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: 03/24/21

12- 24 month Price Target: USD $1.35

Allocation: 6

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 Target Upgrade (Closing Px: 05/26/20): USD $.52

Closing Stock Price at Price Target and Allocation Upgrade (Closing Px: 02/11/21): USD $.622

Closing Stock Price at This Upgrade (Closing Px: 03/24/21): USD $.72

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About a month ago, we provided an update on Alvopetro that included an allocation and a price target increase. Part of our rationale was related to the recent rise in energy prices and in conjunction macro issues that may support the sustainability of higher prices going forward.

> *From a macro perspective, US energy policy as telegraphed by the new US administration looks to be far less accommodating to overall US energy production which we think has and will likely continue to encourage higher global energy prices for the foreseeable future. We do not pretend to know where that points ultimately other than to suggest that even current prices will lead to higher prices for Alvopetro. If our math is correct, we think current prices could lead to pricing for Alvopetro that could be 20% to 25% higher than our current model forecasts. Obviously, that will have a considerably positive impact on their cash flow and out target conclusion.*

To reiterate the conclusion of that update, its perplexing to us that Alvopetro has not trade closer to our targets give that a) the rest of the microcap market has risen considerably over the past few months, b) the Company reported its first full (and sustainable) profitable quarter in 3Q the level of which clearly suggests higher valuations and c) higher energy prices mean higher (contracted) pricing for Alvopetro's gas, the additional margin of which drops almost entirely to the bottom line. To summarize, in our view, the stock (at that time) was clearly undervalued at roughly $.62, and on a relative basis (compared to many other microcap names) was perhaps profoundly undervalued.

Fast forward to 3/23/21 (yesterday). Yesterday, the Company provided some data from the production tests of their developing Gomo field. To refresh, historically, the Company's reserve and subsequent present and future production profile has been built around its Caburé unit. To that end, we have argued that the market has perhaps been reluctant to bid up Alvo shares because, while, the NPV of Caburé alone clearly pointed to valuations well in excess of current prices (especially in the context of higher energy prices) the story lacked visibility in terms of production/cash flow beyond Caburé. Succinctly, we believe yesterday's announcement provides considerable clarity with respect to the potential for Gomo to contribute future cash flow. The entire release is available on the Company's websites at: https://alvopetro.com/News-Events, however to summarize:

> *Corey Ruttan, President and Chief Executive Officer, commented: "With the successful production test of our 183 Gomo well earlier this year and the final investment decision on our Gomo transfer pipeline extension we are well positioned to implement a large-scale Gomo development. This represents a significant long-term opportunity with 2P reserves of 3.3 mmboe, risked best estimate contingent resource of 3.5 mmboe and risked best estimate prospective resource of 12.1 mmboe. Our Gomo asset is a unique part of our portfolio with very low assessed geological risk, analogous to many resource plays. This incremental Gomo resource shows the potential to add an additional 19 mmcfpd of productive capability from the Gomo project over the next 5 years.* **On a risked best estimate basis, our Gomo reserves and resources have the potential to be approximately 3 times larger than our core Caburé project."**

This is, in our view another marked validation to our thesis. From our perspective, additional reserves represented one of the few remaining cogent risks in the story and these results are mitigating in that regard. Frankly, this provides a basis for higher price targets as well and we will revisit that shortly. For now, we reiterate our allocation of 6 and out 12-24 month price target of $1.35 per share. **This is highly positive information and while the stock has responded modestly to the results, we believe the stock clearly remains under the radar.**

Projected Operating Model

Alvopetro Energy Ltd.
Projected Operating Model (in USD - '000s)
By Trickle Research LLC

	Actual 3/31/20	Actual 6/30/20	Actual 9/30/20	Estimate 12/31/20	Estimate Fiscal 2020	Estimate 3/31/21	Estimate 6/30/21	Estimate 9/30/21	Estimate 12/31/21	Estimate Fiscal 2021
Oil & Gas Sales	61	40	5,320	5,666	11,087	6,143	6,476	6,964	7,205	26,788
Royalties and Production Taxes	(8)	(5)	(456)	(510)	(979)	(553)	(583)	(627)	(648)	(2,411)
					-					-
Oil & Gas Revenue	53	35	4,864	5,156	10,108	5,590	5,893	6,337	6,557	24,377
Midstream Transportation Revenues	-	-	-	-	-	-	-	-	-	-
Other Income	24	20	14	-	58	-	-	-	-	-
Total Revenue and Other Income	77	55	4,878	5,156	10,166	5,590	5,893	6,337	6,557	24,377
					-					-
Production	44	36	648	671	1,399	671	657	664	671	2,663
Transportation	-	-	-	-	-	-	-	-	-	-
General & Administrative	640	1,032	654	792	3,118	804	812	824	830	3,270
Depletion and Depreciation	62	50	931	1,044	2,087	1,026	993	984	975	3,978
Impairment	1,381	-	-	-	1,381	-	-	-	-	-
Exploration and Evaluation	-	-	-	33	33	33	33	33	13	111
Finance Expenses and Interest	276	69	996	977	2,318	935	935	893	893	3,656
Accretion of Decommissioning Liabilities	-	-	-	10	10	-	-	-	-	-
Share Based Compensation	28	39	74	85	226	96	107	120	134	457
Foreign Exchange Loss	9	(3)	(15)	-	(9)	-	-	-	-	-
Loss on Disposition of Assets	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	2,440	1,223	3,288	3,612	10,563	3,565	3,536	3,518	3,516	14,134
Interest Expenses	-	-	-	-	-	-	-	-	-	-
Other Non-Operating Expenses	-	-	-	-	-	-	-	-	-	-
Total non-operating Expenses	-	-	-	-	-	-	-	-	-	-
Gain (Loss) Before Taxes	(2,363)	(1,168)	1,590	1,545	(396)	2,026	2,357	2,819	3,040	10,243
Income Tax Charge (Recovery)	-	-	(4,893)	-	(4,893)	220	256	306	330	1,111
Net Loss	(2,363)	(1,168)	6,483	1,545	4,497	1,806	2,101	2,513	2,711	9,131
Exchange (loss) gain on translation of foreign operations	(8,352)	(1,412)	(1,056)	-	(10,820)	-	-	-	-	-
Comprehensive (loss) gain	(10,715)	(2,580)	5,427	1,545	(6,323)	1,806	2,101	2,513	2,711	9,131
Net Gain (Loss) per share										
Basic	(0.02)	(0.01)	0.07	0.02	(0.06)	0.02	0.02	0.03	0.03	0.09
Diluted	(0.02)	(0.01)	0.06	0.02	(0.06)	0.02	0.02	0.02	0.03	0.09
Shares O/S - Basic	98,432,818	98,442,412	99,122,412	99,247,412	98,811,264	99,372,412	99,497,412	99,622,412	99,747,412	99,559,912
Shares O/S - Diluted	99,151,563	99,455,171	99,880,275	101,420,337	99,976,837	102,795,392	104,023,120	105,119,306	106,098,043	104,508,965

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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.