The following Management's Discussion and Analysis ("MD&A") is dated May 15, 2018 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, 2018, MD&A for the year ended December 31, 2017 and the audited consolidated financial statements as at and for the years ended December 31, 2017 and 2016. 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 and Camamu-Almada basins onshore Brazil. Alvopetro holds interests in three producing fields and 11 exploration assets comprising 73,473 gross acres (63,460 net acres) 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 natural gas field and the construction of strategic midstream infrastructure. We are creating an upstream/midstream hybrid corporate vehicle to provide sustainable returns to our shareholders. Our plan is to create a disciplined long-term return model where at least half of our net cashflows are distributed to stakeholders as dividends to our shareholders and/or as interest payments to infrastructure-related debtholders.

SELECTED QUARTERLY RESULTS

	Three months ended March 31,	
	2018	**2017**
Financial		
($000s, except where noted)		
Oil sales	**116**	171
Net loss	**(889)**	(893)
Per share – basic and diluted ($)(1)	**(0.01)**	(0.01)
Funds flow from operations (2)	**(842)**	(797)
Per share – basic and diluted ($)(1)	**(0.01)**	(0.01)
Capital expenditures(3)	**1,276**	2,769
Total assets	**68,108**	77,003
Debt	**-**	-
Net working capital surplus (2) (4)	**6,628**	13,504
Common shares outstanding, end of year (000s)		
Basic	**85,167**	85,167
Diluted (1)	**91,706**	91,762
Operations		
Operating netback ($/bbl) (2)		
Brent benchmark price	**67.18**	54.67
Discount	**(5.18)**	(5.32)
Sales price	**62.00**	49.35
Transportation expenses	**(2.14)**	(2.60)
Realized sales price	**59.86**	46.75
Royalties and production taxes	**(6.95)**	(4.91)
Production expenses	**(126.14)**	(62.05)
Operating netback	**(73.23)**	(20.21)
Average daily crude oil production (bopd)	**21**	39

Notes:

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

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

(3) Includes non-cash capital expenditures of $nil in the three months ended March 31, 2018 (March 31, 2017 - $0.4 million).

(4) Includes current restricted cash of $0.1 million (March 31, 2017 - $0.1 million) and assets held for sale of $0.2 million (March 31, 2017 - $nil).

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE FIRST QUARTER OF 2018

- In February 2018, we completed testing three separate intervals of our 183(1) well. The 183(1) well was originally drilled in 2014 to a total depth of 3,550 metres. Capital expenditures of $1.3 million in the first quarter included $0.8 million for testing this well, capitalized G&A of $0.3 million and Caburé permitting costs of $0.1 million.
- We reported a net loss of $0.9 million in the first quarter primarily due to negative funds flow from operations of $0.8 million.
- Our production increased to 21 bopd in the first quarter, a 24% increase from the fourth quarter of 2017 as the Bom Lugar well was brought back online in March after a pump failure in November 2017.
- Our cash, restricted cash and working capital resources total $6.6 million, including cash and cash equivalents of $7.5 million.

RECENT HIGHLIGHTS

- In April 2018, we finalized the terms of the unitization agreement ("UOA") and the unit development plan for our Caburé natural gas field (the 197(2) and 198(A1) wells) with the adjacent resource owner, Imetame Energia Ltda. ("Imetame"). Under the terms of the UOA, Imetame will act as initial operator. The parties have agreed to a development plan which will be executed by Imetame in 2018 and 2019. Under the terms of the UOA, Alvopetro will be responsible for its share of unit capital when we commence production, or March 2020, whatever occurs first.
- In May 2018, Alvopetro executed a long-term natural gas sales agreement ("GSA") with Bahiagás, the Bahia State natural gas distribution company. The GSA provides for the sale of 5.3 mmcfpd (150,000 m3/d) on a firm basis plus up to 12.4 mmcfpd (350,000 m3/d) on an interruptible basis, adjustable annually. The natural gas price to be received under the GSA is set semi-annually using a trailing weighted average basket of benchmark prices. The calculated natural gas price under the GSA for the month of February 2018 price was $6.54/mmbtu and will be adjusted next in August 2018. Alvopetro has secured the land for the gas processing facility, completed all field survey and permitting work, and the application for construction has been submitted for regulatory approval.

PETROLEUM AND NATURAL GAS PROPERTIES AND OUTLOOK

As at March 31, 2018, Alvopetro held interests in three producing fields and 11 exploration assets onshore Brazil, comprising 73,473 gross acres (63,460 net acres) in two hydrocarbon basins: the Recôncavo basin and the Camamu-Almada basin. The current assets of Alvopetro consist of 11 exploration assets (the Caburé natural gas field and Blocks 182, 183, 197, 106, 169, 255, 57, 62, 71, and 145) and three producing fields (Bom Lugar, Mãe-da-lua and Jiribatuba).

EXPLORATION BLOCK ACTIVITY SUMMARY

Caburé Natural Gas Field:

Alvopetro's Caburé natural gas field and Caburé Leste natural gas field (the 197(2) and 198(A1) wells), 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 and two of which are held by Imetame (after its acquisition of the interest held by Orteng Óleo & Gas S.A.). The ANP was engaged to arbitrate the terms of the unitization and determined the initial working interest share for each resource owner, with 49.1% attributable to Alvopetro and 50.9% attributable to Imetame.

In April 2018, Alvopetro and Imetame finalized the terms of the unitization and executed the UOA, the unit development plan and all related agreements, subject to the approval of the ANP. Under the terms of the agreements, Imetame will act as initial operator and will be responsible for virtually all initial unit capital in 2018 and 2019. The unit has four existing wells and the development plan includes the construction of low and high-pressure facilities, tie-in of existing wells, and drilling of up to four new development wells. Imetame is entitled to 100% of the early field production (with an early production plateau of 150,000 m3/d). All unit wells will be completed and tied in by the end of 2019 with a planned gross field production plateau rate of 450,000 m3/d. Alvopetro will pay for its share of the initial unit capital, when we commence production or March 2020, whatever comes first.

In May 2018, Alvopetro entered into a long-term GSA with Bahiagás with respect to its share of the gas to be produced from the unit. The GSA 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 annually. The natural gas price to be received under the GSA is set semi-annually using a trailing weighted average basket of benchmark prices including Henry Hub and National Balancing Point gas prices and Brent crude oil prices, with a floor of $5.00/mmbtu and a ceiling of $8.50 (both subject to United States inflation (CPI). The calculated natural gas price under the GSA for the month of February 2018 price was $6.54/mmbtu and will be adjusted next in August 2018. The GSA has take-or-pay provisions and supply failure penalties to ensure performance by both parties. Gas deliveries under the GSA are set to commence at the end of 2019, or earlier with mutual consent.

Alvopetro will be responsible to build a natural gas processing facility ("UPGN") and an 11-kilometre pipeline from the unit facilities to the UPGN. Alvopetro has secured the land for the UPGN, completed all field survey and permitting work, and the application for construction has been submitted for regulatory approval. All minimum work commitments to be carried out under the terms of the applicable concession contracts have been met with respect to the Caburé natural gas field.

Other Exploration Blocks:

Block	Gross Acres	Working Interest	Current Phase Expiry	Estimated Net Work Commitment[1] ($000's)	Letter of Credit Support[2] ($000's)
182	4,807	100%	Suspension in place[3]	-	
183	7,740	100%	October 1, 2018/Suspension in place[4]	1,003	1,233
197	3,484	100%	Suspension in place[5]	-	-
106	7,759	100%	July 21, 2018	343	463
169	5,280	100%	Suspension in place[6]	1,143	1,543
255	7,734	100%	Suspension in place[6]	1,368	1,847
57	7,752	65%	January 24, 2019	44	279
62	7,715	65%	January 24, 2019	44	279
71	5,409	65%	January 24, 2019	38	191
145	7,734	65%	January 24, 2019	44	279
TOTAL				**4,027**	**6,114**

(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. LC's outstanding at March 31, 2018 include $2.9 million in respect of Block 177 not reflected in the table above. The block was relinquished in February 2018, the work commitment was approved by the ANP in February 2018 and the LC was released subsequent to March 31, 2018.

(3) Block 182 is currently in the PAD phase. In the three months ended March 31, 2018, the ANP 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) A portion of Block 183 is currently in the PAD phase with an expiry date of October 1, 2018. The remainder of the block is in exploration Phase II 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.

(5) Block 197 is currently in the PAD phase. In 2017, the ANP approved the suspension of the PAD due to the lack of an environmental permit for stimulation of the 197(1) well.

(6) Due to an ongoing injunction against unconventional activities on all 12th Brazil Bid Round Blocks, in December 2017 the Company filed a request with the ANP to cancel the Block 169 and 255 concession contracts, including the commitment noted in the table above, and return the bid round bonuses paid.

FINANCIAL AND OPERATING REVIEW

Average Daily Production

	Three Months Ended March 31,	
	2018	2017
Total production (bbls)	**1,871**	3,465
Daily production (bopd)	**21**	39

Average daily production in the first quarter of 2018 decreased to 21 bopd compared to 39 bopd in the first quarter of 2017, largely due to a downhole pump failure at the Bom Lugar field as well as natural declines at the Mãe-da-lua field. Production at the Bom Lugar field recommenced in March and averaged 8 bopd in the quarter.

Oil Sales

	Three Months Ended March 31,	
	2018	2017
Brent ($/bbl)	**67.18**	54.67
Discount ($/bbl)	**(5.18)**	(5.32)
Sales Price ($/bbl)	**62.00**	49.35
Sales price discount as a % of Brent	**8%**	10%
Oil Sales	**116**	171
Transportation	**(4)**	(9)
Total sales, net of transportation expense	**112**	162
Realized price ($/bbl)	**59.86**	46.75

Pursuant to the terms of Alvopetro's oil sales 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 Mãe-da-lua contracts. The fixed discount per barrel under the Bom Lugar contract was reduced in the second quarter of 2017 resulting in lower discounts relative to Brent in the first quarter of 2018 compared to 2017.

Oil sales decreased 32% in the first quarter of 2018 compared to first quarter of 2017 as a result of the 46% decrease in daily production, partially offset by increasing Brent prices and reduced sales price discounts.

Royalties and Production Taxes

	Three Months Ended March 31,	
	2018	2017
Royalties and production taxes	**13**	17
Percentage of sales (%)	**11.2**	9.9

The Bom Lugar and Jiribatuba 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. The Mãe-da-lua field and all exploration blocks held by Alvopetro are subject to a base 10% government royalty plus a 1% landowner royalty. There is an additional 2.5% gross-overriding royalty on the Mãe-da-lua field and Blocks 182 and 197 (including production from the Caburé field attributable to this block).

All royalties are paid based on the greater of the sales price and an ANP minimum reference 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 in the first quarter of 2018 compared to 2017 due to higher proportionate sales from the Mãe-da-lua field which has a higher overall royalty rate.

Production Expenses

	Three Months Ended March 31,	
	2018	2017
Production expenses by type:		
Personnel costs	**84**	93
Other fixed costs	**73**	61
Variable costs	**16**	21
Workover costs	**63**	40
Total production expenses	**236**	215
Production expenses per barrel:		
Personnel costs	**44.90**	26.85
Other fixed costs	**39.02**	17.60
Variable costs	**8.55**	6.06
Workover costs	**33.67**	11.54
Total production expenses per bbl ($)	**126.14**	62.05

Production expenses for the first quarter of 2018 increased relative to 2017 despite the daily production decrease due to workover cost on our Bom Lugar well. On a per barrel basis, costs increased due to the decline in production levels.

General and Administrative ("G&A") Expenses

	Three Months Ended March 31,	
G&A Expenses, by type:	**2018**	2017
Personnel	**657**	651
Travel	**36**	23
Office and IT costs	**92**	91
Professional fees	**153**	125
General corporate costs	**85**	84
Gross G&A	**1,023**	974
Capitalized G&A	**(309)**	(271)
G&A expenses	**714**	703

The majority of the Company's G&A expenses relate to personnel costs. General corporate costs include public company costs, directors' fees and insurance. The Company's Gross G&A increased relative to the first quarter of 2017 due to additional travel costs and professional fees, largely with respect to unitization negotiations.

Funds Flow from Operations

	Three Months Ended March 31,	
	2018	2017
Funds flow from operations	**(842)**	(797)

Despite higher oil sales, the Company's funds flow from operations decreased compared to the first quarter of 2017 due to small increases in G&A and 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 BRLs 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		
	March 31, 2018	December 31, 2017	**% Change**
Rate at end of period:			
U.S. dollar / Brazilian real	**3.324**	3.308	**0.5**
U.S. dollar / Canadian dollar	**1.289**	1.255	**2.7**

	Three Months Ended March 31,		
	2018	2017	**% Change**
Average rate in the period:			
U.S. dollar / Brazilian real	**3.243**	3.145	**3.1**
U.S. dollar / Canadian dollar	**1.264**	1.324	**(4.5)**

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) gain on translation of foreign operations in our consolidated statements of operations and comprehensive (loss) gain. The BRL depreciated 0.5% relative to the USD in the three months ended March 31, 2018, resulting in an exchange loss of $0.2 million.

As a significant portion of the Company's expenditures are denominated in CAD and BRL, the Company is exposed to fluctuations in these currencies relative to the USD which may have a material impact on costs in the future. In the first quarter of 2018, the BRL depreciated 3.1% on average relative to the USD, resulting in lower USD equivalent production and G&A expenses. In contrast, the CAD appreciated 4.5% on average, resulting in higher USD equivalent costs.

Share-Based Compensation Expense

	Three Months Ended March 31,	
	2018	2017
Share based compensation expense	**3**	25

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 6.5 million stocks options outstanding at March 31, 2018 compared to 6.6 million at March 31, 2017. In December 2017, the Company deferred the routine annual grant of stock options to directors, officers and certain employees pending finalization of the required Caburé unitization and GSA resulting in lower shared based compensation in the first quarter of 2018 as the majority of stock options outstanding at March 31, 2018 were vested.

Depletion, Depreciation and Accretion

	Three Months Ended March 31,	
	2018	2017
Depletion and depreciation (DD&A)	**33**	68
Accretion on decommissioning liabilities	**10**	9
Total	**43**	77

Included in the depletion computation for our producing assets was $6.4 million (March 31, 2017 - $7.5 million) of estimated future development costs for undeveloped proved plus probable reserves. The decrease in depletion expense in the first quarter of 2018 is due to both the decrease in production in 2018 as well as the depletable base, primarily as a result of the reduction in future development costs.

Net Loss

	Three Months Ended March 31,	
	2018	2017
Net loss	**(889)**	(893)

Net loss in the first quarter of 2018 is consistent with the first quarter of 2017 despite increased G&A and production expenses due to reduced share-based compensation, DD&A and E&E expenses.

Capital Expenditures

Capital Expenditures by Type	Three Months Ended March 31, 2018	2017
E&E		
Drilling and completions[1]	**814**	2,444
Facility & equipment	**85**	8
Land, lease, and similar payments	**58**	31
Capitalized G&A	**307**	265
Other	**10**	13
Total E&E	**1,274**	2,761
PP&E		
Facility & equipment	**-**	2
Capitalized G&A	**2**	6
Total PP&E	**2**	8
Total capital expenditures by type	**1,276**	2,769

Capital Expenditures by Property	Three Months Ended March 31, 2018	2017
E&E		
Caburé	**235**	2,658
9th Brazil Bid Round blocks (Blocks 182, 183, 197)	**1,011**	48
11th Brazil Bid Round blocks (Blocks 106, 107, 177)	**15**	32
12th Brazil Bid Round blocks (Blocks 169, 255, 256)	**-**	6
13th Brazil Bid Round blocks (Blocks 57, 62, 71)	**4**	17
Costs to be allocated to blocks	**9**	-
Total E&E	**1,274**	2,761
PP&E		
Bom Lugar	**1**	2
Jiribatuba	**1**	1
Mãe-da-lua	**-**	5
Total PP&E	**2**	8
Total capital expenditures by property	**1,276**	2,769

[1] Includes non-cash capital expenditures of $0.4 million in the three months ended March 31, 2017.

Capital expenditures in the first quarter of 2018 include testing costs on the 183(1) well of $0.8 million, Caburé permitting costs of $0.1 million, and capitalized G&A $0.3 million.

Summary of Quarterly Results

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Financial								
Oil sales	**116**	85	120	86	171	208	74	126
Net loss	**(889)**	(2,079)	(3,331)	(814)	(893)	(371)	(5,692)	(2,000)
Per share – basic & diluted ($)	**(0.01)**	(0.02)	(0.04)	(0.01)	(0.01)	-	(0.07)	(0.02)
Funds flow from operations (1)	**(842)**	(775)	(959)	(723)	(797)	(1,006)	(1,155)	(1,309)
Per share – basic & diluted ($)	**(0.01)**	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
Capital and other asset expenditures(2)	**1,276**	434	1,663	566	2,769	708	3,785	835
Operations								
Operating netback ($/bbl) (1)								
Brent benchmark price	**67.18**	61.53	52.18	50.92	54.67	51.13	46.98	46.97
Sales price	**62.00**	55.05	46.91	43.77	49.35	42.31	38.60	38.47
Transportation expenses	**(2.14)**	(2.59)	(2.35)	(2.04)	(2.60)	(2.24)	(2.09)	(2.44)
Realized sales price	**59.86**	52.46	44.56	41.73	46.75	40.07	36.51	36.03
Royalties and production taxes	**(6.95)**	(6.48)	(4.69)	(6.11)	(4.91)	(4.48)	(4.17)	(3.36)
Production expenses	**(126.14)**	(112.05)	(72.71)	(127.23)	(62.05)	(34.58)	(137.72)	(109.92)
Operating netback	**(73.23)**	(66.07)	(32.84)	(91.61)	(20.21)	1.01	(105.38)	(77.25)
Average daily crude oil production (bopd)	**21**	17	28	22	39	53	21	36

Notes:

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

(2) Q3 2017 and Q1 2017 capital expenditures include non-cash expenditures of $0.05 million and $0.4 million, respectively.

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 bopd 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.

Q4 2017 – The Company's average daily production decreased 39% to 17 bopd due to reduced production from the Bom Lugar well which was impacted by downhole pump problems and other maintenance. The Company recognized total impairment charges of $1.3 million in the quarter on Block 169 ($0.3 million), Block 255 ($0.3 million), equipment inventory ($0.2 million) as well as on the Mãe-da-lua field ($0.5 million). Funds flow from operations improved $0.2 million due to reduced G&A and E&E expenses in the quarter. Capital expenditures of $0.4 million were primarily attributable to recurring costs, including capitalized G&A of $0.2 million.

Q3 2017 – The Company drilled the 177(A1) well on Block 177 in the quarter, incurring costs of $1.1 million. The Company recognized an impairment loss on this block of $2.4 million and additional exploration and evaluation expenditures of $0.1 million for costs to complete the remaining commitments. Due to the $2.4 million impairment to Block 177 and $1.0 million in negative funds flow from operations, the Company realized a net loss of $3.3 million. Average daily production increased 27% in the quarter due to reduced workover activities compared to the second quarter of 2017. As a result of the increased production and the 7% increase in realized sales prices, oil sales increased 40%.

Q2 2017 – Average daily production decreased 44% in the quarter as the Bom Lugar producing well was offline in April and May awaiting a pump repair. As a result of the production decline and the 7% decline in Brent, oil sales decreased 50% compared to the first quarter of 2017. Increased production expenses for workover costs on the Bom Lugar well and the reduced production volumes contributed to higher production expenses per barrel and decreased operating netbacks. Funds flow from operations and net loss both improved compared to the first quarter of 2017 despite reduced oil sales and increased production expenses, largely due to a $0.1 million decrease in general and administrative expenses. Total capital expenditures of $0.6 million included capitalized G&A, LC fees on block extensions and suspensions approved by the ANP, preliminary surveying and planning for our upcoming Caburé development, and initial site construction costs for the 177(A1) well to be drilled in the third quarter of 2017.

Q1 2017 – The Company completed drilling and testing the 198(A1) well on Block 198 in the quarter. This well is part of our Caburé gas field. Total capital expenditures of $2.8 million in the quarter included $2.4 million on this well and capitalized G&A of $0.3 million. The Company's cash expenditures on its capital projects were reduced by $0.4 million due to equipment inventory exchanged for drilling services on the 198(A1) well. Average daily production decreased 26%, primarily due to a workover on the producing well on the Bom Lugar field in January and additional pump issues on this well in March as well as natural declines on the 182(B1) well on the Mãe-da-lua field. Despite a 7% increase in Brent, due to the reduced production volumes, oil sales declined 18%. A net loss of $0.9 million was realized in the quarter primarily due to the negative funds flow from operations of $0.8 million.

Q4 2016 – The Company's average daily production increased 152% in the quarter as both the 182(B1) well on the Mãe-da-lua field and the Bom Lugar producing well were on production after being offline for much of the third quarter. As a result of the production increase and the 9% increase in Brent, oil sales increased 181% to $0.2 million. Increased oil sales combined with reduced production expenses resulted in a positive operating netback of $1.01 per barrel. Capital expenditures of $0.7 million included $0.3 million in site construction and other preparatory work for the 198(A1) well which was drilled in January 2017 and $0.2 million in capitalized G&A costs. Despite increased oil sales and reduced production and G&A expenses, funds flow from operations increased only $0.1 million, largely due to E&E expenditures of $0.2 million incurred in the period on Block 170 which was relinquished in March 2016. The net loss of $0.4 million was as a result of the negative funds flow from operations as well as a $0.3 million impairment charge booked to PP&E in relation to the 182(B1) well, offset by a deferred tax recovery of $1.1 million.

Q3 2016 – The Company completed drilling the 256(A1) well in the quarter. Due to the lack of any commercial discovery of hydrocarbons on this well, the Company recognized an impairment loss on this block of $4.4 million. Total capital expenditures of $3.8 million in the quarter included $2.9 million for costs associated with the 256(A1) well, $0.3 million for workover and facilities costs on the 182(B1) well and $0.4 million in capitalized G&A costs. The Company's average daily production decreased 42% to 21 bopd in the quarter as the 182(B1) well was shut-in for much of the quarter for facilities and workover projects and the producing well on the Bom Lugar field was offline from mid-June to mid-August for a pump replacement. As a result of the decrease in production, oil sales declined 41% in the quarter. Production expenses per barrel were impacted by reduced daily production and increased workover costs on the Bom Lugar field of $65.73 per barrel. The net loss of $5.7 million was largely attributable to the impairment loss booked on Block 256 and negative funds flow from operations of $1.2 million.

Q2 2016 – The Company's average daily production decreased 38% to 36 bopd in the quarter as the 182(B1) well was shut-in on May 11, 2016 to cancel the production facilities rental contract and replace this equipment with Company owned facilities. The Bom Lugar field production was also reduced in the quarter due to pump issues, which resulted in the well being offline for two weeks at the end of June. As a result of the production declines, oil sales decreased 18% from the first quarter despite the 34% increase in the average Brent price in the quarter. Capital expenditures of $0.8 million in the quarter included $0.3 million for facilities work on the 182(B1) well, $0.2 million for work on the 256(A1) well, and capitalized G&A totaling $0.2 million.

Commitments and Contingencies

The following is a summary of Alvopetro's net contractual commitments as at March 31, 2018:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments[1]				
Block 183[2]	-	1,003	-	1,003
Block 106	343	-	-	343
Block 169[3]	1,143	-	-	1,143
Block 255[3]	1,368	-	-	1,368
Block 57	44	-	-	44
Block 62	44	-	-	44
Block 71	38	-	-	38
Block 145	44			44
Bom Lugar	-	-	105	105
Jiribatuba	-	-	105	105
Minimum work commitments	**3,024**	**1,003**	**210**	**4,237**
Office leases[4]	**163**	**10**	**-**	**173**
Total commitments	**3,187**	**1,013**	**210**	**4,410**

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) 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.

(3) Due to an ongoing injunction against unconventional activities on all 12th Brazil Bid Round Blocks, in December 2017 the Company filed a request with the ANP to cancel the Block 169 and 255 concession contracts, including the commitment noted in the table above, and return the bid round bonuses paid.

(4) The Company is committed to future minimum payments for office space in Canada and Brazil.

Subsequent to March 31, 2018 Alvopetro entered into a long-term GSA with respect to our share of unit gas to be produced from our Caburé natural gas field. Gas deliveries under the GSA are set to commence at the end of 2019, or earlier with mutual consent. The GSA initially provides for the sale of 5.3 mmfcpd (150,000 m3/d) on a firm basis and provides standard penalties for supply failure. The Company believes it can meet the sales commitments under the GSA solely with our production from the Caburé natural gas field, however supply failure penalties may arise where construction of the UPGN or pipeline is delayed (other than due to permitting delays), unit development is delayed, where there are unplanned production interruptions, or to the extent reservoir performance is below expected production rates. We can mitigate these risks by meeting these sales commitments under the GSA with third-party gas supplies, through development of existing gas resources, or through new gas discoveries from our conventional exploration inventory.

The Company has a credit support facility (the "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. Letters of credit and letters of guarantee issued under the Facility may be supported by either cash collateral posted by Alvopetro or through an Account Performance Security Guarantee from Export Development Canada ("EDC"). Work commitments for the Bom Lugar and Jiribatuba fields relate to abandonment guarantees and are supported by cash collateral posted by Alvopetro and classified as current restricted cash.

As at March 31, 2018, the total amount of LCs issued under the Facility was $9.0 million (December 31, 2017 - $12.1 million), the full balance of which was satisfied by EDC. LC's supported by EDC at March 31, 2018 include a $2.9 million LC for Block 177 which was met in 2017, approved by the ANP during the three months ended March 31, 2018, and released by all involved banks subsequent to March 31, 2018.

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. To the extent EDC coverage is limited in the future for any new LCs or for any existing LCs requiring extension to the expiry date, the Company would be required to post cash collateral to support existing work commitments in Brazil.

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 penalty, which varies by concession depending on exploration phase and type of cost, will be incurred. The Company monitors its local content compliance and, as of March 31, 2018, the potential estimated penalty was $0.3 million (December 31, 2017 - $0.3 million), which is included in accounts payable and accrued liabilities.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2018, Alvopetro's cash and cash equivalents of $7.5 million and its restricted cash of $0.1 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	**7,059**	7,001	58	-
Cash held in Brazil	**483**	-	-	483
Restricted cash - current	**105**	-	-	105
Total	**7,647**	**7,001**	**58**	**588**

Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as at March 31, 2018.

Alvopetro does not currently generate positive cash flow from its operations. Capital expenditures and ongoing G&A and production expenses have been funded to date from existing cash balances. At March 31, 2018, the Company's working capital surplus of $6.6 million exceeded estimated outstanding commitments of $4.2 million by $2.2 million. Exploration work commitments to be met in Brazil are supported by total LCs of $6.1 million as at March 31, 2018, the full balance of which is currently satisfied through EDC. To the extent new or revised work commitments are required to be issued in the future, EDC coverage may be limited and the Company may be required to post the requisite amount from its cash balance which would impact its ability to fund future capital and operational expenditures.

Subsequent to March 31, 2018 we concluded the unitization process and entered into a long-term GSA with respect to our share of unit gas to be produced from our Caburé natural gas field. Gas deliveries under the GSA are set to commence at the end of 2019 and construction of the UPGN and an 11-kilometre pipeline is planned to be completed by Alvopetro in 2018 and 2019. In addition to the UPGN and pipeline construction, under the terms of the UOA the majority of the unit development capital will be initially funded by Imetame and Alvopetro's share of the unit development capital will be due on the earlier of Alvopetro's production commencement and March 2020. Alvopetro anticipates approximately $3.5 million in capital expenditures for Caburé later in 2018 and up to $10.0 million in 2019.

Financing will be required in 2018 to execute the full development of our Caburé field which may be funded through one or more alternatives including project financing, vendor financing, capital leases for facilities, strategic partnerships, other debt issuances, or equity issuances. Future capital expenditures associated with Alvopetro's work commitments on its other exploration blocks as well as development prospects on our mature fields may also require financing. We have engaged an independent reserves evaluator to complete a reserves evaluation of the Caburé natural gas field and plan to initiate one or more financing alternatives for the development following completion of the evaluation. In addition, the Company may explore asset sales or farmouts to assist with funding of both the Caburé development and the Company's other development plans. If we are unable to execute a financing arrangement or a financing arrangement on terms acceptable to Alvopetro and are unable to generate funds from asset sales or farmouts, the Company's current cash balances will be insufficient to fund the Caburé development and the Company's plans and commitments on its other exploration blocks and mature fields. In addition, if financing is delayed or construction of the UPGN and pipeline is delayed, Alvopetro may incur supply failure penalties.

Capital expenditures in the first quarter of 2018 of $1.3 million were higher than the Company expects for the remainder of 2018, other than with respect to the Caburé development, which is expected to commence later in 2018. Capital expenditures planned in the remainder of 2018 also include work in satisfaction of our commitment on Block 106, estimated at $0.3 million.

The liability for decommissioning obligations of Alvopetro was $1.5 million as at March 31, 2018. 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 March 31, 2018 the Company had $2.8 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 15, 2018 was 91,705,807 (common shares – 85,166,871, stock options – 6,538,936). There are no preferred shares outstanding.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended March 31, 2018 to the risk and uncertainties identified in the MD&A and in our Annual Information Form for the year ended December 31, 2017 other than as discussed above with respect to the GSA and the unitization agreements entered into subsequent to March 31, 2018.

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.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New and revised accounting standards

On January 1, 2018, the Company adopted IFRS 15 *Revenue from Contracts with Customers*. This standard requires an entity to recognize revenue reflective of the transfer of goods and services for the amount it expects to receive upon transfer of control to the purchaser. Oil sales revenue, derived from crude oil production in Brazil, is recognized when the performance obligations are satisfied and revenue can be reliably measured. The application of IFRS 15 did not have an impact on the Company's consolidated financial position, results of operations or cash flows but does require enhanced disclosures about the Company's revenue transactions.

Standards issued but not yet effective

The Company has reviewed the following new and revised accounting pronouncement that has been issued but is 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 16 *Leases* – IFRS 16 was issued in January 2016 and replaces IAS 17 *Leases*. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases.	January 1, 2019	The Company is assessing the effect of this future pronouncement on its 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 relating to the anticipated outcomes of regulatory determinations, future results from operations, projected financial results and financing requirements, future capital and operating costs, future production rates, proposed exploration and development 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, regulatory requirements including the completion of the unitization of certain fields, securing gas sales agreements, 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 2017 MD&A and in our 2017 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.

Test Results. Any references in this MD&A to test results, production from testing and performance rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such well will continue production and decline thereafter. Test results are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons.

Abbreviations:

m3	=	cubic metre
m3/d	=	cubic metre per day
mcf	=	thousand cubic feet
mcfpd	=	thousand cubic feet per day
mmbtu	=	million British Thermal Units
mmcf	=	million cubic feet
mmcfpd	=	million cubic feet per day
boepd	=	barrels of oil equivalent per day
bopd	=	barrels of oil per day

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 (6Mcf/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.

Non-GAAP Measures. This report contains financial terms that are not considered measures under International Financial Reporting Standards ("IFRS"), 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 excluding 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 and assets held for sale) less current liabilities and is used to evaluate the Company's financial resources. 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 IFRS.