The following Management's Discussion and Analysis ("MD&A") is dated November 19, 2015 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of Alvopetro Energy Ltd. ("Alvopetro" or the "Company") as at and for the three and nine months ended September 30, 2015, MD&A for the year ended December 31, 2014 and the audited consolidated financial statements as at and for the years ended December 31, 2014 and 2013. 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 USD, 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, Camamu-Almada and Sergipe-Alagoas basins onshore Brazil. Alvopetro holds interests in two mature fields and 16 exploration blocks comprising 153,330 gross acres (142,625 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.

History and Formation of the Company

The Company was established effective November 28, 2013 as a result of an agreement among Petrominerales Ltd. ("Petrominerales"), Pacific Rubiales Energy Corp. ("Pacific Rubiales") and Alvopetro Energy Ltd. (formerly 1774501 Alberta Ltd.) whereby the parties agreed to complete an arrangement (the "Arrangement") under section 193 of the *Business Corporations Act* (Alberta). Under the Arrangement, Pacific Rubiales acquired Petrominerales, with each Petrominerales shareholder receiving cash consideration of $11.00 Canadian dollars ("CAD") and one common share of Alvopetro for each Petrominerales share held. The Arrangement was completed on November 28, 2013. In connection with the Arrangement, Petrominerales transferred to Alvopetro its entire interest in the Recôncavo, Tucano, Camamu-Almada and Sergipe-Alagoas basins in onshore Brazil (the "Brazil Properties") and $85.6 million (CAD$91.0 million) cash. Post-Arrangement, Alvopetro began carrying on the exploration, development and production of the Brazil Properties previously carried on by Petrominerales.

Q3 2015 OPERATING & FINANCIAL RESULTS

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Financial				
($000s, except where noted)				
Oil sales	**97**	257	**419**	894
Funds flow from operations [1]	**(1,240)**	(1,331)	**(3,949)**	(6,240)
Per share – basic and diluted ($)	**(0.01)**	(0.02)	**(0.05)**	(0.07)
Net loss	**(84)**	(1,722)	**(2,627)**	(7,047)
Per share – basic and diluted ($)	**-**	(0.02)	**(0.03)**	(0.08)
Capital and other asset expenditures	**2,636**	14,663	**10,592**	28,127
Total assets	**98,282**	151,779	**98,282**	151,779
Debt	**-**	-	**-**	-
Net working capital surplus [1] [2]	**32,150**	45,104	**32,150**	45,104
Common shares outstanding, end of period (000s)				
Basic	**85,167**	85,167	**85,167**	85,167
Diluted [3]	**90,568**	88,264	**90,568**	88,264
Operations				
Operating netback ($/bbl) [1]				
Brent benchmark price	**51.17**	103.38	**56.61**	107.02
Discount	**(12.65)**	(2.56)	**(10.94)**	(5.42)
Sales price	**38.52**	100.82	**45.67**	101.60
Transportation expenses	**(3.18)**	(3.53)	**(3.16)**	(3.98)
Realized sales price	**35.34**	97.29	**42.51**	97.62
Royalties and production taxes	**(2.78)**	(9.42)	**(3.05)**	(10.34)
Production expenses	**(71.49)**	(104.35)	**(75.43)**	(108.31)
Operating netback	**(38.93)**	(16.48)	**(35.97)**	(21.03)
Average daily crude oil production (bopd)	**27**	28	**34**	32

Notes:

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

(2) Includes current restricted cash of $2.3 million (September 30, 2014 – $11.1 million) but excludes non-current restricted cash (September 30, 2015 – $nil; September 30, 2014 – $18.6 million).

(3) Consists of outstanding common shares and stock options of the Company as at September 30, 2015 and 2014.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE THIRD QUARTER OF 2015

- In August 2015, we completed testing our 182(B1) well. Pressure transient build up analysis indicates an expected initial oil rate of 123 bopd from the Ague Grande Formation. The well also tested 46 bopd from the Candeias Formation. Subject to the receipt of customary regulatory approvals, we plan to commingle the two formations and commence long-term production testing beginning in December 2015.
- During the third quarter, $7.3 million of restricted cash balances were added to cash and cash equivalents as a result of the release of a work commitment letter of credit, a reduction in collateral requirements on other letters of credit, as well as a transition of $5.0 million of letters of credit to coverage provided by Export Development Canada (“EDC”).
- Capital and other asset expenditures of $2.6 million in third quarter included $1.7 million relating to testing and facilities preparation for our 182(B1) well and $0.2 million in capitalized G&A.
- Our cash, restricted cash and working capital resources total $32.2 million, including $32.4 million of cash and cash equivalents and $2.3 million of current restricted cash.

RECENT HIGHLIGHTS

- DeGolyer and MacNaughton ("D&M") completed an independent contingent resource report of our 197(2) conventional natural gas pool located on Blocks 197 and 198 in the Recôncavo Basin onshore Brazil, quantifying Alvopetro's contingent resources with a "best estimate" (2C) of 5.8 million barrels of oil equivalent (mmboe), and a 10% discounted net present value (NPV10) of $91.3 million (2C). The D&M resource report reflects the significant value of our first conventional natural gas discovery and highlights a small portion of the potential that exists in our current inventory of 22 conventional exploration prospects.
- In Brazil's 13th Bid Round held on October 7, 2015, Alvopetro, in partnership with ENGIE (GDF SUEZ E&P Brasil Participações Limitada), was the successful bidder on four blocks, all located in the Recôncavo Basin, onshore Brazil. Alvopetro will operate all of the blocks acquired and holds a 65% participating interest, with ENGIE holding the remaining 35% participating interest. In Brazil, ENGIE is the largest private power producer with 8,765 Megawatts in operation and 4,515 Megawatts under construction. Following the Bid Round, Alvopetro holds and operates 16 exploration blocks and two mature fields, comprising 153,330 gross acres (142,625 net acres.)
- On October 1, 2015, we sold our Aracaju field, eliminating all associated obligations with respect to this mature field, which we viewed as having limited prospectivity. The Aracaju field was not included in any of our independent reserves or resource reports. The agreement has an effective date of October 1, 2015 and will close on the date Brazil’s National Agency of Petroleum, Natural Gas and Biofuels (“ANP”) approves the transfer.

PETROLEUM AND NATURAL GAS PROPERTIES

As at September 30, 2015, Alvopetro held interests in three mature fields and 12 exploration blocks comprising 126,138 gross acres onshore Brazil in four hydrocarbon basins: the Recôncavo, Tucano, Camamu-Almada and Sergipe-Alagoas. Including the four additional blocks awarded to Alvopetro in Brazil’s 13th Bid Round, Alvopetro’s gross acreage increased to 153,330 acres (142,625 net acres) subsequent to September 30, 2015. The current exploration assets consist of Blocks 182, 196, 197, 183, 170, 106, 107, 169, 198, 255, 256, 57, 62, 71, and 145 in the Recôncavo Basin and Block 177 in the Tucano Basin.

EXPLORATION BLOCK ACTIVITY SUMMARY

Block	Gross Acres	Working Interest	Bid Round Acquired	Current Phase Expiry	Current Phase Activity
182	5,239	100%	9th Bid Round (2007)	May 27, 2015 (Note 1)	1 exploration well
196	5,906	100%	9th Bid Round (2007)	(Note 2)	1 exploration well
170	6,914	100%	Farm in – 9th Bid Round (2007)	March 26, 2016	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, 2018 (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	11 km^2 of 3D seismic
107	7,561	100%	11th Bid round (2013)	August 29, 2016	2 exploration wells
T-177	46,505	100%	11th Bid round (2013)	August 29, 2016	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)	December 23, 2018 (Note 4)	30 km of 2D Seismic
62	7,715	65%	13th Bid round (2015)	December 23, 2018 (Note 4)	30 km of 2D Seismic
71	5,409	65%	13th Bid Round (2015)	December 23, 2018 (Note 4)	21 km of 2D seismic
145	7,734	65%	13th Bid Round (2015)	December 23, 2018 (Note 4)	30 km of 2D Seismic

(1) Alvopetro completed drilling the 182(B1) well in June, 2015 in fulfillment of its commitment on this block. As Alvopetro has a well in progress, the expiry date of the phase is extended past the original expiry date. A Discovery Evaluation Plan ("PAD") was submitted to the ANP on July 7, 2015.

(2) The ANP has granted a temporary extension to the current phase expiry for Block 196 which expires 130 days from the day on which we receive our environmental license.

(3) The PAD for Block 197 was approved in May, 2015. The PAD, which is valid until January 31, 2018, 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.

(4) Blocks 57, 62, 71, and 145 were awarded in the 13th Bid Round on October 7, 2015. Alvopetro was awarded these blocks in partnership with ENGIE. Concession contracts are expected to be signed with an effective date of December 23, 2015. The term of the first exploration phase of each block will be three years.

FINANCIAL AND OPERATING REVIEW

Average Daily Production

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Total production (bbls)	**2,518**	2,549	**9,174**	8,799
Daily production (bopd)	**27**	28	**34**	32

Production in the third quarter continued to be impacted by road access issues at our Jiribatuba field which resulted in no production from this field in the three months ended September 30, 2015 (compared to 4 bopd in the three months ended June 30, 2015 and 14 bopd in the three months ended March 31, 2015). The Bom Lugar field contributed 100% of the total volumes for the three months ended September 30, 2015 (September 30, 2014 – 100%). Overall, the 27 bopd production from the Bom Lugar field in the third quarter of 2015 was consistent with prior quarters. On a year-to-date basis, production in 2015 increased 6% over 2014 following a successful workover at our Jiribatuba well late in 2014 which contributed to additional production, largely in the first quarter of 2015.

As Block 182 is in the exploration and evaluation phase, all directly attributable expenses, net of revenues, are capitalized. Consequently, operational results reported in this MD&A, such as average daily production, revenue, royalties, production expenses or depletion expense do not include or refer to the 182(B1) well on Block 182.

Oil Sales

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Brent ($/bbl)	**51.17**	103.38	**56.61**	107.02
Discount ($/bbl)	**(12.65)**	(2.56)	**(10.94)**	(5.42)
Sales Price ($/bbl)	**38.52**	100.82	**45.67**	101.60
Sales price discount as a % of Brent	**25%**	2%	**19%**	5%
Oil Sales	**97**	257	**419**	894
Transportation	**(8)**	(9)	**(29)**	(35)
Total sales, net of transportation expense	**89**	248	**390**	859
Realized price ($/bbl)	**35.34**	97.29	**42.51**	97.62

Alvopetro has sales contracts for each of the Bom Lugar and Jiribatuba fields. Pursuant to the terms of the Bom Lugar sales contract, a discount of $13.95 to $19.39 per barrel is applied to average monthly Brent prices, with the discount reduced by a gross up for certain taxes of approximately 9.25% of the sales price. Under the terms of the Jiribatuba sales contract, a 5% discount is applied to average Brent prices. The discount, as a percentage of the Brent price, for the third quarter of 2015 has increased from 2014 and prior quarters in 2015 due to the decline in the Brent price.

Overall, total oil sales have declined 53% in the nine months ended September 30, 2015 from the same period in 2014. Although the Company's production has increased 4% in this period, this is more than offset by the 55% reduction in the sales price resulting from the decline in Brent prices.

Funds Flow from Operations

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Funds flow from operations	**(1,240)**	(1,331)	**(3,949)**	(6,240)

Alvopetro is not dependent on cash flows from production to fund the Company's capital and operating plans. The Company currently has negative funds flow from operations, primarily due to minimal cash flows from oil sales combined with an organizational structure that has been established to support the Company's future growth plans and associated capital program. Alvopetro's current staffing levels are anticipated to be sufficient to manage our exploration and development operations for higher activity levels, without significant increases to G&A expenses.

Negative funds flow from operations for the nine months ended September 30, 2014 was impacted by a realized foreign exchange loss of $2.3 million on Canadian dollar cash balances converted to U.S. dollars during the period. In comparison, the realized foreign exchange loss during the nine months ended September 30, 2015 was $0.1 million as the majority of the Company's cash is now held in U.S. dollars, thereby minimizing any foreign exchange losses in 2015.

Royalties and Production Taxes

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Royalties and production taxes	**7**	24	**28**	91
Percentage of sales (%)	**7.2%**	9.3%	**6.7%**	10.2%

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 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% (September 30, 2014 – 3.65%), offset by credits on available expenses. The PIS and COFINS tax rate has increased from 2014 as the Company elected to transition to the actual tax regime as of January 1, 2015; however, given credits available under the actual tax regime, the net PIS and COFINS tax rate has been lower than 2014.

All of the concession contracts for 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, 196 and 197 and an additional 5% royalty on Block 170.

The overall reduction in royalties in both the three and nine months ended September 30, 2015 compared to 2014 is due to reduced oil sales revenue and increased PIS and COFINS credits available to reduce the overall production taxes owing.

Production Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Production expenses	**180**	266	**692**	953
Per bbl ($)	**71.49**	104.35	**75.43**	108.31

Production expenses on a per barrel basis in 2015 represent a reduction of 31% compared to the three months ended September 30, 2014 and a 30% reduction compared to the nine months ended September 30, 2014. As substantially all of the Company's production expenses are denominated in BRL, the expenses were largely reduced in 2015 due to the decline in the BRL relative to the U.S. dollar which declined from an average rate of 2.27 in the third quarter of 2014 to an average rate of 3.54 in the third quarter of 2015. Of the total production expenses in the third quarter of 2015, $61.15 per barrel were fixed in nature and $10.34 per barrel were variable in nature. As the Company has capacity for substantially more production, we expect to add future volumes of production with low incremental costs.

General and Administrative ("G&A") Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
G&A expenses	**1,104**	1,274	**3,616**	4,031

G&A expenses have decreased from 2015 largely as a result of the decline in both the BRL and the CAD relative to the USD. G&A reported in the third quarter of 2015 is consistent with the second quarter 2015 G&A of $1.2 million. Alvopetro has capacity for increased activity and production levels, which we anticipate will enable us to grow production significantly with limited increases to G&A expenses.

G&A expenses directly relating to exploration and development activities of $1.0 million (2014 - $1.3 million) were capitalized in the nine months ended September 30, 2015.

Cash and Cash Equivalents and Restricted Cash

	As at	
	September 30, 2015	**December 31, 2014**
Cash and cash equivalents	**32,365**	40,920
Restricted cash – current	**2,288**	3,373
Restricted cash – non-current	**-**	9,749
Total cash and restricted cash	**34,653**	54,042

The Company has a credit support facility (the "Facility") with a Canadian bank for up to $45.0 million Canadian dollars ("CAD"). The Facility allows for the issuance of letters of credit ("LC's") and letters of guarantee in support of the financial guarantees required by the National Agency of Petroleum, Natural Gas and Biofuels (the "ANP") for Alvopetro's work commitments. 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 the Company obtained from EDC in December 2014. EDC supports up to $15.5 million of LC's issued under the Facility.

As at September 30, 2015, the total amount of LC's issued under the Facility was $16.5 million (December 31, 2014 - $27.9 million), with $14.2 million (December 31, 2014 - $15.1 million) satisfied through EDC and $2.3 million (December 31, 2014 - $12.8 million) satisfied through restricted cash deposits of Alvopetro. The entire restricted cash balance of $2.3 million at September 30, 2015 was classified as current (December 31, 2014 - $3.1 million) as it relates to LC's expiring within one year. There is no portion of the restricted cash balance at September 30, 2015 classified as non-current (December 31, 2014 - $9.7 million). The reduction in the overall restricted cash balance from December 31, 2014 was as a result of a $3.0 million reduction in the LC collateral requirements due to the declining Brazil real ("BRL") relative to the U.S. dollar, a transition of $6.3 million of LC's to EDC coverage throughout 2015, and a release of $1.2 million of LC's for completed work commitments.

During the three and nine months ended September 30, 2015, the Company earned floating-rate interest income on the restricted cash deposits under the Facility.

At December 31, 2014 there was an additional $0.3 million of cash collateral posted with respect to corporate credit cards, classified as current. This amount was released during the three months ended September 30, 2015.

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.

Other Income

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Interest income	**14**	44	**54**	244
Water disposal revenue	**5**	40	**19**	106
Total other income	**19**	84	**73**	350

Alvopetro earns interest income on cash and cash equivalents and restricted cash. The decrease in interest income from 2014 is due to reduced cash balances, combined with the fact that the majority of cash is now held in U.S. dollars which generates lower interest rates. Other income also includes revenue earned by the Company from third-party water disposal fees.

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		
	September 30, 2015	December 31, 2014	**% Change**
Rate at end of period:			
U.S. dollar / Brazilian real	**3.972**	2.656	**49.5%**
U.S. dollar / Canadian dollar	**1.335**	1.160	**15.1%**

Head office transactions in Canadian dollars 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 income 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 depreciated 49.5% relative to the USD from December 31, 2014 to September 30, 2015 resulting in a $16.1 million other comprehensive loss for the nine months ended September 30, 2015. In the third quarter of 2015, the BRL depreciated 28% from 3.10 at June 30, 2015, resulting in a $10.3 million other comprehensive loss for the three months ended September 30, 2015. As a significant portion of the Company's transactions in Brazil are denominated in BRL, with the average rate for the nine months ended September 30, 2015 declining to 3.17 compared to 2.29 in the nine months ended September 30, 2014, the Company has reported lower overall USD costs in 2015.

Share-Based Compensation Expense

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Share-based compensation	**88**	158	**267**	474

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 5.4 million stock options outstanding at September 30, 2015 compared to 3.1 million at September 30, 2014. Gross share-based compensation expense for the three and nine months ended September 30, 2015 was $0.1 million and $0.3 million, respectively (September 30, 2014 - $0.2 million and $0.7 million). Of this amount, $0.03 million and $0.08 million, respectively (September 30, 2014 - $0.1 million and $0.2 million) was capitalized to exploration and evaluation assets and property, plant and equipment. Overall, the share-based compensation has decreased despite increased options outstanding due to a decline in the Company's share price resulting in 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 September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Depletion and depreciation (DD&A)	**104**	77	**321**	257
Accretion on decommissioning liabilities	**18**	21	**56**	73
Impairment	**968**	-	**968**	-
Total	**1,090**	98	**1,345**	330

Included in the depletion computation for our producing fields was $8.9 million (September 30, 2014 - $9.3 million) of estimated future development costs for undeveloped proved plus probable reserves. Depletion expense has increased in 2015 relative to 2014 given the increase in the depletable base of the properties and, to a lesser extent, the increase in production from an average of 32 bopd in the nine months ended September 30, 2014 to an average of 34 bopd in 2015.

As a result of the continued decline in current and forecasted commodity prices, an indication of impairment existed for all cash generating units of the Company as at September 30, 2015 and impairment tests were performed. The Company determined the carrying amount of the Bom Lugar field exceeded the estimated recoverable amount and an impairment loss of $1.0 million was recorded in the consolidated statements of operations and comprehensive loss for the three months ended September 30, 2015. An estimated recoverable amount of $5.8 million was determined for the Bom Lugar field based on the estimated value in use of this field, computed on discounted future cash flows. The key assumptions used in determining the recoverable amount for purposes of the impairment test were the discount rate, commodity prices, reserve volumes, future capital cost estimates, future well locations and timing of future capital investment. The Company has determined the estimated recoverable amount using the December 31, 2014 reserve report from our external reserves evaluators, updating internally for changes since the 2014 reserve estimates including the decline in forecasted commodity prices and expected lower future development costs. Future net cash flows were estimated based on a discount rate of 15%. The impairment recorded at September 30, 2015 of $1.0 million is management's best estimate based on currently available information. The Company will continue to update assumptions as appropriate in connection with future impairment analysis.

Taxes

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Current income tax expense	**-**	8	**-**	33
Deferred income tax (recovery) expense	**(2,544)**	179	**(3,133)**	(118)
Total income tax recovery	**(2,544)**	187	**(3,133)**	(85)

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. Prior to 2015 the Company elected to compute Brazil corporate taxes under the presumed profit regime where current tax is computed based on a percentage of gross revenues. For the 2015 taxation year, the Company elected to transition to the actual tax regime. As the Company is currently in an overall loss position, no current tax expense is realized in the three or nine months ended September 30, 2015 under the actual regime. The deferred tax recovery recognized for the three and nine months ended September 30, 2015 is largely as a result of losses realized in Brazil, both from ongoing operations in Brazil as well as previously unrecognized losses relating to the four blocks that were relinquished earlier in 2015. Under the actual tax regime these losses are available for carryforward and the associated tax benefit has been recognized. In prior years, any losses realized while under the presumed regime were not eligible for carryforward. The deferred tax recovery recognized on Brazil operations is offset to some extent by a reduction in the estimated tax pools available for use in Canada and the recognition of an overall deferred tax liability in Canada on anticipated foreign exchange gains on USD cash balances.

Net Income

The Company reported a net loss for the three and nine months ended September 30, 2015 of $0.1 million and $2.6 million, respectively, compared to a loss of $1.7 million and $7.0 million for the three and nine months ended September 30, 2014. The Company realized a lower net loss in the third quarter of 2015 as a result of a $2.5 million deferred tax recovery, offset by a $1.0 million impairment charge to PP&E. The year-to-date 2014 net loss included a $2.5 million foreign exchange loss compared to a foreign exchange loss of $0.2 million for the nine months ended September 30, 2015.

Capital Expenditures

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
E&E expenditures				
Drilling and completions	**1,704**	10,841	**7,288**	21,298
Inventory purchases	**45**	2,985	**273**	2,985
Facility & equipment	**105**	73	**233**	73
Land, lease, and similar payments	**317**	244	**768**	1,370
Capitalized G&A	**221**	683	**847**	1,196
Other	**98**	33	**243**	182
Total E&E expenditures	**2,490**	14,859	**9,652**	27,104
PP&E expenditures				
Drilling and completions	**-**	-	**286**	137
Land, lease, and similar payments	**4**	6	**7**	6
Furniture, fixtures, and equipment	**98**	32	**406**	89
Capitalized G&A	**-**	1	**115**	149
Other	**26**	-	**43**	-
Total PP&E expenditures	**128**	39	**857**	381
Other asset expenditures				
Other advances for E&E assets	**18**	(235)	**83**	642
Other asset expenditures	**18**	(235)	**83**	642
Total capital expenditures	**2,636**	14,663	**10,592**	28,127

In the third quarter of 2015, the Company completed and tested the 182(B1) well, incurring costs of $1.6 million in the quarter and an additional $0.1 million for facilities for this well. Additional E&E expenditures included capitalized G&A of $0.2 million.

PP&E expenses in 2015 primarily related to directional survey work performed for a future Bom Lugar well to be drilled, operational equipment purchases, and Brazil office renovation costs.

Summary of Quarterly Results

	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Financial								
Oil sales	**97**	150	172	212	257	323	314	363
Funds flow from operations (1)	**(1,240)**	(1,352)	(1,357)	(1,482)	(1,331)	(1,893)	(3,016)	(1,690)
Per share – basic & diluted ($)	**(0.01)**	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.04)	(0.02)
Net (loss) income	**(84)**	(980)	(1,563)	(24,662)	(1,722)	(1,304)	(4,021)	1,333
Net (loss) income attributable to common shareholders	**(84)**	(980)	(1,563)	(24,662)	(1,722)	(1,304)	(4,021)	398
Per share – basic & diluted ($)	**-**	(0.01)	(0.02)	(0.29)	(0.02)	(0.02)	(0.05)	-
Capital and other asset expenditures	**2,636**	6,602	1,354	16,239	14,663	6,093	7,371	4,187
Operations								
Operating netback ($/bbl) (1)								
Brent benchmark price	**51.17**	63.50	55.16	76.98	103.38	109.74	107.90	109.35
Sales price	**38.52**	52.14	45.51	62.35	100.82	103.91	99.94	91.88
Transportation expenses	**(3.18)**	(1.74)	(4.23)	(2.65)	(3.53)	(4.83)	(3.50)	(2.75)
Realized sales price	**35.34**	50.40	41.28	59.70	97.29	99.08	96.44	89.13
Royalties and production taxes	**(2.78)**	(2.09)	(3.97)	(4.71)	(9.42)	(10.62)	(10.82)	(18.71)
Production expenses	**(71.49)**	(91.76)	(65.63)	(141.18)	(104.35)	(116.78)	(103.12)	(49.81)
Operating netback	**(38.93)**	(43.45)	(28.32)	(86.19)	(16.48)	(28.32)	(17.50)	20.61
Average daily crude oil production (bopd)	**27**	32	42	37	28	34	35	43

Notes:

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

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 11% 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.

Q1 2014 – The majority of capital expenditures of $7.4 million in the quarter were related to drilling the 197(1) well. Net loss and funds flow were impacted by an increased realized sales price compared to the prior quarter, offset by higher production and G&A costs and a foreign exchange loss of $2.5 million due to the depreciation of the Canadian dollar relative to the U.S. dollar.

Q4 2013 – In connection with the Arrangement involving Petrominerales and Pacific Rubiales, Petrominerales transferred to Alvopetro its entire interest in the Recôncavo, Tucano, Camamu-Almada and Sergipe-Alagoas basins in onshore Brazil consisting of three producing fields and 16 exploration blocks comprising 148,500 gross acres and $85.6 million (CAD$91.0 million) cash. Alvopetro then took over the exploration, development and production previously carried on by Petrominerales with respect to these properties. Substantially all capital expenditures in the quarter were related to the purchase of inventory for future drilling operations and the construction of the well pad for the Company's first well, 197(1). Net income in this quarter arose due to the reversal of an impairment loss recorded in the nine months ended September 30, 2013.

Commitments and Contingencies

The following is a summary of Alvopetro's contractual commitments as at September 30, 2015:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum commitments[1]				
Block 182[2]	766	-	-	766
Block 183	-	839	-	839
Block 170	755	-	-	755
Block 106	287	-	-	287
Block 107	1,913	-	-	1,913
Block 177	1,810	-	-	1,810
Block 169	-	957	-	957
Block 198	-	957	-	957
Block 255	-	1,145	-	1,145
Block 256	-	254	-	254
Bom Lugar	-	-	88	88
Jiribatuba	-	-	88	88
Aracaju	-	-	63	63
Total minimum commitments[3]	**5,531**	**4,152**	**239**	**9,922**
Office leases[4]	**178**	**76**	**-**	**254**
Total commitments	**5,709**	**4,228**	**239**	**10,176**

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 included in the table above. The performance guarantee associated with Block 196 has been included in accounts payable and accrued liabilities as at September 30, 2015 and is therefore excluded from the table above.

(2) The Company completed drilling the first well on Block 182, which, subject to ANP approval, fulfils the commitment included in the table above.

(3) Subsequent to September 30, 2015, in partnership with ENGIE, Alvopetro was awarded four additional blocks in the Recôncavo Basin in Brazil's 13th Bid Round (Blocks 57, 62, 71, and 145). Alvopetro will operate these four additional blocks and hold a 65% participating interest in each block with the remaining 35% held by ENGIE. Alvopetro's share of the commitments for these blocks is approximately $0.8 million.

(4) 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 September 30, 2015 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.

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, may be incurred. The Company is continually monitoring its local content compliance and any potential fines and, as of September 30, 2015, the potential estimated fine of $0.1 million is included in accounts payable and accrued liabilities.

Liquidity and Capital Resources

Our activities to-date and our plans for the remainder of 2015 and 2016 are focused on targeting our mature fields, shallow conventional exploration, and proving the commercial potential of the Gomo tight hydrocarbon resource in the Recôncavo Basin. Our forecasted capital plan for the remainder of 2015 is expected to include:

- Construction of facilities to bring our 182(2) conventional oil exploration success on production; and
- Site construction and preparation for drilling 170(B1), our conventional oil prospect on Block 170, anticipated to be spud in early 2016.

At September 30, 2015, Alvopetro's cash and cash equivalents of $32.4 million and restricted cash of $2.3 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	31,823	31,356	467	-
Cash held in Brazil	542	-	-	542
Restricted cash – current	2,288	2,288	-	-
Total	**34,653**	**33,644**	**467**	**542**

Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as at September 30, 2015

Alvopetro currently does not derive positive cash flows from operations. At September 30, 2015 the Company's working capital of $32.2 million exceeded estimated outstanding commitments of $10.2 million by $22.0 million. Future capital expenditures may be funded through a combination of cash on hand, cash flow from successful operations, asset sales, joint ventures, farmouts, debt, or equity.

The liability for decommissioning obligations of Alvopetro was $2.4 million as at September 30, 2015. 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 September 30, 2015, the Company had $4.3 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. All of Alvopetro's expenditures are subject to the effects of inflation and foreign currency fluctuations.

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 November 19, 2015 was 90,587,807 (common shares – 85,166,871, stock options – 5,420,936). 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. These transactions include administrative consulting fees and office sub-lease expenses, summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Office rent and related costs	**50**	57	**151**	170
Administrative consulting fees	**-**	-	**-**	7
Total	**50**	57	**151**	177

Risks and Uncertainties

There have been no significant changes in the nine months ended September 30, 2015 to the risk and uncertainties identified in the MD&A for the year ended December 31, 2014.

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 operations and has 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

There have been no changes to the pending accounting pronouncements from those described in the Company's December 31, 2014 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 judgements 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.*

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:

Boepd	*=*	*barrels of oil equivalent per day*
Bopd	*=*	*barrels of oil per day*
m3	*=*	*cubic metre*
m3/d	*=*	*cubic metre per day*
Mcfpd	*=*	*thousand cubic feet per day*
MMcf	*=*	*million cubic feet*
MMcfpd	*=*	*million cubic feet 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 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 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.*