The following Management's Discussion and Analysis ("MD&A") is dated March 19, 2020 and should be read in conjunction with the audited consolidated financial statements and accompanying notes of Alvopetro Energy Ltd. ("Alvopetro" or the "Company") 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, hydrocarbons in the Recôncavo basin onshore Brazil. Alvopetro holds interests in the Caburé and Gomo natural gas assets, two oil fields and one other exploration block comprising 23,527 acres (gross and net) onshore Brazil.

Strategy

Alvopetro's strategy is to unlock the on-shore natural gas potential in the state of Bahia, building off the development of our Caburé and Gomo natural gas assets and the construction of strategic midstream infrastructure. We are creating an upstream/midstream hybrid corporate vehicle to provide sustainable returns to our stakeholders while reinvesting in a disciplined manner in our high impact upstream assets. Our plan is to create a 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.

SELECTED QUARTERLY RESULTS

	As at and Three Months Ended December 31,		As at and Twelve Months Ended December 31,	
	2019	**2018**	**2019**	**2018**
Financial				
($000s, except where noted)				
Oil and condensate sales	**65**	62	**240**	519
Net loss	**(1,086)**	(1,445)	**(5,011)**	(4,340)
Per share – basic and diluted ($)[1]	**(0.01)**	(0.02)	**(0.05)**	(0.05)
Funds flow from operations [2]	**(747)**	(821)	**(2,862)**	(3,266)
Per share – basic and diluted ($)[1]	**(0.01)**	(0.01)	**(0.03)**	(0.04)
Capital expenditures[3]	**6,999**	1,249	**12,671**	5,344
Total assets	**71,416**	65,372	**71,416**	65,372
Cash and cash equivalents	**1,215**	7,070	**1,215**	7,070
Net working capital (deficit) surplus[2], [4]	**(6,701)**	6,729	**(6,701)**	6,729
Credit facility – balance outstanding	**5,027**	-	**5,027**	-
Common shares outstanding, end of year (000s)				
Basic	**97,850**	96,671	**97,850**	96,671
Diluted [1]	**115,121**	107,528	**115,121**	107,528
Operations				
Operating netback ($/bbl) [2]				
Brent benchmark price	**62.51**	68.08	**64.17**	71.53
Discount	**(4.58)**	(8.23)	**(6.68)**	(4.36)
Sales price	**57.93**	59.85	**57.49**	67.17
Transportation expenses	**-**	(0.97)	**-**	(1.68)
Realized sales price	**57.93**	58.88	**57.49**	65.49
Royalties and production taxes	**(8.91)**	(9.65)	**(8.14)**	(7.12)
Production expenses	**(45.45)**	(229.73)	**(66.11)**	(108.71)
Operating netback	**3.57**	(180.50)	**(16.76)**	(50.34)
Average daily crude oil and natural gas liquids sales (bbls/d)	**12**	11	**11**	21

Notes:

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

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

(3) Includes non-cash capital expenditures of $2.6 million and $3.2 million in the three months and twelve months ended December 31, 2019, respectively (December 31, 2018 - $0.6 million and $2.7 million).

(4) Includes Other Liabilities of $5.7 million as of December 31, 2019 (reclassified as current liabilities in 2019).

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE FOURTH QUARTER OF 2019

- The Company entered into a $15 million Credit Agreement (the "Credit Facility") and all funding conditions were met on October 8, 2019, with $13 million available initially and the final $2 million available upon first sales from the Caburé natural gas field. A total of $5.0 million was drawn on the Credit Facility in the fourth quarter. In connection with the financing, the Company incurred a total of $1.1 million in cash transaction costs and issued 8.4 million share purchase warrants with an exercise price of $0.60 per share.
- Development of the Company's Caburé natural gas field continued during the fourth quarter. Joint unit development in the period included drilling a third development well and construction of high pressure production facilities. All remaining upstream field development work was completed in January 2020. On the Company's midstream project, construction of our 11-kilometre transfer pipeline was virtually complete by December 31, 2019 and installation and assembly of the gas treatment facility progressed through the fourth quarter. Total capital expenditures of $4.9 million were incurred on these projects in the fourth quarter, $2.6 million relating to joint unit development costs payable to our partner in 2020.
- The Company stimulated the 183(1) well in the fourth quarter, incurring costs of $1.5 million. The well was shut-in at the end of January 2020 for an extended pressure build-up. Pressure transient analysis is expected near the beginning of the second quarter 2020.
- Our sales volumes averaged 12 bbls/d in the quarter including 4 bbls/d in natural gas liquids (condensate) sales from the Caburé unit and 8 bbls/d of oil from the Mãe-da-lua field. With reduced production expenses in the fourth quarter, the Company realized an operating netback of $3.57/bbl.
- We reported a net loss of $1.1 million, primarily due to $0.7 million in negative funds flow from operations and finance expenses of $0.2 million, primarily under the Credit Facility.

ADDITIONAL HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR 2019

- Activities in 2019 were focused on development of the Company's Caburé natural gas field and related midstream infrastructure, including joint unit development activities (drilling development wells, tie-in of existing and new wells, and construction of high-pressure facilities) and construction of Alvopetro's 11-kilometre transfer pipeline and gas treatment facility.
- Capital expenditures of $12.7 million in 2019 included Alvopetro's share of joint unit development costs of $3.8 million, $3.0 million for construction of the transfer pipeline, $1.5 million in costs for the gas treatment facility, $1.2 million in expenditures for drilling the commitment well on Block 57, $1.5 million for stimulation and testing activities on the 183(1) well and capitalized G&A of $1.0 million.
- The net loss of $5.0 million in 2019 included impairment charges of $1.6 million, primarily on Block 57.

RECENT HIGHLIGHTS

- On March 9, 2020, Alvopetro announced its reserves at December 31, 2019 with total proved plus probable ("2P") reserves of 7.9 mmboe and a before tax value discounted at 10% of $198.2 million, representing increases of 30% and 37%, respectively, from the Company's December 31, 2018 reserves. The reserves data is based on an independent reserve assessment and evaluation prepared by GLJ Petroleum Consultants ("GLJ") dated March 6, 2020, with an effective date of December 31, 2019 (the "GLJ Report").

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at December 31, 2019, 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.

Property, plant and equipment ("PP&E") Assets

Field	Gross Acres	Current Phase Expiry	PP&E balance December 31, 2019 ($000's)	Net Present Value of 2P Reserves[1] ($000's)	Commitment ($000's)[2]
Caburé[3]	4,826	December 5, 2043 and May 12, 2044	27,725	5,668	-
Bom Lugar	2,238	July 10, 2023	3,002	166,679	87
Mãe-da-lua	432	February 22, 2044	-	396	87
TOTAL – ALL PP&E FIELDS[3]			**30,727**	**172,743**	**174**

(1) Represents the reserves of Alvopetro for the associated fields and the before-tax net present value of future net revenue attributable to such reserves, discounted at 10%, as evaluated by GLJ in the GLJ Report as of December 31, 2019, based on forecast price and cost assumptions. The net present value of future net revenue attributable to Alvopetro's reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures, well abandonment and reclamation costs for only those wells assigned reserves and material dedicated gathering systems and facilities. The net present values of future net revenue attributable to the Alvopetro's reserves estimated by GLJ do not represent the fair market value of those reserves. The recovery and reserve estimates of the Company's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.

(2) The Company is required to post abandonment guarantees with respect to its producing fields. The abandonment guarantees are posted locally in Brazil. There is a total of $0.15 million of restricted cash relating to these abandonment guarantees as at December 31, 2019.

(3) References to Caburé or the Caburé natural gas field throughout this MD&A refer collectively to the Caburé field and Caburé Leste field. Both fields are in the Development and Production Phase with expiry dates of December 5, 2043 and May 12, 2044 respectively.

(4) The total PP&E balance reflected in the table above excludes $0.2 million of corporate and other assets, including office furniture and fixtures, computer equipment, and operational equipment for use on projects.

Exploration and evaluation ("E&E") assets

Block	Gross Acres	Current Phase Expiry	E&E balance December 31, 2019 ($000's)	Estimated Commitment[1] ($000's)	Letter of Credit Support[2] ($000's)
182	4,807	Suspension in place[3]	697	-	
183	7,740	April 14, 2020 & suspension[4]	13,960	827	1,233
197	3,484	Suspension in place[4]	19,579	-	-
TOTAL – ALL EXPLORATION BLOCKS[5]			**34,236**	**827**	**1,233**

(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. Total LCs outstanding at December 31, 2019 include an additional $3.7 million in respect of Blocks 57, 69 and 255 not reflected in the table above. Block 57 was relinquished in 2019 and the work commitment was approved by the ANP, however the related LC was not released by all banks until March 2020. Concession contracts for Blocks 169 and 255 were terminated with the ANP and all commitments cancelled in 2019; however, the related LCs were not released by all banks until March 2020. As of December 31, 2019, there was also $0.1 million of restricted cash posted as collateral with respect to Block 57 which was released in January 2020.

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

(4) Block 183 and Block 197 (excluding the portion of Block 197 attributed to the Caburé natural gas field) are part of the Gomo gas project. A portion of Block 183 is currently in the PAD phase with an expiry date of April 14, 2020. Alvopetro is in the process of requesting an extension to the PAD. The remainder of the block is in the second exploration phase and is currently in suspension due to the lack of an environmental permit. Following receipt of the permit, Alvopetro will have 517 days until the phase expiry date. Block 197 is currently in the PAD phase. In 2017, the ANP approved the suspension of the PAD pending receipt of environmental permits for stimulation of the 197(1) well.

(5) The total E&E balance reflected in the table above excludes $1.7 million of other assets classified as E&E as at December 31, 2019, largely relating to equipment inventory.

NATURAL GAS ASSETS:

Alvopetro holds interests in two main natural gas assets within Brazil: the Caburé natural gas field and our Gomo natural gas project.

Caburé Natural Gas Field:

Alvopetro's Caburé natural gas field and Caburé Leste natural gas field, collectively referred to as the Caburé natural gas field throughout this MD&A, extend across four blocks in the Recôncavo basin in Bahia state in Brazil, two of which are held by Alvopetro (Blocks 197 and 198) and two of which are held by our partner (Blocks 211 and 212), with Alvopetro's share of the unitized area being 49.1% and our operating partner's share being 50.9% In 2019, three development wells were drilled, one of which was an exploration commitment well drilled by our partner at their cost. Six of the seven existing wells in the unit are tied-in. Construction of the low-pressure production facilities was completed in 2018 and construction of the high-pressure production facilities was underway in the fourth quarter of 2019 and completed in January 2020. The field has a planned gross field production plateau rate of 15.9 mmcfpd (450,000 m3/d) when Alvopetro commences production allocations.

Under the terms of the Unit Operating Agreement ("UOA"), each party will be entitled to nominate for their working interest share of field production and for any natural gas not nominated by the other party. Once a party produces their share 2P reserves, they will no longer be entitled to further production allocations. Our partner is entitled to 100% of the early field production (allocated against their share of 2P reserves). From when the field commenced production in September 2018, a total of 1,447 mmcf of natural gas has been produced to March 18, 2020 against our partner's share of 2P reserves. In exchange for entitlement to the early field production, our partner agreed to initially fund the majority of the unit development capital, with Alvopetro's share due in the second quarter of 2020. Alvopetro's share of the unit development capital incurred to December 31, 2019 (and carried by our partner) is $5.7 million (net of inventory and equipment transferred by Alvopetro to the unit and cash calls paid by Alvopetro in 2019), reported as other liabilities in the consolidated statement of financial position. 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. Therefore, the Company is entitled to its share of NGLs production from the early field production even though Alvopetro has not yet commenced natural gas production allocations. Alvopetro's share of condensate sales averaged 3 bbls/d in 2019.

Costs incurred to date on the Caburé field include drilling and testing Alvopetro's original wells on this field (the 197(2) and 198(A1) wells), Alvopetro's share of joint unit development costs undertaken in 2018 and 2019, costs associated with Alvopetro's midstream infrastructure (including construction of the transfer pipeline and the natural gas processing facility), along with historical costs for bid round bonuses and seismic work.

Gomo Natural Gas Project:

Alvopetro's Gomo gas project extends across Blocks 183 and 197 and includes the 183(1) and 197(1) wells, both of which were drilled in 2014. The GLJ Report assigned 2P reserves to the drainage areas around these two wells with 1.4 mmboe of assigned reserves and a before tax value discounted at 10% of $25.5 million.

Block 183 is a 9th Brazil Bid Round Block and was acquired through a farm-in agreement signed in May 2013. Alvopetro drilled one well, 183(1), on this block in October 2014 and conducted an initial test on the well in 2018. In the fourth quarter of 2019, Alvopetro commenced the stimulation and initial production test of the 183(1) well (completed in January 2020). The pressure recorders have been recovered from the wellbore and Alvopetro will now perform pressure transient analysis to assess potential longer-term productivity. To further evaluate the Company's Gomo natural gas asset, Alvopetro plans to install an 8-kilometre transfer pipeline in 2020 to tie the 183(1) well into our recently completed 11-kilometre Caburé pipeline to undertake a long-term production test from the well. The portion of Block 183 attributable to 183(1) is currently in the PAD phase which extends to April 14, 2020. Alvopetro is in the process of requesting an extension to the PAD to allow for six months of long-term production testing after construction of the planned pipeline extension. The remainder of the block is in the second exploration phase (with a commitment to drill one well) but in suspension due to lack of an environmental permit. Following receipt of the permit, Alvopetro will have 517 days prior to phase expiry to drill the well.

A portion of Block 197 is now part of the Company's Caburé natural gas field. The remainder of the block is attributable to the Gomo project and includes costs to date for drilling and testing the 197(1) well in 2014, as well as a portion of historical costs on the block including costs associated with 5.9 km^2 of 3D seismic, 122.3 km of 2D seismic and prior acquisition costs including bid round bonuses. This block is currently in the PAD phase. Work outstanding under the PAD includes a stimulation of the 197(1) well. In 2017, the ANP approved the suspension of the PAD pending receipt of the environmental permit for stimulation of the 197(1) well.

Gas Commercialization Strategy and Planned Natural Gas Development:

The Company has a long-term gas sales agreement (“GSA”) with Bahiagás which provides for the sale of 5.3 mmcfpd (150,000 m3/d) on a firm basis and up to 12.4 mmcfpd (350,000 m3/d) on an interruptible basis, adjustable by Alvopetro annually. The natural gas price to be received under the GSA is set semi-annually (in February and August) using a trailing weighted average basket of benchmark prices, with, as of December 31, 2019, a floor price of $5.21/mmbtu and a ceiling price of $8.86/mmbtu (both adjusted based on United States inflation). The forecasted 2020 price under the GSA, based on the January 1, 2020 GLJ Petroleum Consultants commodity price forecast, is $6.88/mmbtu ($8.08/mcfe). 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. Firm gas deliveries under the GSA are to commence no later than June 27, 2020 (the “Firm Start Date”). The GSA allows for interruptible volumes to commence in advance of the Firm Start Date upon mutual consent by both parties. Alvopetro expects Bahiagás to have all infrastructure in place to accept first gas in the second quarter of 2020, at which time Alvopetro plans to start natural gas deliveries from the Caburé field.

As part of Alvopetro’s midstream development, the Company has a Gas Treatment Agreement with Enerflex Ltd (“Enerflex”), pursuant to which Enerflex constructed, and will own and operate a natural gas processing facility (the “Facility”) for Alvopetro and will provide all operations and maintenance, and warranty the delivery schedule and on-stream performance of the Facility. Alvopetro will pay an integrated service fee of $2.9 million over the 10-year-term of the agreement once the Facility is operational, expected in the second quarter of 2020. Construction and installation of the Facility is complete and pre-commissioning work has commenced. As part of the midstream development, Alvopetro constructed an 11-kilometre pipeline from the Caburé unit to the Facility. Construction of the pipeline was completed in January 2020 and it is now tied-in to Caburé unit production facilities.

OIL ASSETS:

Bom Lugar field:

The Company had no production from the Bom Lugar field for the year ended December 31, 2019 (December 31, 2018 – 10 bbls/d). Following a workover and subsequent maintenance in the fourth quarter of 2018, the Company shut-in the one producing well on this field in January 2019 and plans to abandon the well in 2020 due to poor wellbore integrity. The field consists of one shut-in well, one suspended well, and one active water disposal (injector) well. The field has a production battery which is equipped with testing, water separation and trucking facilities. The Company is currently in the Development and Production Phase on this field which extends to 2023. The Company has two oil development prospects on this field, the first of which is included in the 2P reserves value assigned by GLJ in the GLJ Report and is expected to be drilled later in 2020, subject to future crude oil prices. We expect the phase expiry date of July 10, 2023 can be extended with this development and the anticipated future production.

Mãe-da-lua field:

The 182(B1) well on the Mãe-da-lua field averaged 8 bbls/d for the year ended December 31, 2019 (December 31, 2018 – 9 bbls/d). Production in 2019 was reduced due to natural declines. The field has a production battery which is equipped with testing, water separation and trucking facilities. The battery is located at the producing well. The Company has plans to stimulate this well to improve overall production, subject to future crude oil prices. This field is currently in the Development and Production Phase which extends to 2044.

OTHER EXPLORATION BLOCKS (BLOCK 182):

Block 182 was awarded in the 9th Brazil Bid Round and is currently in the PAD phase. Under the terms of the PAD, Alvopetro plans to drill one of two identified natural gas prospects on the block. Block 182 is currently in suspension pending receipt of an environmental permit. Upon receipt of the environmental permit, Alvopetro will have 278 days to complete any work prior to the new PAD expiry date.

FINANCIAL AND OPERATING REVIEW

Sales Volumes

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Total oil (bbls)	**717**	990	**2,939**	7,681
Total NGLs - condensate (bbls)	**405**	46	**1,236**	46
Total oil and NGLs (bbls)	**1,122**	1,036	**4,175**	7,727
Daily volumes (bbls/d)	**12**	11	**11**	21

Average daily oil sales volumes in the three and twelve months ended December 31, 2019 decreased compared to the same periods in 2018 mainly due to reductions at the Bom Lugar well which was shut-in early in 2019 following ongoing maintenance problems. The decrease in oil sales volumes is partially offset by NGL volumes from the Caburé unit relating to condensate production, which are split between Alvopetro and our partner, based on working interest percentage.

Oil and Condensate Sales

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Brent ($/bbl)	**62.51**	68.08	**64.17**	71.53
Discount ($/bbl)	**(4.58)**	(8.23)	**(6.68)**	(4.36)
Sales price ($/bbl)	**57.93**	59.85	**57.49**	67.17
Sales price discount as a % of Brent	**7%**	12%	**10%**	6%
Oil Sales	**37**	59	**154**	516
Condensate Sales	**28**	3	**86**	3
Oil and Condensate Sales	**65**	62	**240**	519
Transportation	**-**	(1)	**-**	(13)
Total sales, net of transportation expense	**65**	61	**240**	506
Realized price ($/bbl)	**57.93**	58.88	**57.49**	65.49

Condensate from the Caburé unit is sold pursuant to a sales contract based on Brent price plus a premium. With increased condensate sales volumes in the fourth quarter of 2019, the sales price discount declined. However, on a year-to-date basis, with no sales from the Bom Lugar field in 2019 (which had lower discounts relative to Brent) and higher contractual discounts under the Mãe-da-lua contract in 2019, the overall discounts as a percentage of Brent increased compared to 2018 for the year-ended December 31, 2019.

Oil and condensate sales decreased in the year ended December 31, 2019 compared to 2018 mainly due to the reduction in daily sales volumes and also as a result of reduced realized sales price per barrel.

Royalties and Production Taxes

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Royalties and production taxes	**10**	10	**34**	55
Percentage of sales (%)	**15.4**	16.1	**14.2**	10.6

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

All royalties are paid based on production volumes which contributes to higher royalties as a percentage of sales depending on the timing of sales relative to production. In addition, due to higher proportionate sales from the Mãe-da-lua field (which has a higher overall royalty rate), royalties as a percentage of sales increased in the year ended December 31, 2019 compared to 2018.

Royalties and production taxes include all Social Integration Program ("PIS") taxes and Social Assistance Contribution ("COFINS") paid on oil sales at a combined rate of 9.25%, offset by credits on available expenses. The Company currently has sufficient PIS and COFINS credits to offset any amounts owing.

Production Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Production expenses by type:				
Personnel costs	**22**	84	**102**	325
Other fixed costs	**25**	100	**150**	292
Variable costs	**4**	10	**24**	116
Workover costs	**-**	44	**-**	107
Total production expenses	**51**	238	**276**	840
Production expenses per barrel:				
Personnel costs	**19.60**	81.08	**24.43**	42.06
Other fixed costs	**22.28**	96.53	**35.93**	37.79
Variable costs	**3.57**	9.65	**5.75**	15.01
Workover costs	**-**	42.47	**-**	13.85
Total production expenses per bbl ($)	**45.45**	229.73	**66.11**	108.71

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

General and Administrative ("G&A") Expenses

	Three Months Ended December 31,		Year Ended December 31,	
G&A Expenses, by type:	**2019**	2018	**2019**	2018
Personnel	**614**	579	**2,524**	2,410
Travel	**22**	29	**117**	93
Office and IT costs	**20**	65	**145**	312
Professional fees	**96**	141	**371**	657
General corporate costs	**234**	116	**621**	348
Gross G&A	**986**	930	**3,778**	3,820
Capitalized G&A	**(255)**	(265)	**(985)**	(1,058)
G&A expenses	**731**	665	**2,793**	2,762

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

Funds Flow from Operations

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Funds flow from operations	**(747)**	(821)	**(2,862)**	(3,266)

Despite reduced oil and condensate sales, funds flow from operations improved in both the three and twelve months ended December 31, 2019 compared to 2018 primarily due to lower production expenses.

Foreign Exchange

The Company's reporting currency is the USD and its functional currencies are the USD and the Brazilian real ("BRL"). Substantially all costs incurred in Brazil are in 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	
	December 31, 2019	September 30, 2019	December 31, 2018	**Q4 2019**	**YTD 2019**
Rate at end of period:					
$1 USD = BRL	**4.031**	4.164	3.875	**3.2**	**(4.0)**
$1 USD = CAD	**1.299**	1.324	1.364	**1.9**	**4.8**

	Three Months Ended December 31,		Year Ended December 31,		% Appreciation (Depreciation) of BRL/CAD to USD	
	2019	2018	**2019**	2018	**Q4**	**YTD**
Average rate in the period:						
$1 USD = BRL	**4.116**	3.808	**3.946**	3.656	**(8.1)**	**(7.9)**
$1 USD = CAD	**1.320**	1.320	**1.327**	1.295	**-**	**(2.5)**

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

The assets and liabilities of Alvopetro's Brazilian subsidiaries are translated to USD at the exchange rate on the reporting period date. The income and expenses of our Brazil operations are translated to USD at the exchange rates on the date of the relevant transactions. All resulting foreign currency differences are recorded in exchange loss on translation of foreign operations in our consolidated statements of operations and comprehensive loss. In the three months ended December 31, 2019, the BRL appreciated 3%, resulting in an exchange gain of $1.1 million; however, for the year ended December 31, 2019, the BRL depreciated 4%, resulting in an exchange loss of $1.3 million.

As a significant portion of the Company's expenditures are denominated in BRL and CAD, the Company is exposed to fluctuations in these currencies relative to the USD which may have a material impact on costs in the future. The average BRL rate depreciated 8% in both the fourth quarter and for the year ended December 31, 2019, compared to 2018 and the average CAD rate was consistent in the fourth quarter but depreciated 3% for the year ended December 31, 2019, contributing to lower USD equivalent production and G&A expenses.

Share-Based Compensation Expense

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Share based compensation expense	**41**	41	**141**	95

Share-based compensation expense is a non-cash expense based on the fair value of stock options granted and amortized over the respective vesting periods. At December 31, 2019, 8.0 million stock options were outstanding compared to 7.2 million at December 31, 2018. With increased stock options outstanding in 2019 and at higher exercise prices as a result of Alvopetro's improving share price, share-based compensation expense increased in 2019.

Depletion and Depreciation

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Total Depletion and Depreciation	**63**	24	**234**	144

Depreciation includes $0.04 million and $0.17 million in the three months and year ended December 31, 2019 in respect of depreciation of right-of-use assets following the adoption of IFRS 16 on January 1, 2019, contributing to higher depletion and depreciation despite reduced sales volumes in 2019 compared to the same periods in 2018.

Impairment

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Assets held for sale	**11**	-	**37**	-
Block 57	**39**	-	**1,572**	-
Block 62	**-**	129	**-**	129
Block 71	**-**	122	**-**	122
Block 106	**-**	-	**-**	196
Block 145	**-**	105	**-**	105
Block 169	**-**	101	**-**	101
Block 255	**-**	71	**-**	71
Other	**-**	41	**36**	41
Total Impairment	**50**	569	**1,645**	765

Impairment losses in 2019 primarily relate to costs incurred to date on Block 57, including drilling costs for the 57(A1) well. The block was written down to $nil following the Company's decision to relinquish the block. An additional $0.04 million of impairment was recognized in respect of materials inventory transferred to assets held for sale on June 30, 2019 and an additional $0.04 million of impairment of land held for sale. Impairment losses in 2018 largely related to costs associated with exploration blocks that the Company relinquished in 2018 or planned to relinquish, writing down the carrying value to $nil as of December 31, 2018.

Finance Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Accretion on decommissioning liabilities	**32**	10	**52**	41
Lease interest	**3**	-	**14**	-
Amortization of deferred financing costs	**137**	-	**137**	-
Interest on Credit Facility	**132**	-	**132**	-
Gross finance expenses	**304**	10	**335**	41
Capitalized to E&E and PP&E	**(76)**	-	**(76)**	-
Finance Expenses	**228**	10	**259**	41

Finance expenses include accretion on decommissioning liabilities, effective interest on the Company's lease liabilities, interest on the Credit Facility and amortization of deferred financing costs associated with cash transaction costs and warrants issued as part of the Company's credit facility arrangement. Interest calculated on the Credit Facility includes cash interest and commitment fees paid monthly as well as accrued interest due and 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 2019 is primarily related to interest and amortization of deferred financing costs on the Company's credit facility arrangement entered into in 2019 and, to a lesser extent, effective interest on lease liabilities following the adoption of IFRS 16 on January 1, 2019.

Taxes

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. As the Company recognized a net loss in all periods, no current tax expense was recognized in 2018 or 2019. In 2018, the Company submitted an application to tax authorities within Brazil for Supertintendência de Desenvolvimento do Nordeste ("SUDENE"), a regional tax incentive offered for qualifying projects in Bahia State. This reduces the corporate income tax rate on income for eligible projects by 75%, resulting in an effective tax rate of 15.25% on eligible activities for a period of ten years. The Company expects the SUDENE rate to be applicable for its natural gas projects in Brazil as well as future development on existing oil fields. As a result, the Company's expected future tax rate within Brazil is reduced to 15.25%. The Company currently has a deferred tax asset of $5.6 million (December 31, 2018 - $5.3 million), the benefit of which has not been recognized for accounting purposes at December 31, 2019 or December 31, 2018, resulting in no deferred tax expense or recovery in 2019 or 2018.

Net Loss

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Net loss	**(1,086)**	(1,445)	**(5,011)**	(4,340)

Net loss in the three months ended December 31, 2019 improved over 2018 due to reduced impairment charges; however, for the year ended December 31, 2019, with an increase in impairment losses and finance expenses, the net loss increased compared to 2018.

Capital Expenditures

Capital Expenditures by Type	Three Months Ended December 31, 2019	2018	Year Ended December 31, 2019	2018
E&E				
Drilling and completions	**1,537**	2	**2,750**	822
Facility & equipment	**3**	-	**98**	519
Land, lease, and similar payments	**28**	21	**76**	112
Inventory purchases	**1**	31	**8**	31
Capitalized G&A	**118**	74	**343**	632
Other	**-**	41	**1**	101
Total E&E(1)	**1,687**	169	**3,276**	2,217
PP&E				
Facility & equipment	**3,212**	847	**6,268**	2,546
Drilling and completions	**1,977**	6	**2,395**	91
Land, lease and similar payments	**(33)**	36	**25**	62
Furniture & fixtures	**2**	-	**6**	-
Capitalized G&A	**137**	191	**642**	426
Other	**17**	-	**59**	2
Total PP&E(2)	**5,312**	1,080	**9,395**	3,127
Total Capital Expenditures by Type	**6,999**	1,249	**12,671**	5,344

Capital Expenditures by Property	Three Months Ended December 31, 2019	2018	Year Ended December 31, 2019	2018
E&E				
Caburé	**-**	-	**-**	773
9th Brazil Bid Round blocks (Blocks 182, 183, 197)	**1,686**	88	**2,003**	1,269
11th Brazil Bid Round blocks (Blocks 106, 107)	**-**	4	**5**	27
13th Brazil Bid Round blocks (Blocks 57, 62, 71, 145)	**-**	46	**1,260**	117
Inventory	**1**	31	**8**	31
Total E&E(1)	**1,687**	169	**3,276**	2,217
PP&E				
Caburé and associated midstream assets	**5,304**	1,063	**9,380**	3,093
Bom Lugar	**1**	17	**5**	28
Jiribatuba	**-**	-	**-**	3
Corporate	**7**	-	**10**	3
Total PP&E(2)	**5,312**	1,080	**9,395**	3,127
Total Capital Expenditures by Property	**6,999**	1,249	**12,671**	5,344

(1) Includes non-cash capital expenditures of $nil in the three and twelve months ended December 30, 2019 (2018 - $nil and $0.3 million, respectively).

(2) Includes non-cash capital expenditures of $2.6 million in the three months ended December 31, 2019 and $3.2 million in the year ended December 31, 2019 (2018 - $0.6 million and $2.4 million, respectively).

Capital expenditures in the fourth quarter include $1.5 million for stimulation and testing costs on the 183(1) well, $1.0 million for the Caburé transfer pipeline, $0.9 million for site construction and other costs at the Facility and $3.0 million in Caburé unit development costs, of which $2.6 million relates to non-cash expenditures initially funded by our partner. Additional capital expenditures included capitalized G&A of $0.3 million and $0.1 million in capitalized finance expense. For the year ended December 31, 2019, capital expenditure were largely attributable to our Caburé project with $3.0 million on the transfer pipeline, $1.5 million in site construction and other costs at the Facility, and $3.8 million in unit development costs ($3.2 million of which is non-cash expenditures initially funded by our partner). Additional capital expenditures for the year included $1.2 million in drilling costs on the 57(A1) well on Block 57, capitalized G&A of $1.0 million and the stimulation costs on the 183(1) well incurred in the fourth quarter.

Summary of Annual Results

	2019	2018	2017
Financial			
Oil and condensate sales	**240**	519	462
Net loss	**(5,011)**	(4,340)	(7,117)
Per share – basic & diluted ($)	**(0.05)**	(0.05)	(0.08)
Funds flow from operations [(1)]	**(2,862)**	(3,266)	(3,254)
Per share – basic & diluted ($)	**(0.03)**	(0.04)	(0.04)
Working capital (deficit) surplus [(1)]	**(6,701)**	6,729	8,762
Total assets	**71,416**	65,372	68,715
Non-current liabilities	**6,389**	3,508	1,445
Average daily oil and NGLs sales (bbls/d)			
Oil (bbls/d)	**8**	21	26
NGLs - condensate (bbls/d)	**3**	-	-
Total oil and NGLs (bbls/d)	**11**	21	26

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

The Company's average daily sales declined in 2019 with reduced production levels, largely due to reduced sales from the Bom Lugar field which was shut-in early in 2019. The net loss increased in 2019 compared to 2018 but improved compared to 2017 due to impairment losses (2017 - $3.7 million, 2018 - $0.8 million, 2019 - $1.6 million). The Company generated negative funds flow from operations in all three years due to minimal cash flows from sales relative to production expenses and G&A expenses.

The Company entered into the Credit Facility in 2019 and had drawn $5.0 million as of December 31, 2019. Funds from the Credit Facility drawn in 2019 were used to fund development of the Caburé natural gas project, costs associated with the stimulation and testing of the 183(1) well, as well as payments for the 57(A1) well. In connection with the Credit Facility, Alvopetro incurred cash transaction costs of $1.1 million and issued 8.4 million warrants which entitle the holder to acquire one common share at an exercise price of $0.60.

Total assets have increased 9% from 2018, largely due to capital spending on the Company's Caburé natural gas project (including construction of the transfer pipeline, costs related to the gas processing facility, and Alvopetro's share of joint unit development costs). Alvopetro has recognized other liabilities of $5.7 million as at December 31, 2019 (December 31, 2018 - $2.3 million, December 31, 2017 - $nil) which represents our share of joint unit development costs for the upstream development of the Caburé natural gas field. This balance was transferred to current in 2019 and included in the working capital deficit at December 31, 2019.

In October 2018 the Company completed a private placement, raising net proceeds of $3.8 million. In conjunction with this transaction, 11.5 million common shares and 3.7 million warrants were issued. In 2019, a total of 1.2 million of these warrants were exercised for net proceeds to Alvopetro of $0.6 million.

Summary of Quarterly Results

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Financial								
Oil and natural gas liquids sales	**65**	77	30	68	62	125	216	116
Net loss	**(1,086)**	(2,321)	(841)	(763)	(1,445)	(878)	(1,128)	(889)
Per share – basic & diluted ($)	**(0.01)**	(0.02)	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)
Funds flow from operations [(1)]	**(747)**	(779)	(699)	(637)	(821)	(759)	(844)	(842)
Per share – basic & diluted ($)	**(0.01)**	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital expenditures[(2)]	**6,999**	3,648	775	1,249	1,249	1,889	930	1,276
Operations								
Operating netback ($/bbl) [(1)]								
Brent benchmark price	**62.51**	62.00	68.33	63.83	68.08	75.85	74.91	67.18
Sales price	**57.93**	61.60	57.80	52.96	59.85	70.15	71.10	62.00
Transportation expenses	**-**	-	-	-	(0.97)	(1.68)	(1.65)	(2.14)
Realized sales price	**57.93**	61.60	57.80	52.96	58.88	68.47	69.45	59.86
Royalties and production taxes	**(8.91)**	(8.80)	(7.71)	(7.01)	(9.65)	(7.30)	(6.25)	(6.95)
Production expenses	**(45.45)**	(53.60)	(123.31)	(73.21)	(229.73)	(104.94)	(58.92)	(126.14)
Operating netback	**3.57**	(0.80)	(73.22)	(27.26)	(180.50)	(43.77)	4.28	(73.23)
Average daily production (bbls/d)	**12**	14	6	14	11	19	33	21

Notes:

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

(2) Includes non-cash capital expenditures of $2.6 million in Q4 2019, $0.6 million in Q3 2019, $0.03 million in Q2 2019, $0.6 million in Q4 2018, $1.5 million in Q3 2018 and $0.6 million in Q2 2018.

Q4 2019 – Development of the Caburé project continued during the quarter with total capital expenditures of $4.8 million, including $1.0 million for the transfer pipeline, $0.9 million for costs at the Facility and $3.0 million for Alvopetro's 49.1% share of the joint upstream development costs. Additional capital expenditures included $1.5 million for stimulation and testing costs on the 183(1) well, capitalized G&A of $0.3 million and $0.1 million in capitalized finance expenses. Average daily production decreased to 12 bbls/d, however as a result of reduced production expenses, the Company achieved a positive operating netback of $3.57/bbl. The Company drew a total of $5.0 million on its Credit Facility in the quarter, contributing to higher finance expenses and a higher net loss in the period.

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

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

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

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

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

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

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

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at December 31, 2019:

Commitments	**< 1 Year**	**1-3 Years**	**Thereafter**	**Total**
Minimum work commitments[1]				
Block 183[2]	-	827	-	827
Mãe-da-lua	-	-	87	87
Bom Lugar	-	-	87	87
Minimum work commitments to be completed	**-**	**827**	**174**	**1,001**
Gas Treatment Agreement	**2,298**	**5,719**	**20,968**	**28,985**
Total commitments	**2,298**	**6,546**	**21,142**	**29,986**

Notes:
(1) Under the terms of the ANP concession contracts for our exploration blocks, the Company has commitments which must be completed prior to the applicable phase expiry date. The Company is required to post a performance guarantee with the ANP for all commitments in the table above.
(2) In February 2018, the ANP approved a suspension to the portion of Block 183 currently in the second exploration phase to which the above commitment is applicable. The Company will have 517 days from receipt of the environmental permit for the well to be drilled to meet the required work commitment.

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. Any potential penalties to either party do not commence until the Firm Start Date. The Company believes it can meet the firm sales commitments under the GSA solely with our production from the Caburé natural gas field, however supply failure penalties may arise where construction is delayed, where there are unplanned production interruptions, or to the extent reservoir performance is below expected production rates. Supply failure penalties are a function of the shortfall of firm volumes and the prevailing natural gas price under the GSA at the time, which is determined based on a trailing weighted average basket of benchmark reference prices including Henry Hub and National Balancing Point natural gas prices and Brent crude oil prices. Alvopetro can mitigate these risks by adjusting firm volumes annually and by meeting sales commitments under the GSA with third-party gas supplies, through development of existing natural gas resources, or through new gas discoveries from our prospect inventory.

Under the terms of the Gas Treatment Agreement with Enerflex, Alvopetro is committed to integrated service fees totaling $2.9 million per year once the Facility is operational and ready for commencement. Alvopetro anticipates that the Facility will be operational in the second quarter of 2020 and has reflected the associated commitment in the table above based on this start date. A portion of the payments are in BRL and therefore exposed to foreign exchange fluctuations. Management has assessed that this agreement contains a lease component under IFRS 16 which will affect the classification of these fees upon lease commencement. The Gas Treatment Agreement includes customary penalties and standby charges to the extent Alvopetro is unable to receive the services on the start date. In addition, the Gas Treatment Agreement includes early termination penalty provisions which vary depending on timing of the termination. While the Gas Treatment Agreement also includes strict availability requirements and downtime credits, such credits may not fully offset costs incurred by Alvopetro due to ship or pay obligations under the GSA as discussed above to the extent processing in the Facility is limited due to unplanned or longer than scheduled maintenance or repair.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility

In 2019, the Company entered into the $15 million Credit Facility, subject to registrations of security and other funding conditions, all of which were met on October 8, 2019 (the "Funding Date"). Under the terms of the Credit Facility, Alvopetro will have access to up to $13 million, with the final $2 million available upon first production from the Caburé natural development. Amounts under the Credit Facility are available to be drawn from the Funding Date to October 8, 2020 (the "Availability Period"). Any undrawn amounts are cancelled as of October 8, 2020. In the fourth quarter of 2019, a total of $5.0 million was drawn under the Credit Facility. As of the date of this MD&A, the Company had drawn $13.0 million under the 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 is payable upon repayment of any Credit Facility amounts at a rate of 3.0% per annum. The Credit Facility is subject to a 1.0% per annum commitment fee on the unused available balance during the Availability Period. Amounts drawn under the Credit Facility are repayable at maturity, however after the first anniversary of the Credit Facility, amounts drawn may be repaid in part or full at Alvopetro's option without penalty.

In connection with the financing, the Company incurred cash transaction costs of $1.1 million and issued a total of 8,057,868 share purchase warrants to the lenders ("Lender Warrants") and 375,000 to financial advisors acting on behalf of Alvopetro ("Advisor Warrants"). Each of the Lender Warrants and Advisor Warrants entitles the holder to purchase one common share of Alvopetro at an exercise price of $0.60 per common share. The warrants were issued on the Funding Date and expire on September 20, 2022. The cash transaction costs and the value of the Lender Warrants and Advisor Warrants have been reflected as deferred financing costs in Other Assets, the balance of which is amortized to finance expense over the term of the Credit Facility.

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, change of control, and where gas sales under the Company's GSA have not commenced by May 31, 2020. 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 starting after October 8, 2020, the first anniversary of the Funding Date.

Cash

At December 31, 2019, Alvopetro's cash and cash equivalents of $1.2 million and its restricted cash of $0.3 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	**804**	734	70	-
Cash held in Brazil	**411**	-	-	411
Restricted cash - current	**270**	-	-	270
Total	**1,485**	**734**	**70**	**681**

Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as at December 31, 2019.

The Company has cash of $1.2 million and a total net working capital deficit of $6.7 million at December 31, 2019, which includes the $5.7 million liability to our partner at the Caburé unit that is to be repaid in the second quarter of 2020. Positive cash flows are expected upon commencement of production from the Caburé natural gas field, anticipated in the second quarter of 2020. The majority of the Company's development was completed by the end of 2019 (including construction of the transfer pipeline, construction at the Facility, and the joint upstream development at the unit). Alvopetro anticipates an additional $6.7 million in payments in the first and second quarter of 2020 (including repayment of the liability outstanding to our partner) to complete the Caburé development. With proceeds from the new Credit Facility, along with existing cash balances, Alvopetro expects to have sufficient resources to meet these planned activities on the Caburé natural gas field and activities in early 2020 on the Gomo gas project (including preliminary testing and analysis costs for the 183(1) well) as well as its ongoing operational and administrative obligations. However, as discussed further in Note 2 to the audited consolidated financial statements, to the extent there are significant cost overruns or delays in production commencement, Alvopetro may incur ship or pay penalties under the GSA, charges under the Gas Treatment Agreement, or events of default under the credit facility, and additional financing may be required.

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 December 31, 2019, the total amount of LCs issued under the credit support facility was $4.9 million (December 31, 2018 - $6.1 million), the full balance of which was satisfied by EDC. Total LCs outstanding at December 31, 2019 include $0.3 million for work commitments satisfied by Alvopetro in the third quarter of 2019 on Block 57, which was approved by the ANP in in the fourth quarter of 2019, and $3.4 million for work commitments on Blocks 169 and 255 which were terminated with the ANP in the fourth quarter of 2019. These LCs were formally cancelled by all involved banks in 2020. The Company also has a restricted cash balance of $0.3 million as at December 31, 2019 (December 31, 2018 - $0.1 million), which includes $0.2 million in respect of the abandonment guarantees on the Company's oil fields and $0.1 million in respect of a portion of the Company's exploration work commitment on Block 57. The restricted cash relating to Block 57 was released in January 2020.

The liability for decommissioning obligations of Alvopetro was $1.4 million as at December 31, 2019, with $0.1 million expected to be incurred within one year. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows, if applicable.

At December 31, 2019 the Company had $1.5 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 March 19, 2020, there were 98,345,604 common shares outstanding, 7,032,500 stock options outstanding and 9,232,868 warrants outstanding. There are no preferred shares outstanding.

NON-GAAP MEASURES

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

Funds Flow from Operations and Funds Flow from Operations Per Share

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

	Three Months Ended December 31,		**Year Ended December 31,**	
	2019	2018	**2019**	2018
Cash flows from operating activities	**(645)**	(705)	**(2,543)**	(3,258)
Add back changes in non-cash working capital	**(102)**	(116)	**(319)**	(8)
Funds flow from operations	**(747)**	(821)	**(2,862)**	(3,266)

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

	Three Months Ended December 31,		**Year Ended December 31,**	
$ per share	**2019**	2018	**2019**	2018
Cash flows from operating activities per share	**(0.01)**	(0.01)	**(0.03)**	(0.04)
Funds flow from operations per share	**(0.01)**	(0.01)	**(0.03)**	(0.04)

Net Working Capital (Deficit) Surplus

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

	As at December 31,	
	2019	2018
Total current assets	**2,452**	8,021
Total current liabilities	**(9,153)**	(1,292)
Working capital (deficit) surplus	**(6,701)**	6,729

Operating Netback per Barrel

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

	Three Months Ended December 31,		**Year Ended December 31,**	
	2019	2018	**2019**	2018
Oil and condensate sales	**65**	62	**240**	519
Royalties and production taxes	**(10)**	(10)	**(34)**	(55)
Production expenses	**(51)**	(238)	**(276)**	(840)
Transportation	**-**	(1)	**-**	(13)
Operating netback	**4**	(187)	**(70)**	(389)
Operating netback per barrel ($)	**3.57**	(180.50)	**(16.76)**	(50.34)

RISKS AND UNCERTAINTIES

Alvopetro is exposed to a variety of risks including, but not limited to: a) liquidity and financing risks; b) market risk; c) operational risks; d) legal and regulatory risks; e) reservoir performance risk; f) exploration risk; g) competitive risks within the oil and gas industry; and h) foreign operations risk.

This section presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout the consolidated financial statements. Investors should carefully consider the following risk factors and 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.

A. Liquidity and Financing Risk

The Company currently has a $15 million Credit Facility, with $13 million of funds initially available and the final $2 million available once sales commence from our Caburé natural gas project. The Company had drawn $5.0 million from the Credit Facility as of December 31, 2019. The Company's existing properties have not had significant production and the Company has a history of losses. Therefore, the Company's ability to repay amounts borrowed and interest owing will depend on future performance and cash flows, primarily from the Company's Caburé natural gas project. While the Credit Facility provides the necessary funds to execute the Company's planned activities on the Caburé natural gas field and initial plans on the Company's Gomo project, the Company's ability to make payments of interest and principal on future amounts borrowed will depend on its future operating performance and cash flows from operations, which are subject to commodity prices, demand for oil and natural gas, the timing of capital activities, regulatory approvals, reservoir performance, and prevailing economic conditions, among other factors, many of which are beyond its control. The Company's cash flow from operations will be in part dedicated to the payment of principal and interest on future amounts drawn and there can be no assurance that the Company will be able to repay the Credit Facility.

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

The financial statements have been prepared on a going concern basis as discussed in Note 2 to the financial statements. While proceeds from the Credit Facility are anticipated to be sufficient to fund the remaining expenditures for the Caburé development as well as ongoing operating, administrative and finance expenses, in the event of delayed production commencement or lower than anticipated sales volumes, the Company may incur ship or pay penalties under the GSA, additional charges under its Gas Treatment Agreement, and a possible event of default under the Credit Facility, and additional financing may be required. The inability of Alvopetro to access sufficient capital for its operations could have a material adverse effect on Alvopetro's business, financial condition, results of operations and prospects, and could result in the delay or postponement of further exploration, evaluation and development of Alvopetro's properties.

B. Market Risk

The Company is exposed to normal financial risks inherent within the oil and gas industry, including commodity price risk, exchange rate risk, interest rate risk and credit risk. Crude oil and natural gas prices fluctuate widely and are influenced by global supply and demand, government regulations, actions of other countries, weather conditions, worldwide political conditions, and other worldwide pandemics or other events. Fluctuations in crude oil and natural gas prices not only affect the Company's cash flows but may also affect the ability and capacity of future financings for the Company. Management believes it is neither appropriate nor possible to eliminate 100 percent of the Company's exposure to fluctuations in crude oil and natural gas prices. The Company monitors market conditions and may selectively use derivative instruments to reduce exposure to commodity price movements.

The Company has entered into a long-term GSA with one counterparty. If this gas sales contract were terminated for any reason, Alvopetro may be unable to enter into a relationship with another purchaser for such gas on a timely basis or on similar terms. Alvopetro's results of operations and future cash flows are dependent on its ability to market its gas production and any change to price or volumes under its gas sales contract may impact future earnings.

Cash and cash equivalents consist of balances on deposit at banks and short-term deposits maturing in less than 90 days. Restricted cash consists of cash and cash equivalents and short-term deposits maturing in one year or less. Alvopetro manages credit risk related to short term deposits by investing only in term deposits of investment grade credit rating, and therefore the Company considers these assets to have negligible credit risk. As the interest rate on the Company's Credit Facility is fixed, it is not exposed to interest rate risk on amounts drawn.

All of Alvopetro's expenditures are subject to the effects of inflation and foreign currency fluctuations. Alvopetro is exposed to exchange rate risk as a significant portion of the Company's expenditures will be paid in foreign currencies. Should such foreign currencies strengthen relative to the USD or should the inflation rates increase within Canada or Brazil, Alvopetro may experience higher capital, G&A and production expenditures, resulting in a material decrease in its funds flow. Similarly, while the Company's crude oil and natural gas prices are linked to USD benchmark prices, actual invoices for such sales are denominated in foreign currency, exposing the Company to foreign currency fluctuations. The Company had no contracts in place to manage foreign currency risk as at or during the years ended December 31, 2019 and 2018.

C. Operational Risk

Alvopetro's Caburé natural gas field is operated by Alvopetro's partner on this field. As Alvopetro is not the operator of this property, it is dependent on its partner for the timing and execution of key activities to ensure Alvopetro is able to meet production requirements under its GSA and generate future cash flows. Alvopetro is also dependent on its partner, to varying extents, to exercise best practices in terms of safety, environmental regulations, employment law and insurance protection. To manage these risks, Alvopetro entered into a comprehensive unitization agreement which governs the responsibilities of the operator and non-operators in a fair and balanced approach.

All of Alvopetro's natural gas is expected to be processed through the Facility owned by Enerflex under the terms of the Gas Treatment Agreement. As the Facility is owned and will be operated by Enerflex, although Alvopetro has full control over the gas processed within the Facility, Alvopetro does not have full control over all operational matters. From time to time, the Facility may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. While the GSA allows for scheduled downtime and routine maintenance, should such downtime be unplanned or extend for longer than anticipated, this could have a material adverse impact on the Company's operations and could give rise to ship or pay penalties under the GSA if the Company is unable to meet its firm production requirements. The terms of the Gas Treatment Agreement include strict availability requirements and downtime credits to minimize Alvopetro's costs associated with reduced processing; however, such credits may not fully offset costs incurred by Alvopetro due to ship or pay obligations under the GSA.

Alvopetro is exposed to a number of operational risks inherent in the industry including accidents, well blowouts, uncontrolled flows, labour strikes and environmental risks. Operational risks are managed using prudent field operating procedures. The Company has an emergency response plan to deal with potential incidents and maintains a comprehensive insurance program to reduce the risk of significant economic loss; however, not all risks can be eliminated. Losses resulting from the occurrence of these risks could have a material adverse impact on the Company's operations. Should operational problems reduce or limit Alvopetro's future gas production, future cash flows may be less than expected and Alvopetro may be subject to ship or pay penalties under its long-term GSA.

D. Legal and Regulatory Risks

The Company is subject to extensive governmental and environmental approvals and regulations in Brazil. Delays in obtaining regulatory approvals could result in project delays and our inability to meet contractual obligations and commitments. Changes to these regulations could increase the costs of conducting business.

Environmental risks inherent in the oil and gas industry are subject to increasingly stringent legislation and regulation. The Company operates in accordance with all relevant environmental legislation and strives to minimize the environmental impact of its operations by providing for safety and environmental issues in all of its business plans. The expanded use of hydraulic fracturing as a recovery technique employed in oil and natural gas drilling has given rise to increased public scrutiny over potential environmental impacts. Alvopetro may need to utilize hydraulic fracturing in the wells it drills and completes. Alvopetro believes that the hydraulic fracturing that we have conducted to date and may conduct in the future, given the depth and location of the wells and our consistent utilization of good oilfield practices, will be environmentally sound. However, Alvopetro anticipates that there will be a trend towards changing and increased regulatory requirements concerning hydraulic fracturing in the future, in Brazil and internationally. Changes to, and the increase of, regulatory requirements may impact our business.

Alvopetro must fulfill certain minimum work commitments on projects in Brazil. There are no assurances that all of these commitments will be fulfilled within the time frames permitted. As such, Alvopetro may lose certain exploration rights on the blocks affected and may be subject to certain financial penalties that would be levied by the applicable governmental authority. From time to time Alvopetro may request extensions or suspensions to the timeframe allotted for work commitments. There is no assurance that such future requests will be granted. To the extent requests are not approved, acreage positions may be lost, and fines or penalties may be applied.

E. Reservoir Performance Risk

Lower than projected reservoir performance on the Company's assets could have a material adverse impact on the Company's future results of operations, cash flows, and overall financial condition. Estimates of future cash flows from Alvopetro's properties are based on judgment and assumptions with respect to timing and evaluation of development plans. Additional factors affecting the ultimate recoveries from Alvopetro's properties include initial production rates, production decline rates, future commodity prices, marketability of production, and operating costs, and royalties and other government levies that may be imposed over the producing life of the reserves. All judgments and assumptions were based on the best information available at the date the forecasts were prepared and all are subject to change, some being beyond the control of Alvopetro. Actual production and funds flow derived therefrom will vary from these forecasts, and such variations could have a material impact.

F. Exploration Risk

The Company is exposed to a high level of exploration risk. The business of exploring for, developing or acquiring reserves is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance that Alvopetro will be able to generate and sustain revenue or net income in the future or that the Company's future exploration, development and acquisition activities will result in proved reserves. To manage this risk, Alvopetro employs highly experienced geoscientists, uses technology and 3D seismic as primary exploration tools and focuses exploration efforts in known hydrocarbon producing basins. The long-term commercial success of Alvopetro depends on its ability to find, acquire, develop and commercially produce and sell petroleum reserves. To date, the activities relating to Alvopetro's assets have been focused on exploration activities, which increases the degree of risk substantially as compared to projects in the production stage. The value of Alvopetro's assets will be dependent on discovering hydrocarbon deposits with commercial potential and the ability to market its discoveries. Alvopetro may have nominal earnings to support its ongoing operations and future exploration and development should its properties prove not to be commercially viable or if it is unable to negotiate sales contracts or unable to negotiate sale contracts on terms that are acceptable to Alvopetro.

G. Competitive Risks within the Oil and Gas Industry

The oil and gas industry is highly competitive, both with respect to the acquisition of prospective oil and gas properties and reserves as well as in attracting financing sources for the acquisition of new reserves or the development of existing reserves. Alvopetro's competitive position depends on its geoscience and engineering expertise, its financial resources, its ability to develop its properties and its ability to select, acquire and develop proved reserves. Alvopetro will compete with a substantial number of other companies having larger technical staff and greater financial and operational resources and access to capital. Many such companies not only engage in the acquisition, exploration, development and production of petroleum reserves, but also carry on refining operations and market refined products. In Brazil particularly, Petróleo Brasileiro SA ("Petrobras") dominates the majority of the industry, including all aspects of oil and gas exploration, development, transportation and sales. Alvopetro competes with Petrobras and other major and independent oil companies and other industries supplying energy and fuel in the marketing and sale of oil and gas to transporters, distributors and end users, including industrial, commercial and individual consumers. Access to pipelines and other transportation infrastructure may be limited and/or the terms on which such access is provided may not be favourable to the Company.

Alvopetro also competes with other oil and gas companies in attempting to secure equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time or may not meet the technical specifications required by Alvopetro in its operations. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply. Local content requirements in Brazil may reduce the control the Company has with respect to choice of service providers for its exploration and development activities. Finally, companies not previously investing in the oil and gas industry may choose to acquire reserves providing additional competition for Alvopetro.

H. Foreign Operations Risk

Alvopetro currently has operations in Brazil and from time to time may evaluate additional projects internationally, consequently Alvopetro will be subject to certain risks, including currency fluctuations and possible political or economic instability. Alvopetro believes that the state and federal governments in Brazil support the exploration and development of its oil and gas properties by foreign companies. Nevertheless, there is no assurance that future political conditions will not result in the state or federal governments adopting different policies respecting foreign development and ownership of oil and gas, environmental protection and labour relations. Exploration and production activities may be affected in varying degrees by political stability and government regulations relating to the industry.

To help mitigate the risks associated with operating in foreign jurisdictions, the Company seeks to operate in regions where the petroleum industry is a key component of the economy. Alvopetro believes that management's experience operating in other international jurisdictions helps reduce these risks. Brazil has a long history of democracy and an established legal framework that, in Alvopetro's opinion, minimizes political risks.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New and revised accounting standards

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

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

The Company adopted IFRS 16 using the modified retrospective approach which does not require restatement of prior period financial information as the cumulative effect of adoption is recognized as an adjustment to the Company's opening accumulated deficit and the standard is applied prospectively. As such, comparative information in the Company's financial statements are not restated. The ROU assets and lease liabilities are measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate. The Company applied the optional practical expedients to not recognize certain short-term leases or leases of low value and has elected to separate non-lease components from lease components for all underlying asset classes at January 1, 2019.

Upon adoption of IFRS 16 on January 1, 2019 the Company recognized ROU assets of $0.26 million, lease liabilities of $0.24 million, an increase to its accumulated deficit of $0.02 million and a nominal effect on accumulated other comprehensive loss. See Note 8 to the audited consolidated financial statements for further details with respect to the ROU assets and lease liabilities.

Standards issued but not yet effective

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

Standard and Description	Date of Adoption	Expected Adoption Impact on Consolidated Financial Statements
IFRS 3 *Business Combinations* – IFRS 3 was amended to revise the definition of a business.	January 1, 2020	The Company does not expect the amendments to have a material impact on the financial statements.
IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* have been amended to more effectively align the definition of materiality throughout all accounting standards.	January 1, 2020	The Company does not expect the amendments to have a material impact on the financial statements.

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

Forward-Looking Statements. Certain information provided in this MD&A constitutes forward-looking statements. Specifically, this MD&A contains forward-looking statements concerning the plans relating to the Company's operational activities, the expected timing of commencement of gas sales under Alvopetro's long-term gas sales agreement, the Company's reserves, the expected timing and outcomes of certain of Alvopetro's testing activities, the use of proceeds from the Company's credit facility, future results from operations, projected financial results, future capital and operating costs, future production rates, proposed exploration and development activities and the timing for such activities, sources and availability of capital, and capital spending levels. Forward-looking statements are necessarily based upon assumptions and judgments with respect to the future including, but not limited to, the timing of regulatory licenses and approvals, the success of future drilling, completion, recompletion and development activities, the outlook for commodity markets and ability to access capital markets, the performance of producing wells and reservoirs, well development and operating performance, general economic and business conditions, weather and access to drilling locations, the availability and cost of labour and services, environmental regulation, including regulation relating to hydraulic fracturing and stimulation, the ability to monetize hydrocarbons discovered, the regulatory and legal environment and other risks associated with oil and gas operations. Although we believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because we can give no assurance that they will prove to be correct. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, reliance on industry partners, availability of equipment and personnel, uncertainty surrounding timing for drilling and completion activities resulting from weather and other factors, changes in applicable regulatory regimes and health, safety and environmental risks), commodity price and exchange rate fluctuations and general economic conditions. Certain of these risks are set out in more detail in our 2019 Annual Information Form which has been filed on SEDAR and can be accessed at www.sedar.com. Except as may be required by applicable securities laws, Alvopetro assumes no obligation to publicly update or revise any forward-looking statements made herein or otherwise, whether as a result of new information, future events or otherwise.

Oil and Natural Gas Reserves. All net present values in this MD&A are based on estimates of future operating and capital costs and GLJ's forecast prices as of December 31, 2019. The reserves definitions used in this evaluation are the standards defined in the Canadian Oil and Gas Evaluation Handbook reserve definitions and consistent with NI 51-101 and used by GLJ. The disclosure in the MD&A summarizes certain information contained in the GLJ Report but represents only a portion of the disclosure required under NI 51-101. Full disclosure with respect to the Company's reserves as at December 31, 2019 is contained in the Company's 2019 Annual Information Form which has been filed on SEDAR and can be accessed at www.sedar.com.

Abbreviations:

bbls	=	barrels of oil and/or natural gas liquids (condensate)
bbls/d	=	barrels of oil and/or natural gas liquids (condensate) per day
m3/d	=	cubic metre per day
mcf	=	thousand cubic feet
mcfe	=	thousand cubic feet of gas equivalent
mcfpd	=	thousand 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.