Trickle Research

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

Price Target Upgrade

Cavitation Technologies, Inc.

(OTC: CVAT)

(www.ctinanotech.com)

Report Date: 07/22/21

12- 24 month Price Target: *$.19

Allocation: 5

Closing Stock Price at Initiation (Closing Px: 08/21/19): $.0325

Closing Stock Price at Allocation Upgrade Date (Closing Px: 02/01/21): $.034

Closing Stock Price at This Update (Closing Px: 07/21/21): $.068

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

Cavitation made the following announcement July 19, 2021:

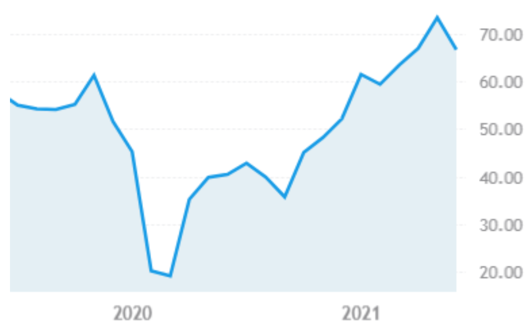
Cavitation Technologies, Inc. Announces Completion of $1,500,000 Equity Financing to Enhance and Accelerate the Commercialization of its Produced Water Treatment Technology in the Permian Basin

CHATSWORTH, CA, July 19, 2021 (GLOBE NEWSWIRE) -- via NewMediaWire – Cavitation Technologies, Inc. (CVAT and/or "the Company"). (OTCQB: CVAT) (BERLIN: WTC) announced that the Company has completed a financing of $1,500,000 through the sale of approximately 23 million units. Each unit consists of 1 common share of stock and 1 stock purchase warrant exercisable at $.09 per share for a 5-year term. The pricing of the unit represents an approximate 10% premium to the prior 10-day average market close price at the time of the completion of the offering. The units were sold primarily to a group of existing shareholders of the Company.

The Company's heavily patented technology is being used in collaboration with processes developed by its Joint Venture partner, which is an established and innovative provider of water resources to the Permian Basin oil and gas industry. The joint venture called Enviro Watertek LLC ("Enviro Watertek") includes high throughput, portable and chemical free closed loop systems that treat produced water and allow for its recycling back into the fracking of additional wells. The process provides oil and gas producers a low cost, more environmentally friendly approach to addressing brackish produced water, while at the same time reducing the industry's reliance on scarce freshwater resources.

Neil Voloshin, CFO/COO, commented, "This offering will allow our Company to provide funding to the Joint Venture to both accelerate the commercialization, as well as increase Cavitation's pro-rata participation in that commercialization. In conjunction with rising oil prices, drilling activity in the Permian Basin is picking up, which we believe will provide considerable opportunity for Enviro Watertek's innovative systems, and in turn Cavitation's bottom line." Mr. Voloshin also noted, "We would like to thank our investors for their confidence in these emerging initiatives, and their corresponding investment in Cavitation Technologies, Inc. While we have avoided the dilution of equity financings over the past seven years or so, we believe this opportunity merits the use of our currency to help bring it to fruition."

This announcement dovetails with a major thesis of our initiating coverage, which is that we believe Cavitation is at the front end of deploying its technology into a handful of new industries that we believe will provide additional revenue opportunities and in turn the basis for much higher fundamental valuations for the underlying shares. More specifically, this particular announcement addresses one of the first of these new opportunities and one that we have also been discussing since our initiation.



Recall, Cavitation, along with its joint venture partner in the Permian Basin, began treating produced water from oil and gas activities in the basin in Q4 of (calendar) 2019. At that time, the expectation was that they would be able to ramp their water treatment activities from the original stationary facility, as well as adding new portable units they developed around that time to address a larger portion of the market. Succinctly, those efforts were halted by the pandemic and the ensuing collapse of oil, which in turn shuttered oil and gas development in the Permian Basin. Fast forward a year or so and oil prices have not only made of the ground they lost during the beginning of the pandemic but have managed to trade markedly higher as well. Rig counts and production in the Permian as well as other basins across the country are increasing, and we believe this translates into improving prospects for Cavitation and its joint venture partner.

While improving oil and gas activity is highly positive, the announcement above requires some added color beyond the macro view. First, the Enviro Watertek joint venture was formed when Cavitation's joint venture partner approached the Company about using the technology in conjunction with additional processes they had developed over several years in their own produced water treatment endeavors. Specifically, their partner recently shared with us that over the years, they have evaluated/tested over two dozen processes to treat produced water, but none were able to meet the specifications required by their customers. In short, with the addition of Cavitation's low pressure reactors (as well as some added collaboration with Cavitation engineers) they were able to develop the current platform, which treats produced water at scale, at a lower price and without the chemicals required by legacy treatment approaches. Further, the water that is treated by the process can be recycled to frack additional wells, which is also a considerable challenge for frackers. As we alluded to above, the joint venture succeeded in getting the platform to commercialization and was treating water and generating revenue when oil prices hit the wall.

The above noted, as we understand it, while the joint venture was formed as an equal partnership, it was designed in a way that each partner (Cavitation and/or its water treatment partner in the basin) would split the revenues generated by the venture on a *project-by-project basis*, according to the contribution of each. In that regard, recognize that in the case of the original portions of business the venture generated in Q4-19, Cavitation essentially provided their technology while their partner brought some of their own platform development and other associated knowledge, access to their customer(s), and what we believe was between $3 million and $4 million of capex developing the original stationary model as well as the next generation portable unit(s). As a result of that somewhat lopsided contribution, Cavitation's share of that business was about $.05 per barrel of water treated. However, with the proceeds of this raise, Cavitation will be providing capital to the joint venture and will in turn be receiving a much larger portion of the venture's returns. While we do not know the precise distribution Cavitation will now receive, but we believe it will be close to $.20+ per barrel, so the differential per this investment is significant.

Digging into the numbers a bit closer, hypothetically, if the joint venture processes 1 million barrels of water per month (a number they have suggested per the full utilization of the stationary plant plus the two new portable reactors), then Cavitation's "share" would improve from $50,000 of profit per month to $200,000 plus per month. In that case, it would take them about 10 months to recoup the entire $1.5 million investment (although we think their contribution to the JV is closer to $1 million to $1.2 million). We have had some subscribers ask about the dilution of the raise, but clearly, if these numbers or something close to them play out, the internal rate of return of the investment will be extraordinary and certainly worth the dilution.

Looking ahead, we believe the plan for the joint venture is to grow the business well beyond the initial 1 million barrel per month goal. Just to reiterate, a single frack can take 1 million to 2 million barrels of oil and it can in turn produce as much as 10X the amount of produced water as oil. To translate, as we see it, the prospects for Enviro Watertek far exceeds the 1 initial million barrel opportunity they have identified. We submit, in order for them to pursue more business, they will need to purchase and deploy additional portable systems. Our expectation is that they may be able to do some of that with internal cash flow, but we suspect JV may ultimately seek additional internal financing as well.

In addition to the above, Cavitation continues to pursue opportunities in other industries including alcohol, cannabis, ballast water, municipal waste, and others. We think we will see additional progress on some of those fronts as we go forward. In the meantime, we believe the above financing and the added benefit it provides Cavitation in terms of increasing its share of the Permian business is *highly positive*. As a result of this we have reworked out models to reflect both the added dilution of the raise and the impact of dilutive derivatives as well as what we believe will be the impact of Cavitation's larger portion of the pie. To be clear, we submit, the model includes some blue sky in terms of assumptions around what we believe will be the addition of new portable platforms going forward and as such, higher levels of associated business. Further, as a result of those adjustments, we are establishing a new 12-24 month price target of *$.19 per share. We will assess all of our targets and conclusions as visibility improves.

<u>Projected Operating Model</u>

Cavitation Technology, Inc.										
Projected Operating Model										
Prepared by Trickle Research										
	(actual)	(actual)	(actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	9/30/20	**12/31/20**	**3/31/21**	**6/30/21**	**<u>Fiscal 2021</u>**	**9/30/21**	**12/31/21**	**3/31/22**	**6/30/22**	**<u>Fiscal 2022</u>**
Income Statement										
Revenue	$ 418,000	$ 72,000	$ 148,000	$ 150,000	$ 788,000	$ 750,805	$ 1,158,906	$ 1,282,418	$ 1,405,930	$ 4,598,059
Cost of revenue	$ 11,000	$ 2,000	$ 3,000	$ 6,000	$ 22,000	$ 51,032	$ 60,356	$ 65,297	$ 70,237	$ 246,922
Gross profit	$ 407,000	$ 70,000	$ 145,000	$ 144,000	$ 766,000	$ 699,773	$ 1,098,550	$ 1,217,121	$ 1,335,693	$ 4,351,137
General and administrative expenses	$ 310,000	$ 283,000	$ 285,000	$ 332,500	$ 1,210,500	$ 362,540	$ 382,945	$ 389,121	$ 395,297	$ 1,529,903
Research and development expenses	$ 6,000	$ 5,000	$ -	$ 13,795	$ 24,795	$ 14,412	$ 15,030	$ 16,264	$ 17,499	$ 63,205
Total operating expenses	$ 316,000	$ 288,000	$ 285,000	$ 346,295	$ 1,235,295	$ 376,952	$ 397,975	$ 405,385	$ 412,796	$ 1,593,108
Loss from Operations	$ 91,000	$ (218,000)	$ (140,000)	$ (202,295)	$ (469,295)	$ 322,820	$ 700,575	$ 811,736	$ 922,898	$ 2,758,029
Gain on settlement of debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other expense, net	$ -	$ 3,000.00	$ -	$ -	$ 3,000.00	$ -	$ -	$ -	$ -	$ -
Other income	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Taxable Income	$ 91,000	$ (221,000)	$ (140,000)	$ (202,295)	$ (472,295)	$ 322,820	$ 700,575	$ 811,736	$ 922,898	$ 2,758,029
Income Tax Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Loss	$ 91,000	$ (221,000)	$ (140,000)	$ (202,295)	$ (472,295)	$ 322,820	$ 700,575	$ 811,736	$ 922,898	$ 2,758,029
Net loss per share, Basic	$ 0.00	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.002)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.013
Net loss per share, Basic and Diluted	$ -	$ -	$ -	$ (0.00)	$ (0.001)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.011
Weighted average shares outstanding, Basic	196,997,906	196,997,906	196,997,906	196,997,906	196,997,906	220,182,521	220,182,521	220,182,521	220,182,521	220,182,521
Weighted average shares outstanding, Basic & Diluted	-	-	-	196,997,906	196,997,906	231,144,585	238,120,444	246,090,805	253,815,609	242,292,861

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Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences.

Cavitation Technologies, Inc. has paid fees to present at investor conferences co-sponsored by Trickle Research.

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

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.