



## Letter to Shareholders

May 6, 2022

Dear Fellow Shareholders:

2021 was a record year for AlvoPetro, being the first full year of operations from our Caburé natural gas field after commencing operations on July 5, 2020. We delivered exceptional financial and operating results, well above our target expectations, and as a result we were able to commence quarterly dividends in the third quarter of 2021, six months ahead of our original plan. Our success in 2021 would not have been possible without the excellent team effort of our employees. We want to thank these dedicated individuals, whose hard work drives our success and fuels our future growth. We also want to thank our other members of the board of directors (the “**Board**”) for their strategic input and continued guidance.

### 2021 Financial and Operating Highlights

- Our annual sales averaged 2,358 barrels of oil equivalent per day (boepd), an increase of 151% over our 2020 average.
- We generated funds flow from operations<sup>1</sup> of US\$24.6 million and earnings before interest, taxes, depletion, depreciation and amortization<sup>1</sup> (“**EBITDA**”) of US\$25.2 million, well above our original EBITDA target of US\$17 million.
- Our operating netback per barrel of oil equivalent<sup>1</sup> (“**boe**”) averaged US\$33.39 per boe, an 82% margin relative to our average realized sales price of US\$40.64 per boe.
- We repaid 58% of our outstanding credit facility and ended the year with a positive working capital balance that exceeded our credit facility balance by US\$2.6 million.
- The before tax value of our proved plus probable reserves (discounted at 10%) increased by 52% from December 31, 2020 to US\$297.0 million as of December 31, 2021.
- We completed a share restructuring in September 2021, resulting in a 1.3% reduction in the number of common shares outstanding through a buy-back with a concurrent reduction in the number of outstanding shareholder accounts by more than 60%, significantly easing the administrative burden and cost associated with commencing and maintaining dividend payments.
- We commenced quarterly dividend payments of US\$0.06/common share, with dividends declared to shareholders of record on September 29, 2021 and December 30, 2021. This dividend was subsequently raised by 33% to US\$0.08/common share in March 2022.

These achievements were reflected in the 99% increase in our common share price on the TSX Venture Exchange from December 31, 2020 to December 31, 2021.

### 2022 Capital Plan

We are aiming for 2022 to be another growth year for AlvoPetro as we look to execute on our strategy to unlock the on-shore natural gas potential in the state of Bahia in northeast Brazil. Our focus in 2022 will be to maintain our current production levels from Caburé while also adding production from our Murucututu natural gas project. We have now completed installation of the pipeline to connect our 183-1 Gomo well at our Murucututu field to our Caburé pipeline and gas processing facility. The well is expected to be onstream later in the second quarter of this year. In addition, we have a stimulation and tie-in planned for our 197-1 well and we plan to drill our first two fit-for-purpose development locations on this project this year. Our gas processing facility is presently being expanded to allow for increased production levels, with the additional capacity expected to be available mid-year. Lastly, we have two natural gas exploration prospects being drilled in 2022 which, if successful, will further expand our production in the coming years. We completed drilling our first exploration prospect, the 182-C1 well in April, and based on open-hole wireline logs, the well discovered 25 metres of potential natural gas pay, with an average porosity of 8.2%<sup>2</sup>. We plan to production test the well to assess productive capability and to help define the field development plan. We now expect to spud our second exploration prospect, the 183-B1 well in the block adjacent to this discovery, later in May. We

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<sup>1</sup> Refer to the “*Non-GAAP and Other Financial Measures*” section in this management information circular.

<sup>2</sup> For additional details refer to the April 21, 2022 news release. Please also refer to the “*Testing and Well Results*” section in this Circular.

have an exciting 2022 capital plan that looks to unlock significant shareholder value and further focus our multi-year natural gas growth plan that leverages off of our initial strategic midstream infrastructure investments.

## Corporate Governance

Alvopetro is focused on ensuring continued strong governance and has the following best practices in place to meet this objective:

- ✓ Independent Chairman, with five of six directors independent;
- ✓ 100% meeting attendance at all Board meetings and at all meetings of committees of the Board;
- ✓ In-camera sessions at all Board meetings and at all meetings of committees of the Board;
- ✓ Director skills assessment completed, reviewed and a culture of continuous learning firmly in-place;
- ✓ Broad depth and diversity of experience and expertise at the Board level across multiple jurisdictions; and
- ✓ Individual director elections.

Alvopetro's employees and executive team are key to ensuring we can continue to execute our strategy. Our compensation program is designed to attract and retain highly qualified individuals and to align their interests with shareholders by creating incentives to increase long-term shareholder value. We have the following best practices in place to meet these objectives:

- ✓ Compensation benchmarked against peers;
- ✓ Significant portion of total compensation 'at-risk', tied to corporate performance and balanced between short-term and long-term awards to ensure a balance between near-term performance and long-term value creation and growth;
- ✓ Clawback policy; and
- ✓ Significant share ownership requirements in place and met by all executives and directors.

## The Meeting

The enclosed management information circular contains important details about the meeting, including matters to be voted on and how to vote your shares. Consistent with last year, we are planning to hold the meeting virtually. This allows a broader base of shareholders to attend, regardless of geographical location. Shareholders will not be able to attend the meeting in person.

## Looking Ahead

Alvopetro has made early investments in strategic natural gas infrastructure, and we are well positioned to execute on our strategy to unlock the on-shore natural gas potential in our area of influence. We look forward to our organically funded capital program in 2022 that will help guide our multi-year growth plan. It is an exciting time to be an Alvopetro shareholder. Our team is strongly aligned with our shareholders, and our balanced capital allocation model is focused on adding shareholder value by delivering solid dividend yield and per-share production and reserve growth. We have tremendous opportunities in front of us and we are confident our team can deliver on the full potential of our asset base.

We look forward to updating you on our progress throughout 2022.

Sincerely,

*(signed) "Corey C. Ruttan"*

**Corey C. Ruttan**  
President, Chief Executive Officer and Director

*(signed) "John D. Wright"*

**John D. Wright**  
Chairman of the Board of Directors