

Trickle Research

Every raging river, every great lake, every
deep blue sea starts ... with a trickle



Research Update



Alvopetro Energy Ltd.

(TSXV:ALV.V; OTC:ALVOF)

<http://alvopetro.com/>

Report Date: 08/27/20

12- 24 month Price Target: USD \$1.25

Allocation: 5

Closing Stock Price at Initiation (Closing Px: 11/07/18): USD \$.38

Closing Stock Price at Allocation Upgrade (Closing Px: 05/17/19): USD \$.42

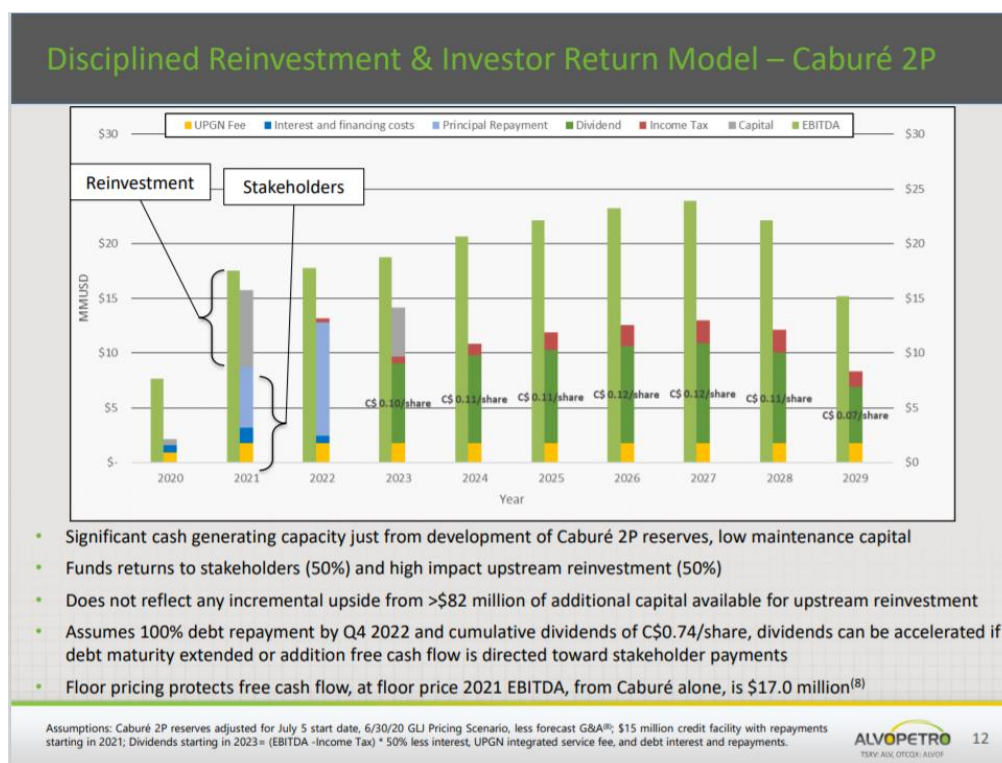
Closing Stock Price at This Report Date (Closing Px: 08/26/20): USD \$.47

**Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research**

Disclosure: Portions of this report are excerpted from Alvopetro's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

We raised our price target on AlvoPetro about 90 days ago and since that time they announced their first gas deliveries into the Bahiagás agreement/Citygate. This is the milestone the company has been building towards since our initiation in November 2018. In retrospect, while there were some delays in the timeline, management has executed and delivered the plan they laid out and the Company is delivering gas from their Cabure’ field, and they are doing so at favorable (albeit floor level) prices provided by their agreement. As a result, the Company has successfully transitioned from development to commercialization, and we expect them begin reflecting profitability and building working capital. The slide below is from their latest presentation and provides their own guidance around those metrics. Our model following our narrative here reflects some of our expectations for those metrics as well.

To be clear, this posture has clearly de-risked the story and we believe the future cashflows provided from the operation speaks to valuations that are multiples of the current stock price. From current levels, we view AlvoPetro as a “value play”. That said, we think some of the attention on the Company now needs to be directed towards “what they do for an encore”. We will address that momentarily, but again, on the basis of anticipated/ cashflow with good visibility, we think the stock remains undervalued on the face.



The entire presentation is available at: https://alvopetro.com/files/galleries/ALV_Corporate_Presentation_Aug_2020.pdf

Looking ahead, there are a variety of potential developments the Company is pursuing that we believe could provide additional valuation legs to the story. From the simplest view, while energy prices have been negatively impacted by a handful of factors, keep in mind that the Bahiagás agreement calls for pricing resets in the event of improving sustained energy price proxies. While everyone will need to decide for themselves how they feel about the prospects of higher future energy prices, recognize that the assumptions herein are essentially built around the “floor” prices of the agreement, thus, higher future energy prices could provide valuation catalysts for AlvoPetro. Further, as most are aware, the Company is planning additional resource development of the existing Cabure’ field as well as their Gomo field assets. Frankly, we believe some of the caution around the stock is focused on the lack of identified reserves beyond those identified at Cabure’ and assumed in analysis like the illustration above as well as our own and other analysts’ models. As with any E&P development, it is difficult to

handicap the Company's ability to identify additional resources, but we are comfortable with the fact that they have done it before so from our view, that scenario is more likely than not.

In addition, recall from our initial coverage, the Company has been able to posture itself as a viable Brazilian energy player in part because of the opportunities created by scandals involving the country's legacy (state owned) energy company Petrobras. Petrobras' missteps have provided openings for other players in the industry and Alvo Petro is clearly one of them as evidenced by their recent transition to operations. We think the gas delivery infrastructure they have assembled along with the Bahiagás agreement provide value beyond that which is reflected in the current price of the stock, much less our targets. That is, absent additional success on the upstream development activities, we believe the Company is positioned to further monetize their midstream infrastructure if they choose that route. Keep in mind, their capacity and agreement essentially encompass 2X the deliveries assumed from their Cabure' assets.

Again, we think the current operating transition/milestone implies higher valuations based on visible cashflows but we also think additional valuation catalysts are likely.

We remain highly positive on Alvo Petro.

Projected Operating Model

Alvopetro Energy Ltd.							
Projected Operating Model (in USD - '000s)							
By Trickle Research LLC							
	Actual	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	<u>3/31/20</u>	<u>6/30/20</u>	<u>9/30/20</u>	<u>12/31/20</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>
Oil & Gas Sales	\$ 61	\$ 40	\$ 5,306	\$ 5,816	\$ 11,223	\$ 24,661	\$ 25,173
Royalties and Production Taxes	\$ (8)	\$ (5)	\$ (584)	\$ (640)	\$ (1,236)	\$ (2,713)	\$ (2,769)
					\$ -	\$ -	\$ -
Oil & Gas Revenue	\$ 53	\$ 35	\$ 4,722	\$ 5,176	\$ 9,986	\$ 21,948	\$ 22,404
Midstream Transportation Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income	\$ 24	\$ 20	\$ -	\$ -	\$ 44	\$ -	\$ -
Total Revenue and Other Income	\$ 77	\$ 55	\$ 4,722	\$ 5,176	\$ 10,030	\$ 21,948	\$ 22,404
					\$ -	\$ -	\$ -
Production	\$ 44	\$ 36	\$ 489	\$ 512	\$ 1,080	\$ 1,910	\$ 1,933
Transportation	\$ -	\$ -	\$ 35	\$ 38	\$ 73	\$ 160	\$ 163
General & Administrative	\$ 640	\$ 1,032	\$ 735	\$ 768	\$ 3,175	\$ 2,895	\$ 2,903
Depletion and Depreciation	\$ 62	\$ 50	\$ 824	\$ 917	\$ 1,853	\$ 3,470	\$ 3,203
Impairment	\$ 1,381	\$ -	\$ -	\$ -	\$ 1,381	\$ -	\$ -
Exploration and Evaluation	\$ -	\$ -	\$ 52	\$ 52	\$ 105	\$ 177	\$ 80
Finance Expenses (UPGN)	\$ 276	\$ 69	\$ 270	\$ 270	\$ 885	\$ 1,080	\$ 1,080
Accretion of Decommissioning Liabilities	\$ -	\$ -	\$ 10	\$ 10	\$ 20	\$ 40	\$ 40
Share Based Compensation	\$ 28	\$ 39	\$ 50	\$ 50	\$ 167	\$ 80	\$ 80
Foreign Exchange Loss	\$ 9	\$ (3)	\$ -	\$ -	\$ 6	\$ -	\$ -
Loss on Disposition of Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 2,440	\$ 1,223	\$ 2,465	\$ 2,617	\$ 8,745	\$ 9,811	\$ 9,481
Interest Expenses	\$ -	\$ -	\$ 351	\$ 393	\$ 744	\$ 1,320	\$ 984
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total non-operating Expenses	\$ -	\$ -	\$ 351	\$ 393	\$ 744	\$ 1,320	\$ 984
Gain (Loss) Before Taxes	\$ (2,363)	\$ (1,168)	\$ 1,906	\$ 2,166	\$ 541	\$ 10,817	\$ 11,939
Income Tax Charge (Recovery)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,174	\$ 1,295
Net Loss	\$ (2,363)	\$ (1,168)	\$ 1,906	\$ 2,166	\$ 541	\$ 9,643	\$ 10,644
Exchange (loss) gain on translation of foreign operations	\$ (8,352)	\$ (1,412)	\$ (106)	\$ (65)	\$ (9,935)	\$ (325)	\$ (358)
Comprehensive (loss) gain	\$ (10,715)	\$ (2,580)	\$ 1,800	\$ 2,101	\$ (9,393)	\$ 9,319	\$ 10,285
Net Gain (Loss) per share							
Basic	\$ (0.02)	\$ (0.01)	\$ 0.02	\$ 0.02	\$ (0.10)	\$ 0.09	\$ 0.10
Diluted	\$ (0.02)	\$ (0.01)	\$ 0.02	\$ 0.02	\$ (0.09)	\$ 0.09	\$ 0.10
Shares O/S - Basic	98,432,818	98,442,412	98,525,745	98,600,150	98,500,281	98,659,838	98,728,480
Shares O/S - Diluted	99,151,563	99,455,171	99,640,710	101,206,439	99,863,471	104,346,545	107,972,933

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Alvopetro has paid fees to present at investor conferences that Trickle Research Co-sponsored.

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ($\$250 * 4$). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.