The following Management's Discussion and Analysis ("MD&A") is dated May 17, 2016 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of Alvopetro Energy Ltd. ("Alvopetro" or the "Company") as at and for the three months ended March 31, 2016, MD&A for the year ended December 31, 2015 and the audited consolidated financial statements as at and the for the years ended December 31, 2015 and 2014. 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, development and production of hydrocarbons in Brazil. Alvopetro is a publicly traded company listed on the TSX Venture Exchange and was incorporated under the *Business Corporations Act* (Alberta) on September 25, 2013 as 1774501 Alberta Ltd. and subsequently changed its name to Alvopetro Energy Ltd. on November 19, 2013. Alvopetro is engaged in the exploration for, and the acquisition, development and production of, hydrocarbons in the Recôncavo, Tucano and Camamu-Almada onshore Brazil. Alvopetro holds interests in two mature fields and 14 exploration blocks comprising 140,510 gross acres (130,496 net acres) onshore Brazil.

Strategy

Alvopetro Energy Ltd.'s vision is to be the premier independent exploration and production company in Brazil, maximizing shareholder value by applying innovation to underexploited opportunities. Our strategy is to focus on three core opportunities including lower risk development drilling on our mature fields, shallow conventional exploration, and the development of the significant hydrocarbon potential present in our deep Gomo tight-gas resource play.

OPERATING AND FINANCIAL RESULTS

	Three months ended March 31, 2016	2015
Financial		
($000s, except where noted)		
Oil sales	**153**	172
Funds flow from operations [1]	**(1,225)**	(1,357)
Per share – basic and diluted ($)[2]	**(0.01)**	(0.02)
Net loss	**(4,515)**	(1,563)
Per share – basic and diluted ($)[2]	**(0.05)**	(0.02)
Capital and other asset expenditures	**3,066**	1,354
Total assets	**83,722**	113,834
Debt	**-**	-
Net working capital surplus [1] [3]	**25,125**	35,497
Common shares outstanding, end of year (000s)		
Basic	**85,167**	85,167
Diluted [2]	**91,288**	90,517
Operations		
Operating netback ($/bbl) [1]		
Brent benchmark price	**35.08**	55.16
Discount	**(6.23)**	(9.65)
Sales price	**28.85**	45.51
Transportation expenses	**(1.89)**	(4.23)
Realized sales price	**26.96**	41.28
Royalties and production taxes	**(3.39)**	(3.97)
Production expenses	**(67.70)**	(65.63)
Operating netback	**(44.13)**	(28.32)
Average daily crude oil production (bopd)	**58**	42

Notes:

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

(2) Consists of outstanding common shares and stock options of the Company.

(3) Includes current restricted cash of $4.9 million as at March 31, 2015 but excludes non-current restricted cash of $8.2 million as at March 31, 2015. The Company has no current or non-current restricted cash as at March 31, 2016.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE FIRST QUARTER OF 2016

- In the first quarter of 2016, our production increased to 58 bopd, primarily due to the 182(B1) well which came on production late in 2015 and contributed a total of 33 bopd in the quarter.
- Capital and other asset expenditures of $3.1 million in the first quarter include $2.4 million in drilling costs for our 170(B1) well and $0.2 million in site construction for our 256(A1) well.
- We reported a net loss of $4.5 million in the first quarter, primarily due to a $3.0 million impairment booked on Block 170. On March 29, 2016, the Company notified the National Agency of Petroleum, Natural Gas and Biofuels ("ANP") of its intention to relinquish this block due to the lack of a commercial discovery of hydrocarbons on the 170(B1) well.
- In January 2016 the Company relinquished Block 196 and paid the related performance guarantee fee of $0.8 million. The Company had not identified any prospects on this block and the carrying value of the block had been fully impaired in the 2014 and 2015 financial statements.
- Our cash and working capital resources total $25.1 million, including $27.4 million of cash and cash equivalents. As of March 31, 2016, the Company no longer holds any restricted cash and all restricted cash balances outstanding at December 31, 2015 were made available during the three months ended March 31, 2016.

RECENT HIGHLIGHTS

- The Company terminated the third party production facilities rental for the 182(B1) well in May 2016 and plans to transition existing equipment on hand to this well to reduce production expenses going forward. The 182(B1) well will be offline during this period with production expected to recommence during the third quarter of 2016.
- In the coming months we plan to drill our 256(A1) well, which is a multi-zone prospect located on Block 256 and is one of our largest exploration prospects to-date. Block 256 is located near existing State gas transmission infrastructure and the drilling of 256(A1) will fulfil our Block 256 exploratory phase commitments with the ANP.

PETROLEUM AND NATURAL GAS PROPERTIES

As at March 31, 2016, Alvopetro held interests in two mature fields and 14 exploration blocks comprising 140,510 gross acres (130,496 net acres) onshore Brazil in three hydrocarbon basins: the Recôncavo, Tucano, and Camamu-Almada. The current exploration assets consist of Blocks 182, 197, 183, 106, 107, 169, 198, 255, 256, 57, 62, 71, and 145 in the Recôncavo Basin and Block 177 in the Tucano Basin and two mature producing fields (Bom Lugar and Jiribatuba).

EXPLORATION BLOCK ACTIVITY SUMMARY

Block	Gross Acres	Working Interest	Bid Round Acquired	Current Phase Expiry	Current Phase Activity (Note 1)
182	5,239	100%	9th Bid Round (2007)	October 31, 2016 (Note 2)	1 exploration well
183	7,740	100%	Farm in – 9th Bid Round (2007)	June 11, 2017	1 exploration well
197	5,807	100%	9th Bid Round (2007)	January 31, 2017 (Note 3)	Testing of the 197(2) well and additional analysis of the 197(1) well.
106	7,759	100%	11th Bid round (2013)	August 29, 2016 (Note 4)	11 km^2 of 3D seismic
107	7,561	100%	11th Bid round (2013)	August 29, 2016 (Note 4)	2 exploration wells
T-177	46,505	100%	11th Bid round (2013)	August 29, 2016 (Note 4)	1 exploration well and 31 km^2 of 3D seismic
169	5,280	100%	12th Bid round (2013)	May 15, 2017	1 exploration well
198	7,739	100%	12th Bid round (2013)	May 15, 2017	1 exploration well
255	7,734	100%	12th Bid round (2013)	May 15, 2017	1 exploration well and 20 km 2D seismic
256	7,734	100%	12th Bid round (2013)	May 15, 2017	27 km 2D Seismic
57	7,752	65%	13th Bid round (2015)	January 24, 2019	30 km of 2D Seismic
62	7,715	65%	13th Bid round (2015)	January 24, 2019	30 km of 2D Seismic
71	5,409	65%	13th Bid Round (2015)	January 24, 2019	21 km of 2D seismic
145	7,734	65%	13th Bid Round (2015)	January 24, 2019	30 km of 2D Seismic

(1) The Current Phase Activity represents the minimum work to be carried out under the terms of the existing exploration phase of the concession contract. The above seismic activities may be satisfied with exploration wells at the Company's discretion and as authorized by the ANP. In the three months ended March 31, 2016, the Company drilled the 170(B1) well in satisfaction of the well commitment on Block 170, subject to the approval of the ANP. On March 29, 2016, the Company notified the ANP of its intention to relinquish this block. Under the terms of the concession contract, the Company must complete all required reclamation on this block as part of the relinquishment.

(2) A Discovery Evaluation Plan ("PAD") was approved by the ANP on December 28, 2015. The PAD includes plans to drill one well prior to October 31, 2016. The PAD may be extended to August 31, 2018 if a second exploration well is drilled.

(3) The PAD for Block 197 was approved in May 2015. The PAD includes plans to test the 197(2) well (which was completed in the three months ending June 30, 2015) and perform additional analysis of our 197(1) well. The PAD may be extended to January 31, 2018 pending additional work.

(4) In February 2016, Alvopetro applied for a six month extension to the first exploration phase of Blocks 106, 107 and 177 to allow for additional seismic interpretation following results from the 182(B1) well.

FINANCIAL AND OPERATING REVIEW

Average Daily Production

	Three Months Ended March 31, 2016	2015
Total production (bbls)	**5,303**	3,779
Daily production (bopd)	**58**	42

Average daily production in the three months ended March 31, 2016 increased to 58 bopd compared to 35 bopd in the fourth quarter of 2015 and 42 bopd in the first quarter of 2015. The production increases were largely due to the 182(B1) well which came on production late in 2015 and contributed 33 bopd in the current period. The production increases from 182(B1) were offset by reduced production from the Bom Lugar field which was offline for 15 days due to electrical maintenance and averaged 21 bopd in the period compared to 25 bopd in the fourth quarter of 2015 and 28 bopd in the first quarter of 2015. The 182(B1) well is offline as of May 11, 2016 with production expected to resume in the third quarter of 2016.

Oil Sales

	Three Months Ended March 31, 2016	2015
Brent ($/bbl)	**35.08**	55.16
Discount ($/bbl)	**(6.23)**	(9.65)
Sales Price ($/bbl)	**28.85**	45.51
Sales price discount as a % of Brent	**18%**	17%
Oil Sales	**153**	172
Transportation	**(10)**	(16)
Total sales, net of transportation expense	**143**	156
Realized price ($/bbl)	**26.96**	41.28

Alvopetro has sales contracts for the Bom Lugar and Jiribatuba fields and the 182(B1) well. Pursuant to the terms of these contracts, a discount is applied to the average Brent price as a fixed cost per barrel under the Bom Lugar contract and a fixed percentage of Brent for the Jiribatuba and 182(B1) contracts. The sales discount of 18% in the three months ended March 31, 2016 is consistent with the first quarter of 2015 and the fourth quarter of 2015.

Overall, oil sales declined 11% in the three months ended March 31, 2016 compared to the same period in 2015. Despite a 40% increase in total production, Brent declined 36%, resulting in a reduction in the realized price per barrel, particularly in the months of January and February when production levels were higher and Brent was lower compared to the overall average in the quarter.

Funds Flow from Operations

	Three Months Ended March 31, 2016	2015
Funds flow from operations	**(1,225)**	(1,357)

The Company currently has negative funds flow from operations. Alvopetro funds the Company's current capital and operating plans from existing cash balances on hand and is not currently dependent on cash flows from operations. The Company has achieved savings on general and administrative expenses in the three months ended March 31, 2016 compared to the same period in 2015, contributing to increased funds flow in 2016.

Royalties and Production Taxes

	Three Months Ended March 31,	
	2016	2015
Royalties and production taxes	**18**	15
Percentage of sales (%)	**11.8**	8.7

All of the mature fields held by Alvopetro are subject to a base 5% government royalty plus an additional 0.5% royalty paid to landowners according to applicable Brazil petroleum laws. All of the exploration blocks held by Alvopetro are subject to a base 10% government royalty plus a 1% landowner royalty. There is an additional 2.5% gross-overriding royalty on Blocks 182 and 197.

All royalties are paid based on an ANP minimum reference price which is typically higher than the realized sales price. 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.

Royalties as a percentage of sales increased to 11.8% in the three months ended March 31, 2016 compared to 8.7% in the same period in 2015 due to production from the 182(B1) which has higher overall royalty rates.

Production Expenses

	Three Months Ended March 31,	
	2016	2015
Production expenses by type:		
Personnel costs	**93**	136
Production facilities rental	**139**	-
Other fixed costs	**67**	44
Variable costs	**60**	67
Workover costs	**-**	1
Total production expenses	**359**	248
Production expenses per barrel:		
Personnel costs	**17.55**	36.00
Production facilities rental	**26.21**	-
Other fixed costs	**12.63**	11.64
Variable costs	**11.31**	17.73
Workover costs	**-**	0.26
Total production expenses per bbl ($)	**67.70**	65.63

Production expenses for the three months ended March 31, 2016 increased $0.1 million compared to the same period in 2015 and $0.2 million compared to the fourth quarter of 2015, largely due to production facilities rental costs for the 182(B1) well. The Company ended this rental contract in May 2016 for a payment of $0.06 million. Over the coming months, the Company plans to transition existing equipment on hand to this well to reduce production expenditures going forward. During this period, the 182(B1) well will be offline, with production expected to recommence in the third quarter of 2016.

General and Administrative ("G&A") Expenses

G&A Expenses, by type:	Three months ended March 31, 2016	2015
Personnel	**754**	920
Travel	**54**	113
Office and IT costs	**115**	162
Professional fees	**132**	187
General corporate costs	**160**	163
Gross G&A	**1,215**	1,545
Capitalized G&A	**(273)**	(264)
G&A expenses	**942**	1,281

The majority of the Company's G&A relates to personnel costs, representing 62% of the total gross G&A in the three months ended March 31, 2016 (March 31, 2015 – 60%). General corporate costs include such items as public company costs and insurance. Alvopetro is prudent in its management of all G&A expenses and the Company's Gross G&A has declined $0.3 million in the three months ended March 31, 2016 compared to the same period in 2015.

G&A expenses directly relating to exploration and evaluation assets and property, plant and equipment assets totaling $0.3 million (March 31, 2015 - $0.3 million) were capitalized in the three months ended March 31, 2016.

Cash and Cash Equivalents and Restricted Cash

	As at March 31, 2016	December 31, 2015
Cash and cash equivalents	**27,427**	28,733
Restricted cash – current	**-**	2,288
Total cash and restricted cash	**27,427**	31,021

The Company has a credit support facility (the "Facility") with a Canadian bank for up to $45.0 million Canadian dollars ("CAD"). This Facility allows for the issuance of letters of credit ("LC's") 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. Letters of credit and letters of guarantee issued under the Facility are supported by either cash collateral posted by Alvopetro or through an Account Performance Security Guarantee from Export Development Canada ("EDC"). EDC supports up to $15.5 million of Alvopetro's LC's issued under the Facility.

As at March 31, 2016, the total amount of LC's issued under the Facility was $15.3 million (December 31, 2015 - $17.6 million), the full balance of which was satisfied by EDC (December 31, 2015 - $15.3 million). LC's supported by restricted cash as at December 31, 2015 were released during the three months ended March 31, 2016 and the Company held no restricted cash as at March 31, 2016.

LC's supported by EDC at March 31, 2016 include $1.2 million with respect to Block 170. This work commitment was satisfied, subject to ANP approval, with the 170(B1) well which was drilled in the first quarter of 2016.

Additional letters of credit and letters of guarantee, and any required accompanying cash collateralization, will be issued and posted, as applicable and as required, for any additional work commitments assumed by Alvopetro within Brazil. In addition, to the extent EDC coverage is limited in the future for any new LC's or for any existing LC's requiring extension to the expiry date, the Company would be required to post cash collateral to support existing work commitments in Brazil.

Foreign Exchange

The Company's reporting currency is the USD and its functional currencies are the USD and the BRL. Substantially all costs incurred in Brazil are in BRL's and the Company incurs certain head office costs in both USD and CAD. In each reporting period, the change in the values of the BRL and the CAD relative to the Company's reporting currency are recognized. 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		
	March 31, 2016	December 31, 2015	**% Change**
Rate at end of period:			
U.S. dollar / Brazilian real	**3.558**	3.904	**(8.9)**
U.S. dollar / Canadian dollar	**1.299**	1.384	**(6.1)**

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 other comprehensive income in our consolidated statements of operations and comprehensive loss. The BRL appreciated 8.9% relative to the USD from December 31, 2015 to March 31, 2016 resulting in a $3.2 million other comprehensive gain during the period.

Share-Based Compensation Expense

	Three months ended March 31,	
	2016	2015
Share-based compensation	**11**	89

Share-based compensation expense is a non-cash expense that is based on the fair value of stock options granted and amortized over the vesting period of the options. Under Alvopetro's Stock Option Plan there were 6.1 million stock options outstanding at March 31, 2016 compared to 5.3 million at March 31, 2015. Gross share-based compensation expense for the three months ended March 31, 2016 was $0.02 million (March 31, 2015 - $0.1 million). Overall, share-based compensation expense decreased 88% in the three months ended March 31, 2016 compared to the same period in 2015 as a total of 1.5 million options were forfeited and cancelled in the current period, of which 0.7 million were unvested, thereby reducing the share-based compensation expense for any previously expensed amounts. In addition, as a result of a decline in the Company's share price, there is a lower estimated fair value of new stock options granted and a lower share-based compensation expense as higher valued grants are vested.

Depletion, Depreciation, Accretion and Impairment

	Three months ended March 31,	
	2016	2015
Depletion and depreciation (DD&A)	**98**	116
Accretion on decommissioning liabilities	**6**	19
Impairment	**2,989**	-
Total	**3,093**	135

Included in the depletion computation for our producing assets was $9.9 million (March 31, 2015 - $12.0 million) of estimated future development costs for undeveloped proved plus probable reserves. The decrease in depletion expense in the three months ended March 31, 2016 compared to the same period in 2015 is due to a decrease in the depletable base which is primarily a function of impairments recorded in 2015 and lower future development costs. The decrease in accretion expense compared to the same period in 2015 is as a result of a revision to the estimated decommissioning liability recognized in the fourth quarter of 2015.

The Company recorded an impairment to Block 170 of $3.0 million in the three months ending March 31, 2016. The impairment relates to all costs incurred on the block in the current period, primarily on drilling the 170(B1) well. As no commercial quantities of oil or gas were discovered in this well, on March 29, 2016, the Company notified the ANP of its intention to relinquish the block. All costs incurred up to December 31, 2015 had been impaired in the 2015 financial statements and the 2016 impairment charge brings the carrying value to $nil as at March 31, 2016 (December 31, 2015 - $nil).

Taxes

	Three months ended March 31,	
	2016	**2015**
Current income tax expense	**-**	-
Deferred income tax expense (recovery)	**300**	(266)
Total income tax expense (recovery)	**300**	(266)

The statutory corporate tax rate in Brazil is 34%. This is comprised of a basic 15% corporate income tax, plus 10% surtax and 9% social contribution on net profit tax. As the Company is currently in an overall loss position, no current tax expense was realized in the three months ended March 31, 2016 or March 31, 2015.

The deferred tax expense recognized for the three months March 31, 2016 is largely as a result of an increase in the unrecognized deferred tax asset in Brazil and foreign currency fluctuations on BRL denominated tax pools. An overall deferred tax asset attributable to Brazil operations of $6.5 million exists as at March 31, 2016, the benefit of which has not been recognized for accounting purposes. The unrecognized deferred tax asset increased from the December 31, 2015 balance of $4.3 million as a result of losses in the three months ended March 31, 2016 and strengthening of the BRL relative to the USD as the unrecognized deferred tax asset is denominated in BRL. The deferred tax expense was partially offset by a deferred tax recovery on Canadian operations due to the decline in the anticipated deferred tax liability associated with unrealized foreign exchange gains.

Net Loss

The Company reported a net loss for the three months ended March 31, 2016 of $4.5 million, compared to a loss of $1.6 million for the three months ended March 31, 2015. The Company realized a higher loss in 2016 compared to the same period in 2015 primarily due to the $3.0 million impairment recorded in the period.

Capital Expenditures

Capital Expenditures by Type	Three months ended March 31, 2016	2015
E&E expenditures		
Drilling and completions	**2,650**	448
Inventory purchases	**55**	40
Facility & equipment	**-**	127
Land, lease, and similar payments	**45**	81
Capitalized G&A	**269**	214
Other	**39**	117
Total E&E expenditures	**3,058**	1,027
PP&E expenditures		
Drilling and completions	**-**	126
Furniture, fixtures, and equipment	**2**	83
Capitalized G&A	**4**	50
Other	**2**	3
Total PP&E expenditures	**8**	262
Other asset expenditures		
Other advances for E&E assets	**-**	65
Other asset expenditures	**-**	65
Total capital expenditures by type	**3,066**	1,354

Capital Expenditures by Area	Three months ended March 31, 2016	2015
E&E expenditures		
9th Brazil Bid Round blocks	**2,657**	876
11th Brazil Bid Round blocks	**30**	17
12th Brazil Bid Round blocks	**266**	25
13th Brazil Bid Round blocks	**11**	-
Inventory	**55**	40
Costs to be allocated to blocks (allocated to blocks)	**39**	69
Total E&E expenditures	**3,058**	1,027
PP&E expenditures		
Bom Lugar	**-**	169
Jiribatuba	**-**	7
182(B1)	**5**	-
Corporate	**3**	86
Total PP&E expenditures	**8**	262
Other asset expenditures	**-**	65
Total capital expenditures by area	**3,066**	1,354

In the first quarter of 2016, the Company drilled the 170(B1) well incurring costs of $2.4 million. Additional E&E costs included $0.2 million of site construction costs for the 256(A1) well which the Company plans to drill later in 2016 and capitalized G&A of $0.3 million.

Summary of Quarterly Results

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Financial								
Oil sales	**153**	116	97	150	172	212	257	323
Funds flow from operations (1)	**(1,225)**	(1,017)	(1,240)	(1,352)	(1,357)	(1,482)	(1,331)	(1,893)
Per share – basic & diluted ($)	**(0.01)**	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Net loss	**(4,515)**	(9,797)	(84)	(980)	(1,563)	(24,662)	(1,722)	(1,304)
Per share – basic & diluted ($)	**(0.05)**	(0.12)	-	(0.01)	(0.02)	(0.29)	(0.02)	(0.02)
Capital and other asset expenditures	**3,066**	1,610	2,636	6,602	1,354	16,239	14,663	6,093
Operations								
Operating netback ($/bbl) (1)								
Brent benchmark price	**35.08**	44.71	51.17	63.50	55.16	76.98	103.38	109.74
Sales price	**28.85**	36.30	38.52	52.14	45.51	62.35	100.82	103.91
Transportation expenses	**(1.89)**	(2.50)	(3.18)	(1.74)	(4.23)	(2.65)	(3.53)	(4.83)
Realized sales price	**26.96**	33.80	35.34	50.40	41.28	59.70	97.29	99.08
Royalties and production taxes	**(3.39)**	(3.13)	(2.78)	(2.09)	(3.97)	(4.71)	(9.42)	(10.62)
Production expenses	**(67.70)**	(56.32)	(71.49)	(91.76)	(65.63)	(141.18)	(104.35)	(116.78)
Operating netback	**(44.13)**	(25.65)	(38.93)	(43.45)	(28.32)	(86.19)	(16.48)	(28.32)
Average daily crude oil production (bopd)	**58**	35	27	32	42	37	28	34

Notes:

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

Q1 2016 – Capital expenditures of $3.1 million in the quarter were largely attributable to the 170(B1) well. The Company incurred total costs of $2.4 million on this well in the quarter. Due to the lack of any commercial discovery on this well and consistent with 2015, the Company recognized an impairment loss on this block of $3.0 million, contributing to the overall net loss in the quarter of $4.5 million. Average daily oil production increased 66% from the fourth quarter of 2015 as the 182(B1) well was on production for most of the quarter, contributing an average of 33 bopd. This production increase was partially offset by reduced production from the Bom Lugar field due to maintenance. Despite the increase in daily production, oil sales increased only 32% due to the 22% decline in Brent.

Q4 2015 – The Company realized a 30% increase in its average daily production due to the 182(B1) well, which commenced production in December 2015 contributing 4 bopd in the quarter, and the Jiribatuba field, which was brought back on production in November 2015, contributing 6 bopd in the quarter. These production increases were offset by a small decline from the Bom Lugar field as one producing well was shut-in to transfer equipment to the 182(B1) well. Despite the 30% increase in production, oil sales increased only 20% from the third quarter due to the 13% decline in Brent. Capital expenditures of $1.6 million included $0.5 million in site construction and rig mobilization costs for the 170(B1) well and $0.3 million in initial facilities construction costs for the 182(B1) well. The net loss of $9.8 million was largely as a result of the $12.1 million impairment loss recognized on E&E and PP&E assets and negative funds flow from operations of $1.0 million offset by a deferred tax recovery of $3.0 million.

Q3 2015 – The Company completed testing the 182(B1) well. Total capital and other asset expenditures were $2.6 million, including $1.7 million for testing and facilities costs for this well and capitalized G&A of $0.2 million. Production decreased 16% from the second quarter as the Jiribatuba well continued to be offline due to road access issues. The lack of production from the Jiribatuba field and the 19% decline in Brent from the second quarter resulted in a 35% decrease in oil sales. As a result of the continued decline in Brent prices, the Company recognized a $1.0 million impairment loss on the Bom Lugar field. This was more than offset by the recognition of a deferred tax recovery of $2.5 million, resulting in an overall net loss of $0.1 million in the quarter.

Q2 2015 – The Company completed drilling the 182(B1) well and completed testing the 197(2) well. Total capital and other asset expenditures were $6.6 million, including $5.2 million relating to these projects, $0.3 million for the acquisition of the remaining working interest in Block 170, and $0.4 million in capitalized G&A. Production decreased 24% from the first quarter of 2015 due to road access issues at the Jiribatuba field and maintenance on our Bom Lugar well, resulting in a 13% decrease in oil sales, despite the 15% increase in Brent during the quarter. This maintenance work also contributed to higher production expenses and higher production costs per barrel in the quarter.

Q1 2015 – The Company's daily production increased 14% from the previous quarter as a result of workover activities at Jiribatuba late in 2014. The incremental sales from these volumes were more than offset by the decline in Brent oil prices, resulting in lower oil sales. Total capital and other asset expenditures were $1.4 million. In March 2015, Alvopetro commenced testing the 197(2) well and incurred costs related to civil works in preparation of the Company's next well on Bom Lugar. During the quarter, the USD strengthened quite substantially over the CAD (9%) and the BRL (21%). As a result, the Company recorded a $0.2 million foreign exchange loss on the Canadian operations (included in net income) and a $6.7 million loss on the Brazil operations (included in other comprehensive loss).

Q4 2014 –The Company completed drilling 183(1), completed testing 197(1), drilled 197(2) and performed workovers on two wells at Jiribatuba. Total capital and other asset expenditures for the quarter were $16.2 million which included these activities as well as $5.7 million related to performance guarantees on blocks impaired at December 31, 2014, inventory purchases and advances of $2.8 million and capitalized G&A of $0.6 million. The net loss for the quarter was $24.7 million, primarily due to an impairment loss of $22.6 million as well as lower oil prices and higher production expenses from workover activities. In December, EDC agreed to guarantee up to $15.5 million of the Company's LC's issued in relation to work commitments in Brazil and prior to year-end, a total of $15.1 million of LC's were transitioned to EDC's coverage, allowing for the release of this amount from restricted cash. The BRL and the CAD declined relative to the USD by 8.4% and 3.5%, respectively. The Company reported a foreign exchange loss of $0.1 in net income related to the change in the USD relative to the CAD and a loss of $5.0 million in other comprehensive income related to the change in the USD relative to the BRL.

Q3 2014 – The Company commenced drilling the 183(1) well (spud in late July) and incurred costs of $7.4 million on this well during the quarter. Other capital activities included completion and testing of 197(1) for $3.4 million, $0.3 million in standby charges, as well as costs incurred for future drilling activities, including inventory purchases and construction of the 197(2) location which was spud in early November. The Company's main producing well at Bom Lugar was offline for most of the month of September for a pumpjack repair, resulting in reduced oil sales revenue as well as associated royalties and transportation. Production expenses were less overall in the quarter but per barrel costs remained high at $104.35 due to lower production levels.

Q2 2014 – Capital expenditures included rig standby charges of $1.2 million, $1.0 million related to Block 183 (including the final farm-in payment and lease construction costs for the 183(1) well), $0.6 million in bid round bonuses, $1.1 million in additional drilling costs and initial completion and testing costs on the 197(1) well, as well as inventory and other purchases. Second quarter production expenses of $116.78 per barrel represented a 13% increase over the previous quarter largely due to Jiribatuba turnaround costs. G&A of $1.7 million was $0.6 million higher than the first quarter as a result of increased operational activities as well as several annually occurring costs related to year end reporting, filing and printing.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at March 31, 2016:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments[1]				
Block 183	-	937	-	937
Block 170[2]	843	-	-	843
Block 106	320	-	-	320
Block 107	2,136	-	-	2,136
Block 177	2,021	-	-	2,021
Block 169	-	1,068	-	1,068
Block 198	-	1,068	-	1,068
Block 255	-	1,278	-	1,278
Block 256	-	284	-	284
Block 57[3]	-	249	-	249
Block 62[3]	-	249	-	249
Block 71[3]	-	170	-	170
Block 145[3]	-	249	-	249
Bom Lugar	-	-	98	98
Jiribatuba	-	-	98	98
Total minimum work commitments	**5,320**	**5,552**	**196**	**11,068**
Production facilities contract[4]	**138**	**-**	**-**	**138**
Office leases[5]	**212**	**35**	**-**	**247**
Total commitments	**5,670**	**5,587**	**196**	**11,453**

Notes:

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

(2) During the three months ended March 31, 2016, the Company completed drilling the 170(B1) well in satisfaction of the work commitment in the table above, subject to ANP approval. Due to the lack of a commercial discovery on 170(B1), on March 29, 2016 the Company notified the ANP of its intention to relinquish this block.

(3) Alvopetro holds a 65% interest in each of these blocks and the amounts provided in the table above represent Alvopetro's share of the related commitments.

(4) The Company is committed to future payments under the terms of an equipment rental contract for production facilities in respect of the 182(B1) well. The contract was terminated in May 2016 for a payment of $0.06 million.

(5) The Company is committed to future minimum payments for office space in Canada and Brazil. In Brazil, the Company is required to provide a guarantee for certain office rental payments. The total amount of the guarantee provided as at March 31, 2016 was approximately $0.1 million.

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.

Alvopetro's activities in Brazil are subject to minimum local content requirements with respect to materials and supplies utilized. The specific local content requirements for the exploration phase were determined during the bidding process for each particular block and are assessed at the phase expiry date. Management undertakes considerable effort to adhere to these requirements; however, there may be circumstances when it is not advantageous or reasonably possible for the Company to do so. If the Company does not meet the local content requirements for a particular phase as specified according to the respective concession contract, a fine, which varies by concession depending on exploration phase and type of cost, will be incurred. The Company is continually monitoring its local content compliance and actual or potential fines and, as of March 31, 2016, the potential estimated fine was $0.1 million (December 31, 2015 - $0.1 million), which is included in accounts payable and accrued liabilities in the respective consolidated statements of financial position.

LIQUIDITY AND CAPITAL RESOURCES

Our activities since inception have targeted: our mature fields, shallow conventional exploration, and proving the commercial potential of the Gomo tight hydrocarbon resource in the Recôncavo Basin. In 2016, we are focused on building a natural gas business from our 197(2) discovery by securing a gas sales contract and finalizing the field commercialization plan. At the same time, as a result of the decline in oil prices, we have taken steps to preserve our financial resources through a disciplined capital program and cost reductions.

At March 31, 2016, Alvopetro's cash and cash equivalents of $27.4 million was held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	**26,813**	26,515	298	-
Cash held in Brazil	**614**	-	-	614
Total	**27,427**	**26,515**	**298**	**614**

Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as at March 31, 2016.

Alvopetro currently does not derive positive cash flow from its operations. Capital expenditures and ongoing G&A and production expenses are funded from existing cash balances. At March 31, 2016 the Company's working capital of $25.1 million exceeded estimated outstanding commitments of $11.5 million by $13.6 million. Work commitments in Brazil are supported by total LC's of $15.3 million as at March 31, 2016, the full balance of which are currently satisfied through EDC. EDC coverage is reviewed annually. Typically, LC's supported by EDC will continue to be supported until the expiry date of each LC; however, to the extent LC's are amended for block extensions or other changes, EDC support could be revoked. To the extent some or all of EDC coverage were limited in the future, the Company would be required to post the requisite amount from its cash balance which may impact its ability to fund future capital and operational expenditures.

Alvopetro plans to continue its disciplined and balanced capital approach throughout 2016 with a focus on building a natural gas business and on drilling high potential exploration prospects. Our $8.0 million capital plan for 2016 includes:

- Drilling the 170(B1) well which was completed in March 2016;
- Drilling the 256(A1) well which is a multi-zone prospect on Block 256 and is our largest natural gas exploration prospect to date.

The 2016 capital plan is expected to be funded with existing cash balances on hand. Future capital expenditures may be funded through a combination of cash on hand, cash flow from successful operations, assets sales, joint ventures, farmouts, debt, or equity.

The liability for decommissioning obligations of Alvopetro was $1.3 million as at March 31, 2016. 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.

At March 31, 2016 the Company had $4.1 million of equipment inventory to be utilized for future operations which is included in exploration and evaluation assets in the consolidated statement of financial position.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and preferred shares in one or more series. The aggregate number of Alvopetro common shares and stock options outstanding at May 17, 2016 was 91,312,307 (common shares – 85,166,871, stock options – 6,145,436). There are no preferred shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Alvopetro is party to non-material office-related administrative transactions with Touchstone Exploration Inc., a related party of the Company due to common directors, summarized as follows:

	Three months ended March 31,	
	2016	2015
Office rent and related costs	**23**	50

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended March 31, 2016 to the risk and uncertainties identified in the MD&A for the year ended December 31, 2015.

An investment in Alvopetro should be considered speculative due to the nature of our activities and the stage of our development. Alvopetro is exposed to a variety of risks, including but not limited to competitive, operational, political, environmental and financial risks. Investors should carefully consider the risk factors set forth under the heading "*Risk Factors*" in our Annual Information Form that can be found on SEDAR at www.sedar.com.

SENSITIVITIES

The Company's earnings and cash flow are sensitive to changes in the price of crude oil. As the Company is in the early stage of its operations and has significant cash on hand, it does not depend on its cash flows from oil sales and fluctuations in the price of crude oil are not currently significant to the Company.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

On January 1, 2016, the Company adopted IFRS 11 *Joint Arrangements* which was amended regarding the accounting for the acquisition of an interest in a joint operation that constitutes a business. The adoption of this amended standard had no impact on the amounts recorded in the interim condensed consolidated financial statements. The Company continues to assess the impact of adopting the new and revised accounting pronouncements that have been issued but are not yet effective as described in the 2015 MD&A.

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

Forward-Looking Statements. Certain information provided in this MD&A constitutes forward-looking statements. Specifically, this MD&A contains forward-looking statements relating to future results from operations, projected financial results, future capital and operating costs, future production rates, proposed exploration and development activities, sources of capital, dividend levels, and capital spending levels. Forward-looking statements are necessarily based upon assumptions and judgments with respect to the future including, but not limited to, the success of future drilling, completion, recompletion and development activities, the outlook for commodity markets and 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 this MD&A and in our 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.

Abbreviations:

Bopd = barrels of oil per day

Non-GAAP Measures. This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), such as funds flow from operations, funds flow per share, net working capital surplus and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and shareholders. Specifically, funds flow from operations and funds flow per share reflect cash generated from operating activities before changes in non-cash working capital. Management considers funds flow from operations and funds flow per share important as they help evaluate performance and demonstrate the Company's ability to generate sufficient cash to fund future growth opportunities. Net working capital surplus includes current assets (including current restricted cash) less current liabilities (excluding the current portion of decommissioning obligations) and is used to evaluate the Company's financial leverage. Operating netback is determined by dividing oil sales less royalties and production taxes, transportation and operating expenses by sales volume of produced oil. Management considers operating netback important as it is a measure of profitability per barrel sold and reflects the economic quality of production. Funds flow from operations, funds flow per share, net working capital surplus and operating netbacks may not be comparable to those reported by other companies nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with GAAP.