The following Management's Discussion and Analysis ("MD&A") is dated May 22, 2014 and should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Alvopetro Energy Ltd. ("Alvopetro" or the "Company") as at and for the three months ended March 31, 2014, MD&A for the year ended December 31, 2013, and the audited consolidated financial statements as at and for the periods ended December 31, 2013 and 2012. Additional information for the Company, including our 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" or "GAAP") 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, except as otherwise stated and all tabular amounts are in thousands of United States dollars, except as otherwise noted.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Description of Business

Alvopetro Energy Ltd. ("Alvopetro" or "the Company") is engaged in the exploration, development and production of hydrocarbons in Brazil. Alvopetro is a publicly traded company listed on the TSX Venture Exchange and was incorporated under the *Business Corporations Act* (Alberta) on September 25, 2013 as 1774501 Alberta Ltd. and subsequently changed its name to Alvopetro Energy Ltd. on November 19, 2013.

Alvopetro is engaged in the exploration for, and the acquisition, development and production of, hydrocarbons in the Recôncavo, Tucano, Camamu-Almada and Sergipe-Alagoas basins onshore Brazil. Alvopetro holds interests in three producing fields and 16 exploration blocks comprising 148,500 gross acres onshore Brazil. Alvopetro intends to develop producing hydrocarbons by appraising and developing existing discoveries and exploring in areas considered by management to be prospective for hydrocarbon resources.

Strategy

Alvopetro's vision is to be the premier independent exploration and production company in Brazil, maximizing shareholder value by being the lowest cost operator and applying innovation to underexploited opportunities. Alvopetro aims to implement a large-scale, repeatable, low-risk, multi-well development program, utilizing advanced technology and completion techniques. Alvopetro's strong financial position, along with our experienced team of professionals, local operating capabilities, and highly prospective land base, will enable us to efficiently develop our resource opportunities. Our activities are targeting: i) mature fields; ii) shallow exploration on our asset base; and, iii) the Gomo member of the Candeias Formation in the Recôncavo Basin. Supporting our strategy, Alvopetro's experienced team brings: i) developed basin expertise to Brazil's underexploited resource opportunities; and ii) efficient, cost-effective and innovative operating capabilities.

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 CAD$11.00 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 consisting of three producing fields and 16 exploration blocks comprising 148,500 gross acres (the "Brazil Properties") and $85.6 million (CAD$91.0 million) cash. Post-Arrangement, Alvopetro began carrying on the exploration, development and production previously carried on by Petrominerales with respect to the Brazil Properties.

Financial Information

With respect to the financial information presented in this management's discussion and analysis, transactions occurring prior to the Arrangement (which closed November 28, 2013) were derived from the accounting records of Petrominerales. All revenue, royalties and production taxes, operating expenses and transportation expenses contained within the interim condensed consolidated statements of operations and comprehensive loss are directly attributable to the Brazil Properties now owned by Alvopetro. General and administrative expenses recorded prior to the Arrangement have been determined based on actual Brazil general and administrative expenses and time charges by Petrominerales employees to the Brazil Properties. Share-based compensation recorded by Petrominerales up to the Arrangement date has been allocated to Alvopetro based on the percentage of the direct time charged to the Brazil Properties divided by total general and administrative costs for the Petrominerales Calgary office. For reporting periods after the Arrangement date, amounts recorded for general and administrative and share-based compensation expenses are based on amounts incurred by Alvopetro as a stand-alone entity. The financial information for this period is intended to be representative of the Brazil Properties had Alvopetro been operating them as a stand-alone entity, subject to Petrominerales' control, during this time.

The financial information related to this period has been prepared by Alvopetro's management in accordance with IFRS and requires the use of significant judgments made in the allocation of reported amounts related to the Brazil Properties. In the opinion of management of Alvopetro, this financial information reflects all adjustments necessary to present fairly the statement of the financial position and the results of operations in accordance with IFRS, however such information may not reflect Alvopetro's financial position, results of operations and cash flows had Alvopetro been operating in its current structure during the reporting periods presented. Further, such results may not be comparable to future results due to differences between the corporate and financial structure and management of Petrominerales and Alvopetro.

SUMMARY OF Q1 2014 RESULTS

	Three months ended March 31, 2014	2013
Financial		
($000s, except where noted)		
Oil sales	**314**	298
Funds flow from operations [1]	**(3,016)**	(734)
Per share – basic and diluted ($)[2]	**(0.04)**	(0.01)
Net loss	**(4,021)**	(921)
Net loss attributable to common shareholders	**(4,021)**	(730)
Per share – basic and diluted ($)[2]	**(0.05)**	(0.01)
Capital expenditures	**7,371**	253
Total assets	**155,936**	50,211
Debt	**-**	-
Net working capital surplus [1][3]	**65,716**	420
Common shares outstanding, end of year (000s)		
Basic [2]	**85,167**	85,167
Diluted [4]	**88,162**	85,167
Operations		
Operating netback ($/bbl) [1]		
Brent benchmark price	**107.90**	112.49
Sales price	**99.94**	94.72
Transportation expenses	**(3.50)**	0.62
Realized sales price	**96.44**	95.34
Royalties and production taxes	**(10.82)**	(4.64)
Production expenses	**(103.12)**	(72.99)
Operating netback	**(17.50)**	17.71
Average daily crude oil production (bopd)	**35**	35

Notes:

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

(2) All Alvopetro common shares currently outstanding were issued in connection with the Arrangement and there were no shares of Alvopetro Energy Ltd. outstanding at March 31, 2013. However, for comparison purposes and for all per share computations, the December 31, 2013 common share balance is assumed for March 31, 2013.

(3) Includes current restricted cash of $6.0 million (March 31, 2013 - $nil) but excludes non-current restricted cash of $21.7 million (March 31, 2013 - $nil).

(4) Consists of outstanding common shares and stock options of the Company as at March 31, 2014.

Total assets and net working capital surplus increased as at March 31, 2014 from March 31, 2013 primarily as a result of $85.6 million received on the closing of the Arrangement on November 28, 2013 as well as, throughout 2013, the acquisition of nine additional blocks in Brazil through bid rounds and farm-in agreements.

Capital expenditures of $7.4 million in the first quarter of 2014 were primarily attributable to the drilling of our 1ALV5BA well on Block 197.

Net loss and funds flow from operations were affected by higher G&A and foreign exchange losses in the first quarter of 2014 compared to 2013.

HIGHLIGHTS AND SIGNIFICANT TRANSACTIONS FOR THE FIRST QUARTER OF 2014

- During the first quarter of 2014, we drilled our 1ALV5BA well on Block 197. The well reached a total depth of 3,275 meters and has been cased and cemented. Based on the results of mud-logging and open-hole logs, we have filed a Notice of Discovery with the National Agency of Petroleum, Natural Gas and Biofuels (the "ANP").
- Based on open-hole logs, the 1ALV5BA well encountered 43 meters of potential net hydrocarbon pay over several separate intervals, with an average porosity of 9.5 percent, using an 8 percent porosity cut-off. Additional technical work and testing is required to determine the extent, if any, of potential commercial hydrocarbons associated with the 1ALV5BA well. We plan to commence a multi-zone testing program in the second quarter of 2014, subject to customary ANP approvals.
- During the drilling of the 1ALV5BA well, Alvopetro completed three core runs (100% core recovery), recovering over 78 meters of core. We are currently undertaking extensive Special Core Analysis.
- Alvopetro entered into a credit support facility for up to CAD $30.0 million and issued letters of credit in support of financial guarantees required for Alvopetro's work commitments under the terms of its concession contracts.
- Our cash and working capital resources remain strong, at $87.4 million as at March 31, 2014.

RECENT HIGHLIGHTS

- On Block 183, Alvopetro has commenced civil works on the site of our upcoming well, which we expect to commence drilling in the second quarter of 2014. We then plan to drill up to three additional wells in 2014.
- On May 15, 2014 the Company signed concession contracts for each of the four blocks awarded in Brazil's 12th Bid Round and paid $0.6 million in associated signature bonuses.

EXPLORATION BLOCK COMMITMENT SUMMARY

Block	Gross Acres	Exploration Term	Current Phase	Phase Expiry(1)	Phase Commitments
131	5,016	3 years + 2 years	2	18-Oct-14	1 exploration well
132	6,301	3 years + 2 years	2	18-Oct-14	1 exploration well
144	4,843	3 years + 2 years	2	18-Oct-14	1 exploration well
157	4,670	3 years + 2 years	2	18-Oct-14	1 exploration well
182	5,239	3 years + 2 years	2	25-Jul-14	1 exploration well
196	5,906	3 years + 2 years	2	25-Jul-14	1 exploration well
197	7,339	3 years + 2 years	2	29-Apr-14	See Note 1
183	7,740	3 years + 2 years	1	See Note 2	1 exploration well
170	6,914	3 years + 2 years	1	See Note 3	1 exploration well
106	7,759	3 years + 2 years	1	29-Aug-16	11 km^2 of 3D seismic
107	7,561	3 years + 2 years	1	29-Aug-16	2 exploration wells
T-177	46,505	3 years + 2 years	1	29-Aug-16	1 well and 31 km^2 of 3D seismic
169	5,280	3 years + 2 years	1	15-May-17	1 exploration well
198	7,739	3 years + 2 years	1	15-May-17	1 exploration well
255	7,734	3 years + 2 years	1	15-May-17	1 exploration well and 20 km 2D seismic
256	7,734	3 years + 2 years	1	15-May-17	27km 2D seismic

(1) On Block 197, Alvopetro drilled our 1ALV5BA well in fulfillment of its commitment of one exploration well in exploratory phase 2, subject to ANP approval.

(2) Block 183 was acquired by Alvopetro pursuant to a farm-in agreement. The phase commitment deadline date for the first phase commitment is expected to be August 9, 2015, however, as this deadline is adjusted by the ANP to provide Alvopetro additional time to complete the commitment to account for regulatory approval of the transfer of the interest from the farmor to the farmee, this phase commitment deadline date is an estimate.

(3) The time for completion of the first phase commitment on Block 170 will be approximately 18 months after the contract is resumed. The contract is currently in suspension, meaning additional time is granted to Alvopetro to complete our commitment, pending customary landowner documentation and subsequent receipt of environmental permits.

Alvopetro has the financial resources necessary to complete all of its work commitments. Alvopetro has the capacity to grow our operations and production levels and is not dependent on cash flows from existing production to fund our capital and operating plans.

FINANCIAL AND OPERATING REVIEW

Comparative Analysis and Cautionary Note

Readers are cautioned that the March 31, 2013 comparative financial data does not necessarily reflect what the results of our operations, financial position, and cash flows would have been had the Brazil Properties been operated as a stand-alone entity. Furthermore, such results may not be comparable to future results due to differences between the corporate and financial structure, and management of the Company compared to Petrominerales. For the three months ended March 31, 2013, the Brazil Properties were not operated as a stand-alone entity and there is no assurance that had they been, the results would have been the same.

Production and Oil Sales

	Three Months Ended March 31,	
	2014	**2013**
Total production (bbls)	**3,142**	3,150
Daily production (bopd)	**35**	35
Oil sales ($000's)	**314**	298

Substantially all of Alvopetro's production (averaging 33 bopd in 2014 and 32 bopd in 2013) is from one well on our Bom Lugar property.

Alvopetro currently has a sales contract for each of Bom Lugar and Jiribatuba and transports production for both of these fields by truck. Pursuant to the terms of the Bom Lugar sales contract, a discount of $15.47 - $20.75 per barrel is applied to average monthly Brent prices, with the discount reduced by a gross up for certain taxes of approximately 9.25 percent of the overall sales price. Under the terms of the Jiribatuba sales contract, a five percent discount is applied to average Brent prices.

Funds Flow from Operations

	Three Months Ended March 31,	
	2014	**2013**
Funds flow from operations	**(3,016)**	(734)

Alvopetro is not dependent on cash flows from oil sales to fund its capital and operating plans. The Company currently has negative funds flow from operations; however, 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 fixed operating and G&A expenses. Funds flow from operations for the three months ended March 31, 2014 was also impacted by a realized foreign exchange loss of $2.0 million related to the devaluation of the Canadian dollar relative to the U.S. dollar in the quarter.

Royalties and production taxes

	Three Months Ended March 31,	
	2014	**2013**
Royalties and production taxes	**34**	15

All of the producing fields held by Alvopetro are subject to a base 5% 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. Consistent with the practice in Brazil, royalties and production taxes for the three months ended March 31, 2014 includes all Social Assistance Contribution (“COFINS”) and Social Integration Program (“PIS”) taxes paid on revenues. COFINS and PIS represent social contribution taxes and currently approximate 3.65% of revenues.

All of the Concession Contracts for the exploration blocks held by Alvopetro are subject to a base 10% royalty plus a 1% landowner royalty. Blocks 131, 132, 144, 157, 182, 196 and 197 are also subject to a 2.5% gross-overriding royalty. No royalties have been paid on these, or any other, exploration blocks.

Production Expenses

	Three Months Ended March 31,	
	2014	**2013**
Production expenses	**324**	230

Production expenses on a per barrel basis of $103.12 for the three months ended March 31, 2014 were higher than the first quarter of 2013 ($72.99 per barrel), largely as a result of customary Brazil employee bonuses paid in the first quarter of 2014 compared to the second quarter of 2013. With the Company’s current operational capacity a significant portion of operating expenses are fixed and it is expected that these fixed costs will not increase significantly with increased production. Overall, net revenues from production exceed variable operating expenses and the Company expects that per barrel costs will decline as production levels increase pending future results of our exploration and development.

General and Administrative Expenses

	Three Months Ended March 31,	
	2014	**2013**
G&A expenses	**1,104**	804

G&A expenses for the three months ended March 31, 2013 include actual general and administrative costs incurred in Brazil, plus an allocation of Petrominerales’ general and administrative costs determined based on actual time charges by Petrominerales employees to the Brazil Properties. G&A expenses for the three months ended March 31, 2014 are representative of actual G&A costs incurred by Alvopetro. Alvopetro has the operational and administrative capacity for increased activity and production levels, which we anticipate will enable us to grow production with limited increases to G&A expenses.

Cash and Cash Equivalents

	As at	
	March 31, 2014	December 31, 2013
Cash and cash equivalents	**64,405**	100,268

In connection with the Arrangement, Petrominerales transferred its entire interest in the Brazil Properties and approximately $85.6 million (CAD$91.0 million) in cash to Alvopetro, resulting in significantly higher cash balances as at March 31, 2014 and December 31, 2013 compared to March 31, 2013 ($0.5 million). During the three months ended March 31, 2014, a total of $27.7 million was posted as cash collateral, largely for work commitments in Brazil (see "Restricted Cash"). This $27.7 million is not included as part of cash and cash equivalents in the table above.

Restricted Cash

	As at	
	March 31, 2014	December 31, 2013
Restricted cash – current	**5,995**	-
Restricted cash – non-current	**21,660**	-
Total restricted cash	**27,655**	-

The ANP requires all operators in Brazil to provide financial guarantees for work commitments as the applicable concession contracts are executed by, or transferred to, Alvopetro. In the first quarter of 2014, the Company entered into a credit support facility for up to CAD $30.0 million which allows for the issuance of letters of credit and letters of guarantee in support of these financial guarantees. Pursuant to the terms of the Facility, the issuance of letters of credit and letters of guarantee must be fully cash collateralized by Alvopetro. Cash collateral amounts posted by Alvopetro may at times be in excess of actual committed amounts due to additional amounts required to be deposited for foreign currency risk margins, in accordance with the terms of our Facility.

During the three months ended March 31, 2014, the Company issued irrevocable letters of credit through the Facility for a total of BRL 51.3 million and, accordingly, posted cash collateral of approximately $26.7 million, of which $5.0 million is classified as current and $21.7 is classified as non-current, depending on the expiry date of each applicable LC agreement. The LC's typically expire seven months following the phase expiry of the concession agreement to which they relate.

There is an additional cash collateral amount posted of $0.3 million with respect to corporate credit cards and an additional $0.7 million posted with respect to a future anticipated payment related to the Block 183 farm-in, both of which have been classified as current.

Other Income

	Three Months Ended March 31,	
	2014	2013
Interest income	**112**	-
Water disposal revenue	**40**	30
Total other income	**152**	30

Interest income for the three months ended March 31, 2014 includes income earned from restricted cash deposits at an average rate of 0.21% and cash deposits at an average rate of 1% per annum. Other income also includes revenue earned by the Company from third-party water disposal fees.

Foreign Exchange

The Company's reporting currency is the U.S. dollar and its functional currencies are the U.S. dollar and the Brazilian real ("BRL"). Substantially all costs incurred in Brazil are in Brazilian reais and the Company incurs certain head office costs in both U.S. and Canadian dollars. In each reporting period, the change in the values of the Brazilian real and the Canadian dollar relative to the Company's reporting currency are recognized. The period end rates used to translate the Company's Brazilian real and Canadian dollar denominated financial statement items are as follows:

	As at		
	March 31, 2014	**December 31, 2013**	**% Change**
Rate at end of period:			
U.S. dollar / Brazilian real	**2.2624**	2.3420	-3.4
U.S. dollar / Canadian dollar	**1.1055**	1.0636	3.9

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. With the decline of the Canadian dollar in the first quarter of 2014, the Company reported a total foreign exchange loss of $2.5 million (March 31, 2013 - $4,000).

The assets and liabilities of Alvopetro's Brazilian subsidiaries are translated to U.S. dollars at the exchange rate on the reporting period date. The income and expenses of our Brazil operations are translated to U.S. dollars 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 Brazilian real appreciated 3.4% relative to the US dollar from December 31, 2013 to March 31, 2014 resulting in an exchange gain of $1.0 million recognized in other comprehensive loss for the three months ended March 31, 2014 (March 31, 2013 - $0.2 million).

Share-Based Compensation Expenses

	Three Months Ended March 31,	
	2014	**2013**
Share-based compensation	**162**	100

Share-based compensation expense is a non-cash expense that is based on the fair value of stock options on the date of grant and amortized over the vesting period of the options. Share-based compensation for the three months ended March 31, 2013 is based on an allocation of Petrominerales share based compensation during the same time period.

Depletion, Depreciation and Accretion Expenses

	Three Months Ended March 31,	
	2014	**2013**
Depletion and depreciation	**91**	81
Accretion on decommissioning liabilities	**23**	6
Total	**114**	87

Included in the depletion computation for our producing fields was $9.8 million of estimated future development costs for proved plus probable reserves (March 31, 2013 – $7.7 million) and excluded from the computation was $0.2 million related to land purchased by the Company in the Bom Lugar field (March 31, 2013 – $nil).

Taxes

	Three Months Ended March 31,	
	2014	**2013**
Current income tax expense	**13**	11
Deferred income tax expense	**191**	-
Total	**204**	11

The statutory tax rate in Brazil applicable to corporate income is 34%. This is comprised of a basic 15% corporate income tax, plus 10% surtax and 9% social contribution on net profit tax. In Brazil, companies may elect to compute corporate taxes under the presumed profit regime provided total revenues from the immediately preceding year were less than BRL 72.0 million (previously BRL 48.0 million for 2013 and prior years) and certain other conditions have been met. Presumed profit is computed by applying a predetermined percentage to gross revenues, which varies depending on the nature of the revenues earned. Under the presumed profit regime, the combined inherent rate applicable to Alvopetro's Brazil activities is expected to be approximately two percent on gross revenues. Although the Company is in an overall loss position, the presumed profit regime is anticipated to provide lower indirect and other tax costs to the Company compared to the actual profit system and therefore higher overall tax savings within Brazil.

Deferred income tax expense for the three months ended March 31, 2014 arose largely due to unrecognized losses for tax purposes in Brazil and unrecognized deferred tax assets within Canada. No deferred income tax expense or recovery was recognized for the three months ended March 31, 2013.

Net Income

The Company reported a net loss of $4.0 million for the three months ended March 31, 2014 compared to a net loss of $0.9 million for the three months ended March 31, 2013. The net loss in the current period was impacted by a $2.5 million foreign exchange loss and higher G&A costs compared to the first quarter of 2013.

Capital Expenditures

	Three Months Ended March 31,	
	2014	**2013**
E&E expenditures	**7,080**	144
PP&E expenditures	**291**	109
Total capital expenditures	**7,371**	253

Drilling expenditures with respect to our 1ALV5BA well comprised substantially all of the capital expenditures for the three months ended March 31, 2014. Capitalized G&A expenses for the three months ended March 31, 2014 were $0.4 million (March 31, 2013 – $nil), the majority of which was booked to E&E.

SUMMARY OF QUARTERLY RESULTS

	Q1, 2014	Q4, 2013
Financial		
Oil sales	**314**	363
Funds flow from operations (1)	**(3,016)**	(1,690)
Per share – basic & diluted ($)	**(0.04)**	(0.02)
Net income (loss)	**(4,021)**	1,333
Net income (loss) attributable to common shareholders	**(4,021)**	398
Per share – basic & diluted ($)	**(0.05)**	-
Capital expenditures	**7,371**	4,187
Operations		
Operating netback ($/bbl) (1)		
Brent benchmark price	**107.90**	109.35
Sales price	**99.94**	91.88
Transportation expenses	**(3.50)**	(2.75)
Realized sales price	**96.44**	89.13
Royalties and production taxes	**(10.82)**	(18.71)
Production expenses	**(103.12)**	(49.81)
Operating netback	**(17.50)**	20.61
Average daily crude oil production (bopd)	**35**	43

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

Significant factors influencing quarterly results were:

- Increased sales price, offset by higher operating costs with the payment of customary bonuses for Brazil employees in March 2014.
- Capital expenditures related to our 1ALV5BA well on Block 197 comprised the majority of the total capital expenditures of $7.4 million in the first quarter of 2014;
- Substantially all of the E&E expenditures in the fourth quarter of 2013 were related to purchase of inventory for future drilling operations (including our 1ALV5BA well) and the construction of the well pad for the 1ALV5BA well;
- Foreign exchange loss of $2.5 million in the first quarter of 2014 due to the depreciation of the Canadian dollar relative to the U.S. dollar.

COMMITMENTS AND CONTINGENCIES

The following is a summary of Alvopetro's contractual commitments as at March 31, 2014:

Commitments	< 1 Year	1-3 Years	Thereafter	Total
Minimum work commitments(1)	9,414	9,706	6,236	25,356
Leases(2)	294	156	-	450
Total commitments	9,708	9,862	6,236	25,806

Notes:
(1) Under the terms of the ANP concession contracts for each of our exploration blocks, the Company has work commitments which must be completed prior to the applicable phase expiry date. Amounts above include the one well commitment required under the current exploratory phase of Block 197, fulfilled by our 1ALV5BA well drilled on this block during the three months ended March 31, 2014, subject to ANP approval. Alvopetro has applied to the ANP for an extension to the work commitment phase deadline for our 9th Brazil Bid Round blocks. While we expect that this will be granted, the

Company cannot guarantee that the ANP will grant the requested extension. To the extent the extension is not granted on one or more of the requested blocks, the associated concession contract(s) may be revoked, amounts recognized as exploration and evaluation assets with respect to these blocks may be subject to impairment at that time, and Alvopetro may be required to pay to the ANP an amount representing the value, calculated pursuant to the contract, of the unfulfilled portion of the related work commitments, estimated as up to a maximum of $9.1 million for all of our 9th Brazil Bid Round blocks.

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

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 actual or potential fines as of March 31, 2014 are not material.

LIQUIDITY AND CAPITAL RESOURCES

Our activities to date and our plans for 2014 are focused on targeting: our mature fields, shallow conventional exploration, and proving the commercial potential of the Gomo tight oil play in the Recôncavo Basin.

Alvopetro currently does not derive positive cash flows from its operations. Activities prior to the Arrangement were funded by Petrominerales as part of its normal course business operations and Alvopetro's existing cash balances are the primary source of funds for activities subsequent to the Arrangement.

At March 31, 2014 the Company's working capital (including current restricted cash of $6.0 million) of $65.7 million exceeded estimated outstanding commitments of $25.8 million by $39.9 million. Our current capital resources are expected to be more than adequate for our planned 2014 expenditures and commitments, while providing financial flexibility to pursue future opportunities. Furthermore, the Company considers that it has sufficient cash balances on hand to collateralize all existing guarantees and planned future guarantees. 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 future blocks acquired by Alvopetro in Brazil.

The liability for decommissioning obligations of Alvopetro was $3.1 million as at March 31, 2014. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. At March 31, 2014, the Company had $3.8 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. All of Alvopetro's expenditures are subject to the effects of inflation.

At March 31, 2014, Alvopetro's cash and cash equivalents of $64.4 million and restricted cash of $27.7 million were held as follows:

	Total	U.S. Dollar	CAD Dollar(1)	Brazil Real(1)
Cash held in Canada	61,881	45,069	16,812	-
Cash held in Brazil	2,524	-	-	2,524
Total cash and cash equivalents	**64,405**	**45,069**	**16,812**	**2,524**
Restricted cash held in Canada	26,992	26,674	318	-
Restricted cash held in Brazil	663	-	-	663
Total restricted cash	**27,655**	**26,674**	**318**	**663**

Notes:

(1) Amounts in the table above denote the U.S. dollar equivalent as March 31, 2014.

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 22, 2014 was 88,162,307 (common shares – 85,166,871, stock options – 2,995,436). There are no preferred shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Alvopetro is party to non-material office-related administrative transactions with Petrobank Energy and Resources Ltd., 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 March 31,	
	2014	2013
Office rent and related costs	**56**	-
Administration fees	**6**	-
Total	**62**	-

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended March 31, 2014 to the risks and uncertainties identified in the MD&A for the year ended December 31, 2013.

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 available on SEDAR at www.sedar.com.

SENSITIVITIES

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

On January 1, 2014, the Company adopted new accounting standards with respect to the presentation of financial instruments (IAS 32), the recognition of liabilities on government levies (IFRIC 21), and the disclosure of recoverable amounts of an impaired cash generating unit (IAS 36). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2014 or on the comparative periods.

There have been no changes to pending accounting pronouncements from those described in the Company's December 31, 2013 MD&A.

The Company's management made judgments, assumptions and estimates in the preparation of these financial statements. Actual results may differ from those estimates, and those differences may be material. The basis of presentation and the Company's significant account policies can be found in the notes to the consolidated financial statements for the year ended December 31, 2013.

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, expectations and assumptions concerning testing results on the 1ALV5BA well, 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.*

Cautionary statements regarding the filing of a Notice of Discovery*. Operators in Brazil are required to inform the ANP, through the filing of a Notice of Discovery, of potential hydrocarbon discoveries. These routine notifications to the ANP are not necessarily indicative of commercial hydrocarbons, potential production, recovery or reserves. Data obtained from the 1ALV5BA well identified in this press release, including hydrocarbon shows, open-hole logging, net pay and porosities, should be considered to be preliminary until testing, detailed analysis and interpretation has been completed. Hydrocarbon shows can be seen during the drilling of a well in numerous circumstances and do not necessarily indicate a commercial discovery or the presence of commercial hydrocarbons in a well. There is no representation by Alvopetro that the data relating to the 1ALV5BA well contained in this press release is necessarily indicative of long-term performance or ultimate recovery. The reader is cautioned not to unduly rely on such data as such data may not be indicative of future performance of the well or of expected production or operational results for Alvopetro in the future.*

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 restricted cash) and 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.*