The following Management's Discussion and Analysis ("MD&A") is dated November 9, 2021 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, 2021, MD&A for the year ended December 31, 2020 and the audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019. 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 two other exploration assets 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 principal repayments to capital providers.

FINANCIAL & OPERATING SUMMARY

	As at and Three Months Ended September 30,			As at and Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Financial					
($000s, except where noted)					
Natural gas, oil and condensate sales	**9,963**	5,320	87	**25,084**	5,421
Net income	**1,490**	6,483	(77)	**4,039**	2,952
Per share – basic ($)	**0.05**	0.20	(75)	**0.12**	0.09
Per share – diluted ($)(1)	**0.04**	0.19	(79)	**0.12**	0.08
Cash flow from operating activities	**7,234**	1,971	267	**17,203**	(63)
Per share – basic ($)	**0.22**	0.06	267	**0.52**	(0.00)
Per share – diluted ($)(1)	**0.20**	0.06	233	**0.50**	(0.00)
Funds flow from operations (2)	**7,930**	3,610	120	**18,157**	1,964
Per share – basic ($)	**0.24**	0.11	118	**0.55**	0.06
Per share – diluted ($)(1)	**0.22**	0.11	100	**0.52**	0.06
Capital expenditures(3)	**1,261**	107	1,079	**3,043**	3,362
Total assets	**79,104**	75,746	4	**79,104**	75,746
Cash and cash equivalents	**8,084**	3,167	155	**8,084**	3,167
Net working capital surplus (2)	**6,839**	2,233	206	**6,839**	2,233
Working capital, net of debt (net debt)(2)	**294**	(13,103)	102	**294**	(13,103)
Weighted average shares outstanding (000s)					
Basic	**32,923**	32,818	0	**32,860**	32,800
Diluted (1)	**35,310**	33,359	6	**34,717**	35,204
Operations					
Natural gas, crude oil and natural gas liquids sales:					
Natural gas (mcfpd)	**14,102**	10,105	40	**13,365**	3,393
NGLs – condensate (bopd)	**107**	79	35	**103**	29
Oil (bopd)	**2**	-	-	**2**	6
Total (boepd)	**2,459**	1,764	39	**2,333**	601
Average realized prices:					
Natural gas ($/mcf)	**7.07**	5.37	32	**6.30**	5.37
NGL – condensate ($/bbl)	**79.36**	44.75	77	**73.04**	46.16
Oil ($/bbl)	**61.11**	-	-	**60.06**	36.81
Company total ($/boe)	**44.04**	32.79	34	**39.39**	32.94
Operating netback ($/boe) (2)					
Realized sales price	**44.04**	32.79	34	**39.39**	32.94
Royalties	**(4.02)**	(2.81)	43	**(3.39)**	(2.85)
Production expenses	**(3.64)**	(3.99)	(9)	**(3.65)**	(4.42)
Operating netback	**36.38**	25.99	40	**32.35**	25.67

Notes:

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

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

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE THIRD QUARTER OF 2021

- Daily sales averaged 2,459 boepd, a 4% increase from the Q2 2021 average of 2,361 boepd and a 39% increase over the Q3 2020 average of 1,764 boepd.
- Our realized natural gas sales price averaged $7.07/mcf in the quarter, an increase of $1.01/mcf (17%) from Q2 2021 following our August 1, 2021 natural gas price reset which increased our contracted price from BRL1.06/m^3 to BRL1.31/m^3, an increase from $6.26/mcf to $7.72/mcf based on the July 30, 2021 BRL/USD exchange rate of 5.12 and average heat content to date of 107%. Overall, our natural gas, oil and condensate revenues increased to $10.0 million as a result of higher production levels and increased commodity prices.
- With higher overall realized sales prices, our operating netback improved to $36.38 per boe, compared to $31.58 per boe in Q2 2021 and $25.99 in Q3 2020. Our funds flow from operations improved to $7.9 million ($0.24 per basic share and $0.22 per diluted share) and cash flows from operating activities improved to $7.2 million ($0.22 per basic share and $0.20 per diluted share).
- We reported net income of $1.5 million, a decrease of $2.1 million from Q2 2021 despite higher funds flow from operations due mainly to the recognition of an unrealized foreign exchange loss of $1.8 million (compared to a gain of $2.8 million in Q2 2021).
- Capital expenditures totaled $1.3 million, focused on our Gomo/Murucututu pipeline extension.
- We completed a share restructuring during the quarter, repurchasing a total of 1,265,306 common shares, and consolidating the remaining shares on an effective 3:1 basis resulting in a reduction in our common shares outstanding from 99.8 million to 32.9 million immediately following the restructuring.
- On September 21, 2021 our Board of Directors declared our first dividend of $0.06 per share to shareholders of record on September 29, 2021. Total dividends of $2.0 million were paid on October 15, 2021.
- As at September 30, 2021, we had a net working capital surplus of $6.8 million, including $8.1 million in cash and cash equivalents. During the quarter we repaid $1.0 million of advances outstanding under our Credit Facility reducing the balance outstanding to $6.5 million as of September 30, 2021. The Company's working capital net of debt improved by $3.3 million to $0.3 million in the three months ended September 30, 2021.

RECENT HIGHLIGHTS

- Our daily sales averaged 2,382 boepd in October including natural gas sales of 13.7 mmcfpd, associated natural gas liquids sales from condensate of 99 bopd and oil sales of 5 bopd.
- Installation of our Gomo/Murucututu pipeline is continuing and we expect the 183(1) well to be tied-in and on production in early 2022.
- We expect to commence drilling our 182-C1 well, the first of two planned natural gas exploration wells in December following completion of rig maintenance for the contracted drilling rig.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at September 30, 2021, Alvopetro held interests in the Caburé and Gomo/Murucututu natural gas assets, two oil fields (Bom Lugar and Mãe-da-lua), and Block 183 and Block 182 in the Recôncavo basin onshore Brazil.

NATURAL GAS ASSETS:

Caburé Natural Gas Field

Alvopetro's flagship asset, the Caburé natural gas field, commenced commercial natural gas deliveries on July 5, 2020, averaging 14.1 mmcfpd in the third quarter of 2021 and 12.4 mmcfpd since July 5, 2020. The Caburé and Caburé Leste natural gas field, collectively referred to as the Caburé natural gas field throughout this MD&A, extends across four blocks in the Recôncavo basin in the state of Bahia 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%.

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 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.

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 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. For 2020 and 2021, the Company 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).

Murucututu (Gomo) Natural Gas Project

Alvopetro’s Murucututu/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 late 2019, Alvopetro commenced a stimulation and initial production test of the 183(1) well and in early 2021 completed another production test, the results from which validated previous analysis with respect to our long-term productivity forecast of the well. Alvopetro declared commerciality on the portion of Block 183 attributable to the Gomo project in April 2021 and this portion of the block has been renamed Murucututu and is now in the development and production phase with an expiry date of April 2048. On October 1, 2021, Alvopetro declared commerciality on the portion of Block 197 which is part of the project and it is also now in the development and production phase with an expiry date of October 2048.

Alvopetro is currently installing a 9-kilometre transfer pipeline extension to connect the 183(1) well to our Caburé transfer pipeline. Pipeline construction commenced in July 2021 and a total of $0.6 million in capital expenditures were incurred in the third quarter of 2021 and $1.1 million in the nine months ended September 30, 2021. Alvopetro anticipates a further $2.2 million in capital expenditures in the remainder of 2021 and early 2022 for final pipeline construction and field production facilities. Future capital plans for the project include stimulation and tie-in of our 197(1) well and drilling additional “fit-for-purpose” development wells. Alvopetro has the 197(1) stimulation and tie-in and the first “fit for purpose” development well planned for 2022, with total estimated capital expenditures on these projects of $8.8 million.

EXPLORATION AND EVALUATION (“E&E”) ASSETS

Following the results of the 183(1) production test in early 2021, the Company made the decision to proceed with further development of the Murucututu/Gomo asset and the full carrying value was transferred to PP&E in the first quarter of 2021. The Company’s remaining E&E assets include Block 182 and the portion of Block 183 that is not part of the Murucututu/Gomo project.

Block	Gross Acres	Current Phase Expiry	Estimated Commitment(1) ($000’s)	Letter of Credit Support(2) ($000’s)
182	4,807	Extension requested(3)	-	-
183	3,611	January 13, 2022	613	638
TOTAL			**613**	**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 is currently in the PAD phase.

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

(3) The current phase expiry of Block 182 is November 21, 2021. During the three months ended September 30, 2021, Alvopetro requested an extension to the current phase expiry of Block 182 due to delays associated with rig availability.

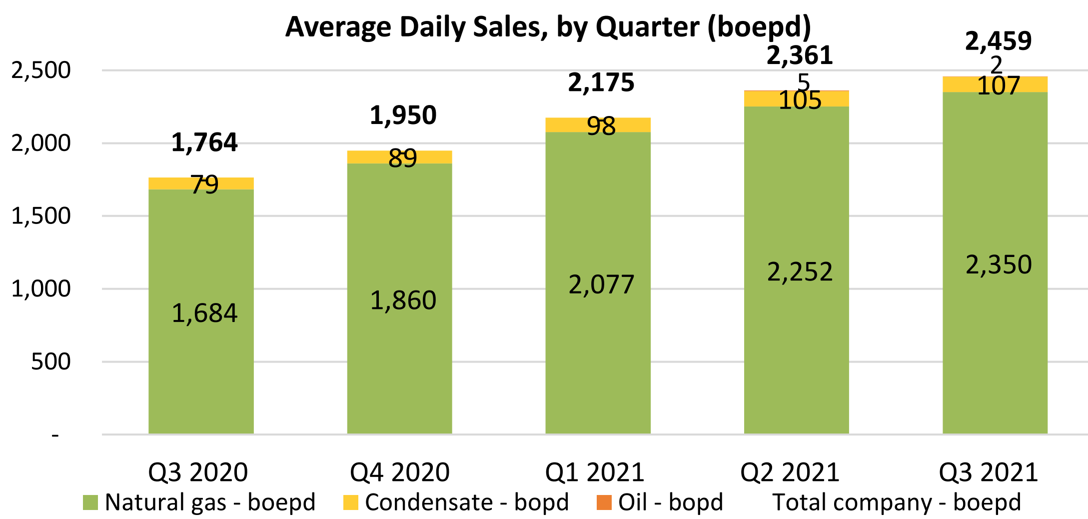
Alvopetro has natural gas prospects on each of Blocks 182 and 183. Alvopetro plans to drill prospects on each of these blocks, the 182-C1 well and the 183-B1 well, with the first prospect, the 182-C1 well to commence drilling in late 2021. We completed civil construction, purchased long lead items and incurred other preliminary costs totalling $0.9 million in the nine months ended September 30, 2021 relating to these two projects. Total future drilling costs of $6.6 million are anticipated for these two wells in the remainder of 2021 and early 2022. Future capital expenditures on these projects will depend on drilling results.

FINANCIAL AND OPERATING REVIEW

Sales Volumes

	Three Months Ended September 30, 2021	2020	Change (%)	Nine Months Ended September 30 2021	2020
Total sales volumes by product:					
Natural gas (mcf)	**1,297,373**	929,655	40	**3,648,711**	929,655
NGLs – condensate (bbls)	**9,816**	7,308	34	**28,123**	7,951
Oil (bbls)	**180**	-	-	**616**	1,657
Total sales (boe)	**226,225**	162,250	39	**636,858**	164,550
Average daily sales volumes by product:					
Natural gas (mcfpd)	**14,102**	10,105	40	**13,365**	3,393
NGLs – condensate (bopd)	**107**	79	35	**103**	29
Oil (bopd)	**2**	-	-	**2**	6
Average daily sales (boepd)	**2,459**	1,764	39	**2,333**	601

Since commencing natural gas sales under Alvopetro's long-term GSA in July 2020, average daily sales volumes have increased steadily and in the third quarter of 2021, Alvopetro recorded our highest daily sales of 2,459 boepd, an increase of 4% from Q2 2021 and 39% from Q3 2020.



Average Realized Sales Prices

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Average realized prices:					
Natural gas ($/mcf)	**7.07**	5.37	32	**6.30**	5.37
NGL – condensate ($/bbl)	**79.36**	44.75	77	**73.40**	46.16
Oil ($/bbl)	**61.11**	-	-	**60.06**	36.81
Total ($/boe)	**44.04**	32.79	34	**39.39**	32.94
Average benchmark prices:					
Brent oil ($/bbl)	**73.51**	43.37	69	**67.89**	42.53
Henry Hub ($/mmbtu)	**4.35**	2.13	104	**3.61**	1.92
National Balancing Point ($/mmbtu)	**16.29**	2.87	468	**10.84**	2.54
Average contracted natural gas price under GSA(1)					
BRL/m^3	**1.23**	0.98	26	**1.10**	0.98
Average foreign exchange rate ($1 USD = BRL)	**5.229**	5.377	(3)	**5.332**	5.079

(1) 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 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 $5.28/mmbtu and $8.98/mmbtu, respectively, as of February 1, 2021 and $5.52/mmbtu and $9.38/mmbtu, respectively as of August 1, 2021 (August 1, 2020 - $5.23/mmbtu and $8.89/mmbtu). 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. See "*Foreign Exchange*" discussion below.

As a result of the decline in the global commodity prices, Alvopetro's natural gas price was set to the floor price on both the August 1, 2020 and February 1, 2021 semi-annual price determinations, adjusting to BRL0.96/m^3 and BRL1.06/m^3, respectively. With improving global commodity prices in 2021, our contracted price increased 24% to BRL1.31/m^3. With the increased contracted price and appreciation of the average BRL to USD rate, Alvopetro's realized natural gas price increased 32% to $7.07/mcf in the third quarter compared to the same period in 2020.

Condensate production from both the Caburé unit and gas processing facility is sold pursuant to contracts based on Brent plus a premium. With average Brent prices increasing 69% compared to the third quarter of 2020 and including the premium received on condensate sales, our realized sales price on condensate improved 77% this quarter.

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

Natural Gas, Oil and Condensate Sales Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Natural gas	**9,173**	4,993	84	**22,993**	4,993
Condensate	**779**	327	138	**2,054**	367
Oil	**11**	-	-	**37**	61
Total revenues	**9,963**	5,320	87	**25,084**	5,421

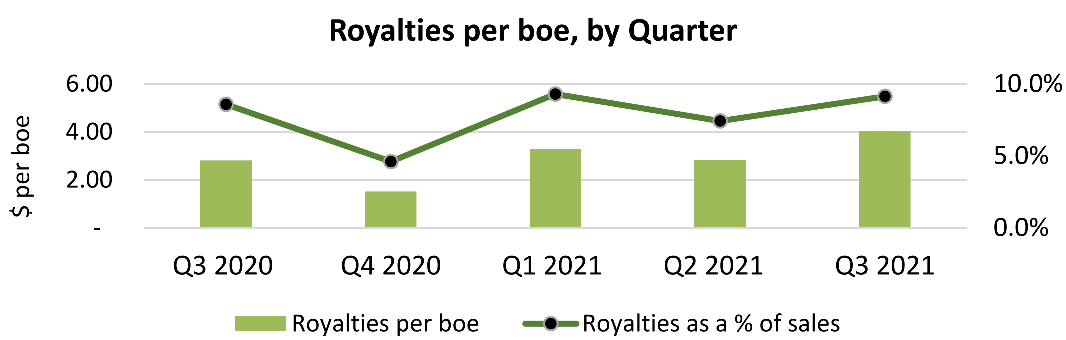
Alvopetro's revenues increased $4.6 million compared to the third quarter of 2020 due to the 39% increase in daily sales volumes and the 34% increase in the average realized sales price.

Royalties

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Royalties	**910**	456	100	**2,162**	469
Royalties per boe ($)	**4.02**	2.81	43	**3.39**	2.85
Royalties as a percentage of sales (%)	**9.1**	8.6	7	**8.6**	8.7

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 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 royalties, Alvopetro's effective royalty rate fluctuates with changes in Henry Hub prices. With higher Henry Hub prices in the third quarter of 2021 compared to 2020, Alvopetro's effective royalty rate increased as a percentage of sales.

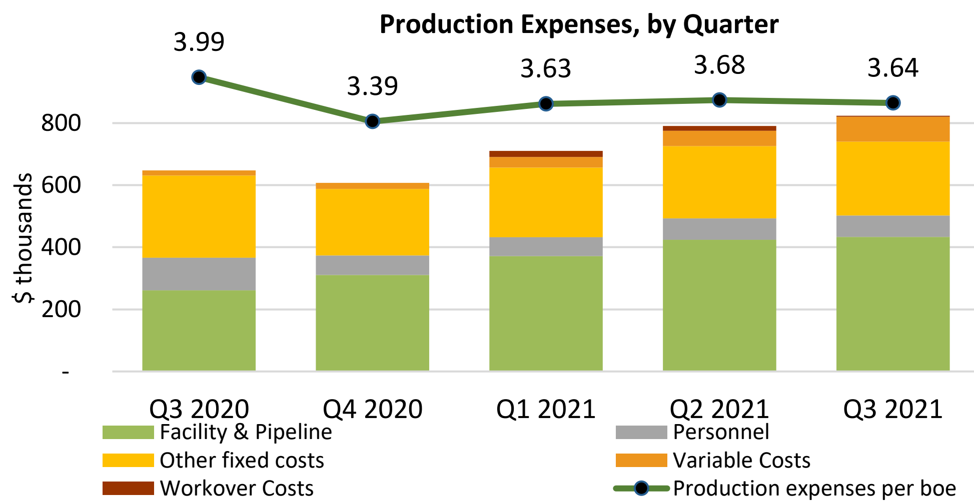


Production Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Production expenses by type:					
Personnel costs	**69**	105	(34)	**198**	130
Facility and pipeline costs	**433**	262	65	**1,229**	262
Other fixed costs	**238**	264	(10)	**696**	305
Variable costs	**81**	17	376	**164**	31
Workover costs	**3**	-	-	**38**	-
Total production expenses	**824**	648	27	**2,325**	728

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Production expenses per boe:					
Personnel costs	**0.31**	0.65	(52)	**0.31**	0.79
Facility and pipeline costs	**1.91**	1.61	19	**1.93**	1.59
Other fixed costs	**1.05**	1.63	(36)	**1.09**	1.85
Variable costs	**0.36**	0.10	260	**0.26**	0.19
Workover costs	**0.01**	-	-	**0.06**	-
Total production expenses per boe ($)	**3.64**	3.99	(9)	**3.65**	4.42

The majority of the Company's production expenses relate to fees paid to Enerflex for operation of the Facility and the transfer pipeline and agreed unit operating costs with our partner on the Caburé upstream assets. While production expenses have increased from the third quarter of 2020, as a large proportion of Alvopetro's costs are fixed in nature, costs on a per boe basis have decreased with increased production volumes. Since coming on production in the third quarter of 2020, Alvopetro's production costs have remained below $4.00 per boe each quarter.

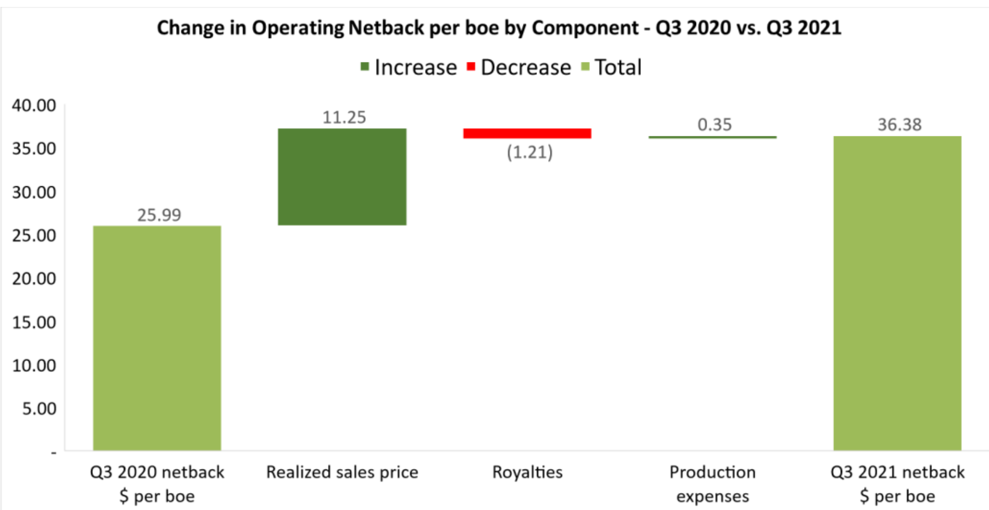


Operating Netback

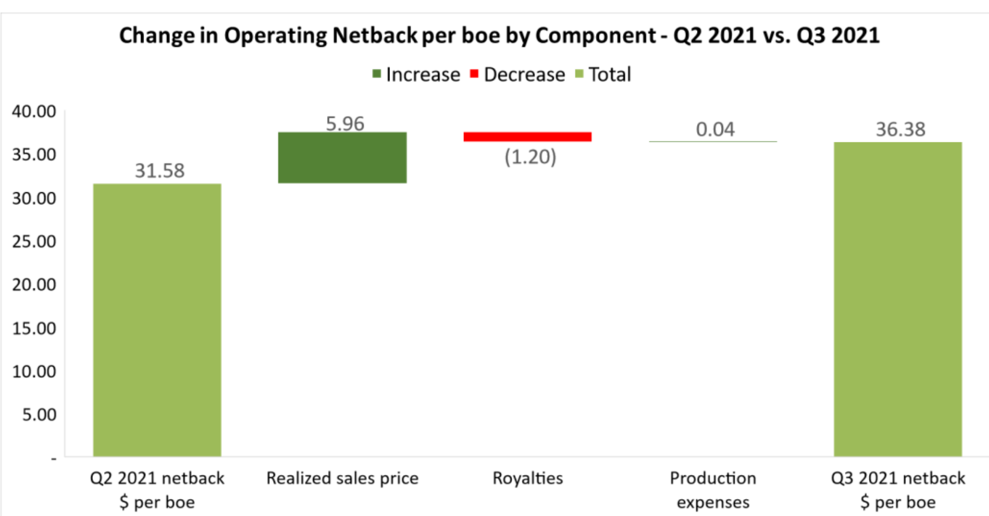
	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Operating netback [(1)]					
Natural gas, oil and condensate revenues	**9,963**	5,320	87	**25,084**	5,421
Royalties	**(910)**	(456)	(100)	**(2,162)**	(469)
Production expense	**(824)**	(648)	(27)	**(2,325)**	(728)
Operating netback	**8,229**	4,216	95	**20,597**	4,224
Operating netback per boe[(1)]:					
Natural gas, oil and condensate revenues	**44.04**	32.79	34	**39.39**	32.94
Royalties	**(4.02)**	(2.81)	43	**(3.39)**	(2.85)
Production expense	**(3.64)**	(3.99)	(9)	**(3.65)**	(4.42)
Operating netback per boe	**36.38**	25.99	40	**32.35**	25.67

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

Overall, Alvopetro's operating netback improved $10.39 per boe compared to the third quarter of 2020 due to the improved realized sales prices on both natural gas and condensate sales, partially offset by higher royalties.



Similarly, as a result of higher realized sales prices compared to the second quarter of 2021, Alvopetro's netback improved $4.80 per boe despite increased royalties per boe.



Other Income

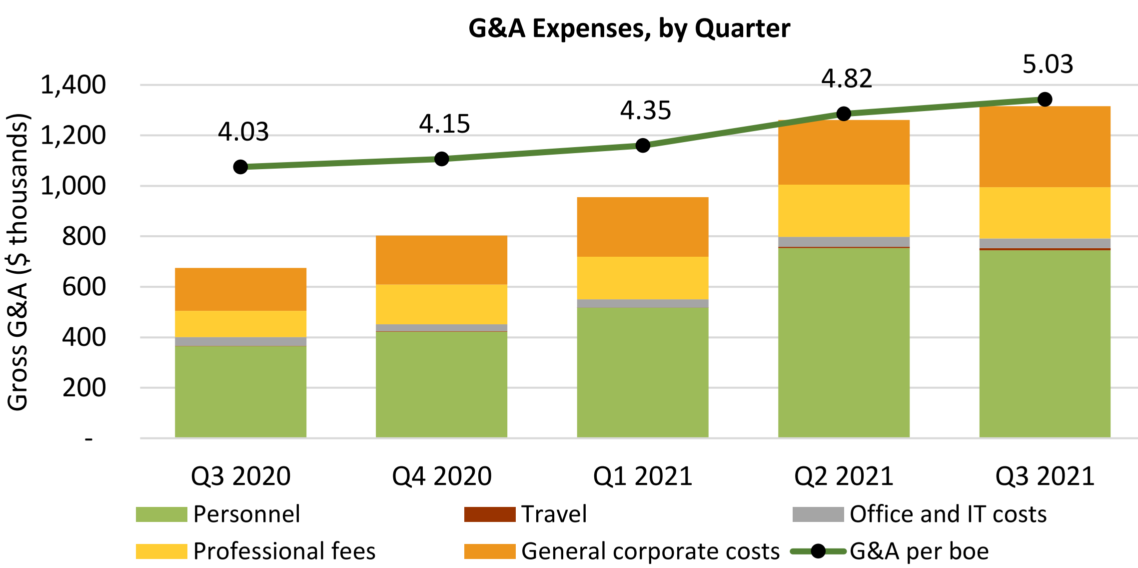
	Three months ended September 30,			Nine months ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Tax recoveries from ongoing operations	**508**	-	-	**508**	-
Retroactive tax credits	**390**	-	-	**390**	-
Interest	**9**	16	(44)	**14**	19
Water disposal and other	**8**	(2)	-	**18**	39
Total Other Income	**915**	14	6,436	**930**	58

In the three months ended September 30, 2021, the Company reported other income of $0.9 million, largely with respect to tax credits and recoveries. Of the $0.9 million recognized, $0.4 million is in respect of a change in tax legislation applicable to historical amounts claimed. Other income also includes interest income on cash balances and water disposal revenue.

General and Administrative ("G&A") Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,	
G&A Expenses, by type:	**2021**	2020	Change (%)	**2021**	2020
Personnel	**745**	365	104	**2,015**	2,173
Travel	**8**	1	700	**15**	14
Office and IT costs	**39**	35	11	**110**	88
Professional fees	**203**	104	95	**579**	262
General corporate costs	**321**	170	89	**813**	458
Gross G&A	**1,316**	675	95	**3,532**	2,995
Capitalized G&A	**(177)**	(21)	743	**(506)**	(669)
G&A expenses	**1,139**	654	74	**3,026**	2,326
$ per boe	**5.03**	4.03	25	**4.75**	14.14

The gross G&A expenses increases in the three and nine months ended September 30, 2021, compared to the same periods in 2021 were due mainly to increased personnel costs with increased activity levels, increased professional fees and general corporate costs (which includes public company costs, directors' fees, insurance and other costs). Gross G&A this quarter was consistent with Q2 2021 gross G&A of $1.3 million.



Funds Flow from Operations and Cash Flow From Operating Activities

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Cash flows from operating activities	**7,234**	1,971	267	**17,203**	(63)
Per share – basic ($)	**0.22**	0.06	267	**0.52**	(0.00)
Per share – diluted ($)	**0.20**	0.06	233	**0.50**	(0.00)
Funds flow from operations(1)	**7,930**	3,610	120	**18,157**	1,964
Per share – basic ($)	**0.24**	0.11	118	**0.55**	0.06
Per share – diluted ($)	**0.22**	0.11	100	**0.52**	0.06

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

The Company recognized funds flow from operations of $7.9 million and cash flows from operations of $7.2 million in the third quarter of 2021, an improvement of $4.3 million and $5.3 million, respectively from the same periods in 2020 due mainly to higher revenues, and, in the case of cash flows from operating activities, additional cash flows from changes in non-cash working capital.

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. Foreign exchange rates for the reporting periods as specified are as follows:

	As at			% Appreciation (Depreciation) of BRL/CAD to USD	
	September 30, 2021	June 30, 2021	December 31, 2020	**Q3 2021**	**YTD 2021**
Rate at end of period:					
$1 USD = BRL	**5.439**	5.002	5.197	**(9)**	**(5)**
$1 USD = CAD	**1.274**	1.239	1.273	**(3)**	**(0)**

	Three Months Ended September 30,		Nine Months Ended September 30,		% Appreciation (Depreciation) of BRL/CAD to USD	
	2021	2020	**2021**	2020	**Q3**	**YTD**
Average rate in the period:						
$1 USD = BRL	**5.229**	5.377	**5.332**	5.079	**3**	**(5)**
$1 USD = CAD	**1.260**	1.332	**1.251**	1.353	**5**	**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 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 9% from June 30, 2021, and 5% from December 31, 2020, resulting in exchange losses recognized in other comprehensive income.

Foreign exchange fluctuations on USD-denominated amounts advanced to the Brazilian subsidiaries are recorded in exchange gains or losses on translation of foreign operations and included in other comprehensive income (loss), 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 $1.5 million of foreign exchange losses in the three months ended September 30, 2021, and $1.2 million in the nine months ended

September 30, 2021, with respect to fluctuations in foreign exchange on intercompany amounts anticipated to be repaid (September 30, 2020 - $nil).

As discussed above, the Company is exposed to foreign exchange fluctuations on its natural gas revenues. With respect to Alvopetro's natural gas price reset on February 1, 2021 and August 1, 2021 the price determined in BRL was based on average historical exchange rates of 5.38 and 5.39, respectively. In the three months ended September 30, 2021, the actual average rate was 5.23, a 3% appreciation compared to rates in the natural gas price determinations effective February 1, 2021 and August 1, 2021. 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,	
	2021	2020	**2021**	2020
Increase (Decrease) to Natural Gas Revenues from:				
5% Appreciation of BRL to USD	**483**	263	**1,210**	263
10% Appreciation of BRL to USD	**1,019**	555	**2,555**	555
5% Depreciation of BRL to USD	**(437)**	(238)	**(1,095)**	(238)
10% Depreciation of BRL to USD	**(834)**	(454)	**(2,090)**	(454)

To manage exposure to foreign exchange volatility with respect to the BRL, the Company has periodically entered into BRL/USD forward exchange rate contracts. As of September 30, 2021, the Company has a total of BRL3.9 million of forward exchange contracts with settlements based on fixed rates between 5.07 and 5.59 and settlement dates occurring until December 2021. The Company recognizes 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 earnings. Realized gains or losses are recognized in the period the contracts are settled. The fair value of the risk management contracts as at September 30, 2021 was an asset of $0.02 million (December 31, 2020 – liability of $0.01 million), recognized in trade and other receivables. The realized and unrealized losses and gains are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	**2021**	2020
Realized (losses) gains	**(24)**	-	**(35)**	-
Unrealized gains	**139**	-	**42**	-
Total gain	**115**	-	**7**	-

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,	
	2021	2020	Change (%)	**2021**	2020
Depletion and depreciation on PP&E	**2,406**	694	247	**5,697**	314
Depreciation of right of use assets	**261**	237	(10)	**736**	729
Depletion and depreciation expense	**2,667**	931	186	**6,433**	1,043
$ per boe	**11.79**	5.74	105	**10.10**	6.34

Depletion and depreciation expense increased in 2021 compared to all periods in 2020 as a result of increased production volumes and increased depletable base following the transfer of the carrying value of the Gomo/Murucututu natural gas asset to PP&E in the first quarter of 2021.

Impairment

The impairment in 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.

Share-Based Compensation Expense

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Share based compensation expense	**120**	74	62	**301**	141

Share-based compensation expense is a non-cash expense 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. At September 30, 2021, 1.4 million stock options, 0.3 million RSUs and 0.2 million DSUs were outstanding compared to 2.1 million stock options, 0.3 million RSUs and no DSUs at September 30, 2020. As a result of the RSUs granted later in the third quarter of 2020 and the DSUs granted in the second quarter of 2021 along with higher exercise prices for new stock options granted, overall share-based compensation expense increased in 2021.

Finance Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Lease interest	**364**	353	3	**1,050**	356
Accretion on decommissioning liabilities	**17**	14	21	**59**	56
Amortization of deferred financing costs	**161**	147	10	**479**	474
Interest on Credit Facility	**144**	482	(70)	**925**	1,192
Gross finance expenses	**686**	996	(31)	**2,513**	2,078
Capitalized to E&E and PP&E	**-**	-	-	**-**	(737)
Finance expenses	**686**	996	(31)	**2,513**	1,341

Interest calculated on the Credit Facility includes cash interest paid monthly and interest in kind (PIK) payable upon repayment of amounts drawn. The PIK interest was eliminated effective April 15, 2021. Up to October 8, 2020, interest on the credit facility also included commitment fees, payable monthly, for any undrawn amounts. Overall finance expenses decreased in the third quarter of 2021 compared to the same period in 2020 due the reduction in the PIK interest and as Alvopetro repaid a total of $9.0 million on the Credit Facility to date in 2021. The increase to finance expense in the nine months ended September 30, 2021 compared to 2020 is related to interest on capital leases due to the commencement of the capital lease with Enerflex at the end of the second quarter of 2020.

The portion of interest on the Credit Facility and the amortization of deferred financing costs directly attributable to eligible PP&E and E&E activities was capitalized to those assets in 2020.

Income Tax Expense

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Current income tax expense	**79**	-	-	**374**	-
Deferred income tax expense (recovery)	**1,288**	(4,893)	(126)	**3,820**	(4,893)
Total	**1,367**	(4,893)	(128)	**4,194**	(4,893)

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 the third quarter of 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%. 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 benefit of the SUDENE incentive was recognized for the 2021 taxation year in the three months ended September 30, 2021. For the nine months ended September 30, 2021, current tax expense, after reflecting the SUDENE benefit, is estimated at $0.4 million.

With respect to deferred tax, as Alvopetro expects the majority of temporary differences to reverse during the SUDENE period, Alvopetro has estimated the future tax rate applicable to temporary differences based on the SUDENE rate of 15.25%. As the Company had a deferred tax asset balance on January 1, 2020 of $4.6 million, the impact of the rate reduction from the statutory tax of 34% to the SUDENE rate of 15.25% results in a deferred tax expense in 2021 of $2.5 million, resulting in a higher overall effective tax rate in both the three and nine months ended September 30, 2021 of 48% and 51%, respectively, due to this adjustment.

The Company also recognized a previously unrecognized deferred tax asset of $3.2 million on intercompany loans expected to be repaid in the foreseeable future. As such amounts were previously recognized in other comprehensive income (loss) for accounting purposes, the deferred tax asset was also recognized in other comprehensive income with no benefit recognized through deferred tax expense.

Net Income

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2021	2020	Change (%)	**2021**	2020
Net income	**1,490**	6,483	(77)	**4,039**	2,952
Per share – basic ($)	**0.05**	0.20	(75)	**0.12**	0.09
Per share – diluted ($)	**0.04**	0.19	(79)	**0.12**	0.08

The Company reported net income of $1.5 million in the three months ended September 30, 2021, a decrease of $5.0 million compared to the third quarter of 2020 due to foreign exchange losses of $1.8 million, mainly on intercompany loan amounts and recognition of tax expense of $1.4 million, compared to a tax recovery in the 2020 period of $4.9 million. In the nine months ended September 30, 2021, net income increased $1.1 million with improved funds flow from operations, partially offset by increased depletion and depreciation, foreign exchange losses and overall tax expense.

Capital Expenditures

Capital Expenditures by Type	Three Months Ended September 30, 2021	2020	Nine Months Ended September 30, 2021	2020
E&E				
Drilling and completions	**108**	15	**471**	213
Facility & equipment	**5**	2	**17**	26
Land, lease, and similar payments	**2**	22	**8**	34
Inventory purchases	**21**	46	**526**	46
Capitalized G&A	**61**	21	**214**	178
Capitalized finance expense	**-**	-	**-**	114
Total E&E	**197**	106	**1,236**	611
PP&E				
Facility & equipment	**550**	-	**1,065**	1,629
Drilling & completion	**10**	-	**182**	-
Land, lease and similar payments	**9**	-	**21**	5
Furniture & fixtures	**9**	1	**27**	3
Capitalized G&A	**116**	-	**292**	491
Capitalized finance expense	**-**	-	**-**	623
Other	**370**	-	**220**	-
Total PP&E	**1,064**	1	**1,807**	2,751
Total Capital Expenditures by Type(1)	**1,261**	107	**3,043**	3,362

Capital Expenditures by Property	Three Months Ended September 30, 2021	2020	Nine Months Ended September 30, 2021	2020
E&E				
Blocks 182, 183, & 197	**176**	60	**710**	565
Inventory	**21**	46	**526**	46
Total E&E	**197**	106	**1,236**	611
PP&E				
Caburé and associated midstream assets	**13**	-	**30**	2,748
Murucututu/Gomo (Blocks 183, 197)	**669**	-	**1,546**	-
Bom Lugar	**4**	-	**8**	-
Corporate & other	**378**	1	**223**	3
Total PP&E	**1,064**	1	**1,807**	2,751
Total Capital Expenditures by Property(1)	**1,261**	107	**3,043**	3,362

(1) Includes non-cash capital expenditures of $0.4 million for the nine months ended September 30, 2020.

Capital expenditures in the second quarter included $0.6 million on the Murucututu/Gomo project relating to construction of the pipeline to connect the 183(1) well to the Caburé transfer pipeline. Construction on the pipeline commenced in July. An additional $0.1 million was incurred for the Company's two upcoming exploration wells (183-B1 and 182-C1) and capitalized G&A of $0.2 million.

Summary of Quarterly Results

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Financial								
Natural gas, oil and condensate sales	**9,963**	8,182	6,939	5,887	5,320	40	61	65
Net income (loss)	**1,490**	3,637	(1,088)	2,754	6,483	(1,168)	(2,363)	(1,086)
Per share – basic ($)	**0.05**	0.11	(0.03)	0.08	0.20	(0.04)	(0.07)	(0.03)
Per share – diluted ($)	**0.04**	0.11	(0.03)	0.08	0.19	(0.04)	(0.07)	(0.03)
Cash flows from operating activities	**7,234**	5,665	4,304	3,124	1,971	(1,130)	(904)	(611)
Per share – basic ($)	**0.22**	0.17	0.13	0.09	0.06	(0.03)	(0.03)	(0.02)
Per share diluted ($)(1)	**0.20**	0.16	0.13	0.09	0.06	(0.03)	(0.03)	(0.02)
Funds flow from operations (2)	**7,930**	5,471	4,756	4,252	3,610	(1,009)	(637)	(713)
Per share – basic ($)	**0.24**	0.16	0.14	0.13	0.11	(0.03)	(0.03)	(0.02)
Per share diluted ($)(1)	**0.22**	0.16	0.14	0.13	0.11	(0.03)	(0.03)	(0.02)
Capital expenditures(3)	**1,261**	918	864	452	107	1,645	1,610	6,999
Operations								
Average realized prices:								
Natural gas ($/mcf)	**7.07**	6.06	5.68	5.36	5.37	-	-	-
NGL – condensate ($/bbl)	**79.36**	74.47	64.41	46.97	44.75	37.27	70.54	69.14
Oil ($/bbl)	**61.11**	59.63	-	-	-	30.25	50.66	51.60
Average Foreign Exchange ($1 USD = BRL)	**5.229**	5.291	5.483	5.392	5.377	5.385	4.466	4.116
Operating netback ($/boe) (2)								
Realized sales price ($/boe)	**44.04**	38.08	35.45	32.82	32.79	31.13	60.10	57.93
Royalties	**(4.02)**	(2.82)	(3.30)	(1.51)	(2.81)	(3.89)	(7.88)	(8.91)
Production expenses	**(3.64)**	(3.68)	(3.63)	(3.39)	(3.99)	(28.02)	(43.35)	(45.45)
Operating netback	**36.38**	31.58	28.52	27.92	25.99	(0.78)	8.87	3.57
Average daily sales:								
Natural gas (mcfpd)	**14,102**	13,512	12,464	11,163	10,105	-	-	-
NGL – condensate (bopd)	**107**	105	98	89	79	2	5	4
Oil (bopd)	**2**	5	-	-	-	12	6	8
Total average daily sales (boepd)	**2,459**	2,361	2,175	1,950	1,764	14	11	12

Notes:

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

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

Natural gas, oil and condensate sales increased $1.8 million in the third quarter of 2021 compared to the second quarter of 2021 due to the 16% increase in the average realized sales price per boe and the 4% increase in the average daily sales volumes. Net income decreased $2.1 million from the second quarter despite improved funds flow from operations due to the recognition of an unrealized foreign exchange loss of $1.8 million compared to a gain in the second quarter of $2.8 million. In all quarters prior to the third quarter of 2020 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 these prior periods.

The operating netback improved to $36.38 per boe, an increase of $4.80 per boe, due to the increased realized sales price, partially offset by increased royalties.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at September 30, 2021:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments(1)				
Block 183	613	-	-	613
Bom Lugar	-	64	-	64
Mãe-da-lua	-	-	64	64
Minimum work commitments	613	64	64	741
Gas Treatment Agreement	1,247	3,054	8,781	13,082
Total commitments	**1,860**	**3,118**	**8,845**	**13,823**

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.

Amounts presented above for the Gas Treatment Agreement represent the monthly service fees for operation and maintenance of the Facility and Alvopetro's 11-kilometre transfer pipeline and expected monthly costs associated with the facility expansion expected to be completed in June 2022. Once the facility expansion is completed, it is expected such amounts will be treated as capital lease obligation and reflected on the consolidated statements of financial position.

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 which is secured by all of Alvopetro's assets and was originally set to mature on October 8, 2022. During the three months ended June 30, 2021, the Credit Facility was amended to extend the maturity date to October 8, 2023. The Credit Facility is subject to cash interest of 9.5% per annum, payable monthly, and originally an additional PIK interest at a rate of 3.0% per annum until April 15, 2021 when it was eliminated. Amounts drawn under the Credit Facility are repayable at maturity, however amounts may be repaid in part or full at Alvopetro's option without penalty. Alvopetro has repaid a total of $9.0 million to date in 2021, bringing the balance outstanding to $6.5 million as of September 30, 2021.

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

Under the terms of the Credit Facility, Alvopetro must comply with financial covenants as of December 31, 2020, being a minimum debt service ratio of 1.30 and a maximum leverage ratio of 2.25. For the period ended September 30, 2021, the covenants are computed for the period October 1, 2020 to September 30, 2021 and determined as follows:

Covenant	Covenant threshold	September 30, 2021	December 31, 2020
Debt Service Ratio	Minimum of 1.30:1	**4.94:1**	3.57:1
Leverage Ratio	Maximum of 2.25:1	**(0.06):1**	1.33:1

Debt Service Ratio is computed based on the "Adjusted Consolidated EBITDA" to "Consolidated Debt Service". Both Adjusted Consolidated EBITDA and Consolidated Debt Service are defined terms in the Credit Facility agreement. Adjusted Consolidated EBITDA is "Consolidated EBITDA" decreased by income taxes, capital expenditures, dividends and share repurchases in the period and increased or decreased by the net change in non-cash working capital in the period. Consolidated EBITDA is defined in the Credit Facility and is reconciled to net income by adding back depletion, depreciation, impairment, finance expenses, taxes, share based compensation, unrealized gains and losses and other non-cash items. In addition, for all periods commencing on July 1, 2020 (being those covenant calculations ending on December 31, 2020, March 31, 2021 and June 30, 2021), Adjusted Consolidated EBITDA was increased by the Company's cash and cash equivalents as of June 30, 2020. Consolidated Debt Service is defined to include all interest and principal payments on the Company's outstanding debt and capital lease obligations for the period.

The Leverage Ratio is computed as the ratio of "Adjusted Consolidated Indebtedness" to "Consolidated EBITDA". Adjusted Consolidated Indebtedness includes all debt of the Company reduced by the portion of debt attributable to the capital lease obligation outstanding to Enerflex and the unrestricted cash balance.

The Company is in compliance with all financial and non-financial covenants as of September 30, 2021.

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 at that time. 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 liabilities as at September 30, 2021. Additional lease liabilities outstanding relate to office space in Canada and Brazil and surface land access for our midstream assets. In the third quarter of 2021 Alvopetro notified Enerflex to increase the operational capacity of the Facility to 500,000 m3/d under the terms of the existing Gas Treatment Agreement. The additional firm capacity is expected to be available by June 1, 2022 and, once available, it is expected to be reflected as an increased lease liability.

The Company's lease liabilities are as follows:

	As at	
	September 30, 2021	December 31, 2020
Lease liabilities, beginning of period	**8,310**	163
Additions	**177**	8,494
Finance expense	**1,050**	706
Lease payments	**(1,382)**	(1,014)
Foreign currency translation	**(64)**	(39)
Lease liabilities, end of period	**8,091**	8,310
Current	**496**	483
Non-current	**7,595**	7,827
Total, end of period	**8,091**	8,310

Cash and Working Capital

At September 30, 2021, Alvopetro's cash and cash equivalents of $8.1 million and its restricted cash of $0.2 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	3,012	2,485	527	-
Cash held in Brazil	5,072	-	-	5,072
Restricted cash - current	155	-	-	155
Total	**8,239**	**2,485**	**527**	**5,086**

(1) Amounts in the table above denote the U.S. dollar equivalent as at September 30, 2021.

The Company had cash of $8.1 million and a total net working capital surplus of $6.8 million at September 30, 2021. Positive cash flows from natural gas deliveries and associated condensate sales sufficient to fund the Company's operational activities, planned capital projects are expected going forward. In addition, the Company expects to have sufficient cash flows to fund future dividends, following the Board of Director's decision to commence quarterly dividends in the third quarter of 2021. However, the Company is exposed to a variety of risks which may adversely impact future cash flows. The Company manages this risk 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 Company has flexibility on future capital plans, other than with respect to work commitments and the Board of Directors has discretion with respect to any future dividend amounts.

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, 2021, the total amount of LCs issued under the credit support facility was $0.6 million (December 31, 2020 - $0.6 million), the full balance of which was satisfied by EDC. The Company has a restricted cash balance of $0.2 million as at September 30, 2021 (December 31, 2020 - $0.1 million) primarily in respect of abandonment guarantees on the Company's oil fields.

The liability for decommissioning obligations of Alvopetro was $0.9 million as at September 30, 2021, 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, 2021, the Company had $1.6 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.

Dividend Initiation

During the third quarter of 2021, Alvopetro initiated a quarterly dividend program, with the first dividend of $0.06 per common share declared by the board of directors (the "Board") on September 21, 2021 to shareholders of record on September 29, 2021 and paid subsequent to the end of the quarter, on October 15, 2021. The dividend is designated as an "eligible dividend" 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 objective to balance spending from cash flows on reinvestment in growth opportunities with stakeholder returns. 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 a variety of factors. There can be no assurance that dividends will be paid at the intended rate or at any rate in the future.

Share Restructuring

On September 7, 2021, Alvopetro completed a share restructuring, which involved a 2,100 to 1 share consolidation followed immediately by a 1 to 700 share split, for an effective consolidation of 3:1. Shareholders who held less than 2,100 common shares at the close of business on September 3, 2021 were entitled to receive a cash payment in exchange for their common shares equal to C$1.12 per common share, based on the volume weighted average trading price of the common shares on the TSX Venture Exchange during the five consecutive trading days ending on and including September 3, 2021. Pursuant to the restructuring, a total of 1,265,306 common shares were repurchased for a total cost of $1.1 million and the remaining shares were consolidated on an effective 3:1 basis. Alvopetro's common shares decreased from a total of 99.8 million shares outstanding immediately prior to the restructuring to 32.9 million shares outstanding immediately thereafter.

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 9, 2021, there were 33,776,284 common shares outstanding, 1,273,775 stock options outstanding, 300,000 RSUs, 166,665 DSUs outstanding and 2,685,956 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; 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,**	
	2021	2020	**2021**	2020
Cash flows from operating activities	**7,234**	1,971	**17,203**	(63)
Add back changes in non-cash working capital	**696**	1,639	**954**	2,027
Funds flow from operations	**7,930**	3,610	**18,157**	1,964

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 flows from operating activities per share and funds flow from operations per share is as follows:

$ per share	Three Months Ended September 30, 2021	2020	Nine Months Ended September 30, 2021	2020
Per basic share:				
Cash flows from operating activities	**0.22**	0.06	**0.52**	(0.00)
Funds flow from operations	**0.24**	0.11	**0.55**	0.06
Per diluted share:				
Cash flows from operating activities	**0.20**	0.06	**0.50**	(0.00)
Funds flow from operations	**0.22**	0.11	**0.52**	0.06

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, 2021	2020
Total current assets	**13,201**	5,436
Total current liabilities	**(6,362)**	(3,203)
Net working capital surplus	**6,839**	2,233

Working Capital Net of Debt (Net 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 debt position and borrowing capacity. As of September 30, 2021, Alvopetro's net working capital surplus exceeds the balance outstanding on the Credit Facility.

	As at September 30, 2021	2020
Net working capital surplus	**6,839**	2,233
Credit Facility, balance outstanding	**(6,545)**	(15,336)
Working capital, net of debt (net debt)	**294**	(13,103)

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 less royalties, and production and transportation costs on a per unit (barrel of oil equivalent) basis. This calculation is provided in the "Operating Netback "Section of this MD&A using our IFRS measures.

RISKS AND UNCERTAINTIES

Alvopetro is exposed to a variety of risks including, but not limited to: market risk, operational risks, foreign operations risk, liquidity and financing risk, reservoir performance risk, legal and regulatory risks including the impact of new and stricter environmental regulations and competitive risks within the oil and gas industry. In addition, the impact of the COVID-19 pandemic increases our exposure to certain of these risks. 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.sedar.com and in our MD&A for the year-ended December 31, 2020. There have been no significant changes in the three and nine months ended September 30, 2021 to the risks and uncertainties identified in the MD&A and Annual information Form for the year-ended December 31, 2020.

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, 2021 are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2020.

Income Taxes – SUDENE benefit

In the three months ended September 30, 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%. 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 SUDENE incentive is recognized in consolidated statements of operations and comprehensive income (loss) through a reduction in tax expense.

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.*

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 dividends, future capital and operating costs, the expected timing and outcomes of certain of Alvopetro's testing activities, future production and sales volumes, 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 success of future drilling, completion, recompletion and development activities, the outlook for commodity markets and ability to access capital markets, the impact of the COVID-19 pandemic, the performance of producing wells and reservoirs, well development and operating performance, the timing of regulatory licenses and approvals, 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 2020 MD&A and 2020 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
CAD	=	CAD dollar
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
Q2 2021	=	three months ended June 30, 2021
Q3 2020	=	three months ended September 30, 2020

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.