gas deliveries in the third quarter, the Company recognized depletion of $0.7 million on the Caburé field and associated assets. Depreciation in the third quarter also includes $0.2 million in depreciation on the Company's right-of-use assets (September 30, 2019 - $0.1 million), largely on the capital lease for the Facility which commenced at the end of the second quarter of 2020.

Impairment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Impairment	**-**	1,534	**1,381**	1,595

The impairment recognized in the nine months ended September 30, 2020 relates to the Company's Bom Lugar field. As a result of the impact of the COVID-19 pandemic and the significant decline in current and forecasted crude oil prices, the Company recognized an impairment of the Bom Lugar asset of $1.4 million in the three months ended March 31, 2020, reducing the carrying value to $1.5 million. The impairment in 2019 primarily relates to costs incurred on the Block 57 which was written down to $nil as the block was relinquished.

Share-Based Compensation Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Share based compensation expense	**74**	33	**141**	100

Share-based compensation expense is a non-cash expense based on the fair value of stock options and RSUs granted and amortized over the respective vesting periods. At September 30, 2020, 6.2 million stock options and 900,000 RSUs were outstanding compared to 7.2 million stock options and zero RSUs at September 30, 2019. Despite fewer stock options outstanding at September 30, 2020, as result of the RSUs granted in the three months ended September 30, 2020, overall share-based compensation expense increased in 2020.

Finance Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	2019
Lease interest	**353**	4	**356**	11
Accretion on decommissioning liabilities	**14**	6	**56**	20
Amortization of deferred financing costs	**147**	-	**474**	-
Interest on Credit Facility	**482**	-	**1,192**	-
Gross finance expenses	**996**	10	**2,078**	31
Capitalized to E&E and PP&E	**-**	-	**(737)**	-
Finance expenses	**996**	10	**1,341**	31

Interest calculated on the Credit Facility includes cash interest and commitment fees paid monthly, and interest in kind (PIK) payable upon repayment of amounts drawn. The portion of interest on the Credit Facility and the amortization of deferred financing costs that is directly attributable to eligible PP&E and E&E activities is capitalized to those assets, with the remainder, as shown above, included in profit and loss. The increase to finance expense in 2020 is primarily related to interest and amortization of deferred financing costs on the Company's credit facility arrangement entered into October 2019. With the completion of all Caburé infrastructure development by the end of the second quarter of 2020, no further amounts were capitalized in the third quarter.

Deferred Income Tax Recovery

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Deferred income tax recovery	**4,893**	-	**4,893**	-

The deferred income tax recovery recognized in the third quarter of 2020 has arisen following the recognition of a previously unrecognized deferred tax asset in Brazil. As the Company is now on production and cash flows from the Caburé field, it is probable that the benefit of the deferred tax asset will be realized in future periods.

Net Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Net income (loss)	**6,483**	(2,321)	**2,952**	(3,925)
Per share – basic ($)	**0.07**	(0.02)	**0.03**	(0.04)
Per share – diluted ($)	**0.06**	(0.02)	**0.03**	(0.04)

With the commencement of natural gas deliveries on July 5, 2020 and the recognition of the deferred tax asset, the Company reported net income in both the three and nine months ended September 30, 2020, compared to a net loss in the same periods in 2019. The net income in the nine months ended September 30, 2020 was impacted by the $1.4 million impairment charge in the three months ended March 31, 2020.

Capital Expenditures

Capital Expenditures by Type	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
E&E				
Drilling and completions	**15**	1,186	**213**	1,213
Facility & equipment	**2**	85	**26**	95
Land, lease, and similar payments	**22**	9	**34**	48
Inventory purchases	**46**	6	**46**	7
Capitalized G&A	**21**	47	**178**	225
Capitalized finance expense	**-**	-	**114**	-
Other	**-**	-	**-**	1
Total E&E	**106**	1,333	**611**	1,589
PP&E				
Facility & equipment	**-**	1,647	**1,629**	3,056
Drilling & completion	**-**	418	**-**	418
Land, lease and similar payments	**-**	49	**5**	58
Furniture & fixtures	**1**	1	**3**	4
Capitalized G&A	**-**	186	**491**	505
Capitalized finance expense	**-**	-	**623**	-
Other	**-**	14	**-**	42
Total PP&E	**1**	2,315	**2,751**	4,083
Total Capital Expenditures by Type(1)	**107**	3,648	**3,362**	5,672

Capital Expenditures by Property	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
E&E				
9th Brazil Bid Round blocks (Blocks 182, 183, 197)	**60**	107	**565**	317
11th Brazil Bid Round blocks (Block 107)	**-**	-	**-**	5
13th Brazil Bid Round blocks (Blocks 57, 62, 71, 145)	**-**	1,220	**-**	1,260
Inventory	**46**	6	**46**	7
Total E&E	**106**	1,333	**611**	1,589
PP&E				
Caburé and associated midstream assets	**-**	2,315	**2,748**	4,076
Bom Lugar	**-**	-	**-**	4
Corporate	**1**	-	**3**	3
Total PP&E	**1**	2,315	**2,751**	4,083
Total Capital Expenditures by Property(1)	**107**	3,648	**3,362**	5,672

(1) Includes non-cash capital expenditures of $nil and $0.4 million in the three and nine months ended September 30, 2020 (September 30, 2019 - $0.6 million and $0.6 million)

Alvopetro had completed all final construction costs for its Caburé upstream and midstream development by the end of the second quarter, resulting in lower capital expenditures in the third quarter, virtually all of which was spending on the Company's E&E assets.

Summary of Quarterly Results

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Financial								
Natural gas, oil and condensate sales	**5,320**	40	61	65	77	30	68	62
Net income (loss)	**6,483**	(1,168)	(2,363)	(1,086)	(2,321)	(841)	(763)	(1,445)
Per share – basic ($)	**0.07**	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.01)	(0.02)
Per share – diluted ($)	**0.06**	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.01)	(0.02)
Funds flow from operations [(1)]	**3,610**	(973)	(673)	(747)	(779)	(699)	(637)	(821)
Per share – basic ($)	**0.04**	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Per share diluted ($)	**0.03**	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital expenditures[(2)]	**107**	1,645	1,610	6,999	3,648	775	1,249	1,249
Operations								
Average realized prices:								
Natural gas ($/mcf)	**5.37**	-	-	-	-	-	-	-
NGL – condensate ($/bbl)	**44.75**	37.27	70.54	69.14	73.63	-	60.73	65.22
Oil ($/bbl)	**-**	30.25	50.66	51.60	51.05	57.80	51.11	59.60
Average Foreign Exchange ($1 USD = BRL)	**5.377**	5.385	4.466	4.116	3.968	3.922	3.768	3.808
Operating netback ($/boe) [(1)]								
Sales price ($/boe)	**32.79**	31.13	60.10	57.93	61.60	57.80	52.96	59.85
Transportation expenses	**-**	-	-	-	-	-	-	(0.97)
Realized sales price	**32.79**	31.13	60.10	57.93	61.60	57.80	52.96	58.88
Royalties	**(2.81)**	(3.89)	(7.88)	(8.91)	(8.80)	(7.71)	(7.01)	(9.65)
Production expenses	**(3.99)**	(28.02)	(43.35)	(45.45)	(53.60)	(123.31)	(73.21)	(229.73)
Operating netback	**25.99**	(0.78)	8.87	3.57	(0.80)	(73.22)	(27.26)	(180.50)
Average daily sales:								
Natural gas (mcfpd)	**10,105**	-	-	-	-	-	-	-
NGL – condensate (bopd)	**79**	2	5	4	7	-	3	1
Oil (bopd)	**-**	12	6	8	7	6	11	10
Total average daily sales (boepd)	**1,764**	14	11	12	14	6	14	11

Notes:

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

(2) Includes non-cash capital expenditures of $0.35 million in Q2 2020, 0.05 million in Q1 2020, $2.6 million in Q4 2019, $0.6 million in Q3 2019, $0.03 million in Q2 2019 and $0.6 million in Q4 2018.

Natural gas deliveries from the Company's Caburé natural gas field commenced on July 5, 2020, generating overall revenues in the third quarter of 2020 of $5.3 million and funds flow from operations of $3.6 million ($0.04 per basic share and $0.03 per diluted share). With average daily sales of 1,764 boe in the third quarter, the Company realized an operating netback of $25.99 per boe. In all prior quarters, efforts by the Company were focused on the development of the Caburé asset and related midstream infrastructure, with minimal revenue from oil and condensate sales, and the Company generated net losses and negative funds flow from operations in all prior periods. With the Caburé development completed by the second quarter of 2020, capital expenditures were reduced in the third quarter compared to all prior periods.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at September 30, 2020:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments[1]				
Block 183	-	591	-	591
Bom Lugar	-	-	62	62
Mãe-da-lua	-	-	62	62
Minimum work commitments	-	591	124	715
Gas Treatment Agreement	950	1,900	6,413	9,263
Total commitments	**950**	**2,491**	**6,537**	**9,978**

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.

The Company's Gas Treatment Agreement with Enerflex contains a lease related to equipment rental of the Facility for which details are provided in Note 6 to the interim condensed consolidated financial statements and the obligation is reflected on the Statement of Financial Position as of September 30, 2020. The contract also provides for monthly service fees to Enerflex for operation and maintenance of the Facility as well as Alvopetro's 11-kilometre transfer pipeline. The committed payments for service fees are included in the table above. The Gas Treatment Agreement includes early termination penalty provisions which vary depending on timing of the termination. While the 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 below to the extent processing in the Facility is limited due to unplanned or longer than scheduled maintenance or repair.

The Company's GSA with Bahiagás provides for ship or pay penalties applicable to Alvopetro 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. 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 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. 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 natural gas resources, or through new gas discoveries from our prospect inventory. In May 2020, Alvopetro and Bahiagás entered into an amendment to the GSA which provides for increased firm volumes until December 31, 2020; however, as part of the amendment, any supply failure penalties in 2020 will be reduced from the original contractual penalties.

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

In 2019, the Company entered into the $15 million Credit Facility. 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 additional interest (PIK) is payable upon repayment of any Credit Facility amounts at a rate of 3.0% per annum. Amounts drawn under the Credit Facility are repayable at maturity, however amounts may now be repaid in part or full at Alvopetro's option without penalty. As of September 30, 2020, the Company had drawn the full available balance of $15.0 million under the Credit Facility. The balance outstanding of $15.3 million at September 30, 2020 includes PIK amounts owing upon repayment of amounts drawn.

The Credit Facility contains certain customary financial and non-financial covenants, standard representations and warranties and events of default. Events of default include, but are not limited to, failure to pay amounts owing (advances or interest) when due and payable, incorrect representations and warranties, failure to comply with financial and non-financial covenants, cross-default provisions on other debt outstanding, invalidity of security registrations, and change of control. To the extent an event of default occurs, the lenders can terminate their obligations for further advances under the Credit Facility and declare all advances outstanding immediately due and payable. Financial covenants are tested for quarters after October 8, 2020, the first anniversary of the funding date, with the first covenant calculation effective December 31, 2020. The Company is in compliance with all covenants as of September 30, 2020.

Lease liabilities

In 2018, Alvopetro entered into the 10-year Gas Treatment Agreement with Enerflex. Pursuant to the agreement, Enerflex constructed and operates the Facility to process natural gas from the Company's Caburé natural gas field. Enerflex also operates the Company's Caburé transfer pipeline. Alvopetro pays both a monthly equipment rental fee for the Facility as well as monthly service fees for operations and maintenance. The portion of the agreement that relates to the equipment rental is a right-of-use asset with a corresponding lease liability. The Facility was commissioned and became available for use during the second quarter of 2020 and the associated $8.3 million right-of-use asset and lease liability were recognized in the period. The ongoing obligations to Enerflex will be satisfied in the normal course. The lease liability to Enerflex represents the majority of the Company's lease liability as at September 30, 2020. Additional lease liabilities outstanding relate to office space in Canada and Brazil and surface land access for midstream development.

The Company's lease liabilities at September 30, 2020 are as follows:

	As at	
	September 30, 2020	December 31, 2019
Lease liabilities, beginning of period	**163**	-
Lease liabilities upon adoption of IFRS 16	**-**	244
Additions	**8,484**	133
Finance expense	**356**	14
Lease payments	**(544)**	(234)
Foreign currency translation	**(46)**	6
Lease liabilities, end of period	**8,413**	163
Current	**470**	101
Non-current	**7,943**	62
Total, end of period	**8,413**	163

Cash and Working Capital

At September 30, 2020, Alvopetro's cash and cash equivalents of $3.2 million and its restricted cash of $0.1 million were held as follows:

	Total	**U.S. Dollar**	**CAD Dollar(1)**	**Brazil Real(1)**
Cash held in Canada	1,351	1,150	201	-
Cash held in Brazil	1,816	-	-	1,816
Restricted cash - current	112	-	-	112
Total	**3,279**	**1,150**	**201**	**1,928**

(1) Amounts in the table above denote the U.S. dollar equivalent as at September 30, 2020.

The Company had cash of $3.2 million and a total net working capital surplus of $2.2 million at September 30, 2020. Natural gas deliveries to Bahiagás commenced on July 5, 2020 and positive cash flows are expected going forward. However, as discussed further in "Risks and Uncertainties", the COVID-19 pandemic has resulted in an unprecedented reduction in global demand for oil and natural gas resulting in a sharp decline in commodity prices. To the extent commodity prices remain low or demand for natural gas is reduced, this may have an adverse impact on future results of operations and the Company's financial condition.

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, 2020, the total amount of LCs issued under the credit support facility was $0.6 million (December 31, 2019 - $4.9 million), the full balance of which was satisfied by EDC. The Company has a restricted cash balance of $0.1 million as at September 30, 2020 (December 31, 2019 - $0.3 million) primarily in respect of abandonment guarantees on the Company's oil fields.

The liability for decommissioning obligations of Alvopetro was $1.0 million as at September 30, 2020, with $0.06 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, 2020 the Company had $1.1 million of equipment inventory to be utilized for future operations which is included in exploration and evaluation assets in the consolidated statement of financial position.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and preferred shares in one or more series. As of November 12, 2020, there were 99,162,412 common shares outstanding, 6,180,500 stock options outstanding, 900,000 RSUs outstanding and 8,432,868 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 five non-GAAP measures: 1) funds flow from operations; 2) funds flow from operations per share; 3) net working capital surplus (deficit); 4) net debt and 5) operating netback per barrel of oil equivalent. 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,**	
	2020	2019	**2020**	2019
Cash flows from operating activities	**1,971**	(546)	(63)	(1,898)
Add back changes in non-cash working capital	**1,639**	(233)	2,027	(217)
Funds flow from operations	**3,610**	(779)	1,964	(2,115)

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 the cash flow 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	**2020**	2019	**2020**	2019
Cash flows from operating activities per basic share	**0.02**	(0.01)	**(0.00)**	(0.02)
Funds flow from operations per basic share	**0.04**	(0.01)	**0.02**	(0.02)
Cash flows from operating activities per diluted share	**0.02**	(0.01)	**(0.00)**	(0.02)
Funds flow from operations per diluted share	**0.03**	(0.01)	**0.02**	(0.02)

Net Working Capital Surplus (Deficit)

Net working capital surplus (deficit) 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,	
	2020	2019
Total current assets	**5,436**	2,670
Total current liabilities	**(3,203)**	(6,034)
Net working capital surplus (deficit)	**2,233**	(3,364)

Net Debt

Net debt is computed as the carrying amount of the Credit Facility, decreased by net working capital surplus or increased by net working capital deficit. Net debt is used by management to assess the Company's overall debt position and borrowing capacity.

	As at September 30,	
	2020	2019
Credit Facility, balance outstanding	**15,336**	-
Net working capital surplus (deficit)	**2,233**	(3,364)
Net Debt	**13,103**	3,364

Operating Netback per Barrel of Oil Equivalent

Operating netback is calculated on a per unit basis, which is per barrel of oil equivalent ("boe"). It is a common non-GAAP measure used in the oil and gas industry and management believes this measurement assists in evaluating the operating performance of the Company 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 natural gas, oil and condensate sales (after sales taxes) less royalties, and production and transportation costs on a per unit (barrel of oil equivalent) 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,	
	2020	2019	**2020**	2019
Natural gas, oil and condensate sales	**5,320**	77	**5,421**	175
Royalties	**(456)**	(11)	**(469)**	(24)
Production expenses	**(648)**	(67)	**(728)**	(225)
Operating netback	**4,216**	(1)	**4,224**	(74)
Operating netback per boe ($)	**25.99**	(0.80)	**25.67**	(24.24)

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. The recent COVID-19 pandemic increases our exposure to and the magnitude of risks identified in our 2019 Annual Information Form and MD&A for the year-ended December 31, 2019 as discussed in further detail below.

The Impact of COVID-19 Pandemic and Commodity Price Declines

The COVID-19 pandemic and the responses by governments and health authorities around the world to reduce the spread of the virus have given rise to a significant reduction in global economic activity and reduced demand for crude oil and natural gas, resulting in a sharp decline in current and forecasted commodity prices. As a result of the decline in commodity prices, Alvopetro's natural gas price under the GSA with Bahiagás is based on the floor price of $5.23/mmbtu as of August 1, 2020. While Alvopetro's operations and supply chain has not otherwise been materially impacted to date, the impact on future demand and operations is unknown and unpredictable and the Company may be negatively impacted. In response to the COVID-19 pandemic, Alvopetro is following all applicable rules and regulations as set out by health authorities within Canada and Brazil and has implemented various measures to ensure the health and safety of all employees. The Company is committed to maintaining a strong balance sheet during this period of economic uncertainty and is actively monitoring all spending to ensure a strong financial position. While the Company has fully drawn its available Credit Facility with a balance outstanding of $15.3 million as at September 30, 202, the Company exited the third quarter with over $3.2 million of cash and cash equivalents and a working capital surplus of $2.2 million after the first quarter of cash flows from the Caburé field. However, the outbreak presents uncertainty and risk with respect to the Company, its performance and estimates and assumptions used by Management in the preparation of financial results. In particular and without limitation, a prolonged period of decreased global demand for crude oil and local demand for natural gas could adversely impact the Company's financial condition and results of operations as follows:

- A prolonged reduction in natural gas demand in the state of Bahia in Brazil may result in lower than expected sales volumes under the Company's GSA. While the Company has take-or-pay provisions within its agreement, should such prolonged reduction in demand constitute a force majeure event, we may not be entitled to receive take-or-pay amounts.
- Workforce disruption or shutdown orders by government or health authorities to restrict work may negatively impact future cash flows of the Company depending on the extent or nature of those orders.
- Lower commodity prices resulting in a reduction in future cash flows and overall value of our natural gas and oil reserves.
- Short-term fluctuations in foreign exchange and the continued devaluation of the BRL relative to the USD may give rise to reduced USD equivalent revenues under the Company's GSA.
- Our ability to obtain additional capital including debt or equity financing may be limited as a result of reduced commodity prices and continued volatility in the financial markets.

The direct and indirect effects of COVID-19 could have unforeseen implications that may be material. The extent to which the COVID-19 pandemic may impact our operations, financial condition and future financial performance is currently unknown. Even where the COVID-19 pandemic has subsided, the effects of the pandemic may continue for an extended period of time.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New and revised accounting standards

On January 1, 2020, the Company adopted the amendments to the following standards:

- IFRS 3 *Business Combinations;*
- IAS 1 *Presentation of Financial Statement;* and
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

These amendments did not have an effect on the financial statements as at and for the three and nine months ended September 30, 2020.

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 concerning the plans relating to the Company's operational activities, future results from operations, projected financial results, future capital and operating costs, the impact of the COVID-19 pandemic, the expected timing and outcomes of certain of Alvopetro's testing activities, 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, forecasted demand for oil and natural gas, weather and access to drilling locations, the availability and cost of labour and services, environmental regulation, including regulation relating to hydraulic fracturing and stimulation, the ability to monetize hydrocarbons discovered, the regulatory and legal environment and other risks associated with oil and gas operations. Although we believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because we can give no assurance that they will prove to be correct. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, reliance on industry partners, availability of equipment and personnel, uncertainty surrounding timing for drilling and completion activities resulting from weather and other factors, changes in applicable regulatory regimes and health, safety and environmental risks), commodity price and exchange rate fluctuations and general economic conditions. Certain of these risks are set out in more detail in this MD&A and in our 2019 MD&A and 2019 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:

10^3m^3	=	thousands of cubic metres
$10^3m^3/d$	=	thousands of cubic metres per day
ANP	=	The National Agency of Petroleum, Natural Gas and Biofuels of Brazil
bbls	=	barrels of oil and/or natural gas liquids (condensate)
boepd	=	barrels of oil equivalent ("boe") per day
bopd	=	barrels of oil and/or natural gas liquids (condensate) per day
BRL	=	Brazilian real
m^3	=	cubic metre
m^3/d	=	cubic metre per day

mcf	=	thousand cubic feet
mcfe	=	thousand cubic feet of gas equivalent
mcfpd	=	thousand cubic feet per day
mmcfpd	=	million cubic feet per day
mmboe	=	millions of barrels of oil equivalent
mmbtu	=	million British Thermal Units
mmcf	=	million cubic feet
mmcfpd	=	million cubic feet per day
NGLs	=	natural gas liquids

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.