

Trickle Research

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



2Q-F21 Earnings Update



Alvopetro Energy Ltd.

(TSXV:ALV.V; OTC:ALVOF)

<http://alvopetro.com/>

Report Date: 08/17/21

12- 24 month Price Target: USD \$1.50

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 Price Target Upgrade (Closing Px: 05/13/21): USD \$.78

Closing Stock Price at This Update (Closing Px: 08/16/21): USD \$.82

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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.

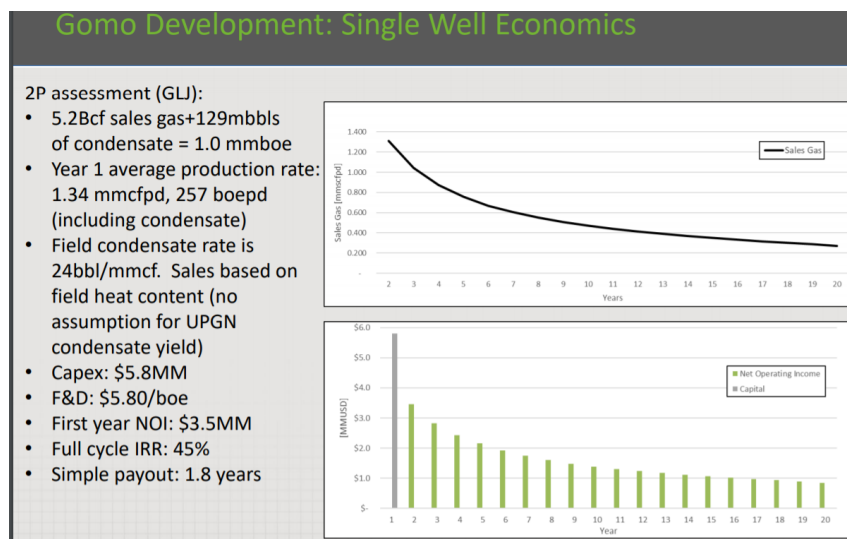
For 2Q-F21, Alvo Petro reported revenue of \$8.2 million and net income (net of comprehensive items), of \$3.6 million. Those numbers compare to our estimates of \$7.5 million and \$2.2 million. We would add, that net income included \$2.8 million worth of Foreign exchange gains (which worked in the opposite direction last quarter and we addressed in the associated update) so in total, they outran our revenue estimate, and other line items were in line given that higher level of business.

In terms of revenues, the Company outperformed our estimates by producing and delivering more gas than we anticipated. To that end, the recent management discussion notes: *“Production from the Caburé natural gas field and associated natural gas sales are expected to continue at rates between 10.6 mmcfpd to 13.8 mmcfpd, consistent with average production in the fourth quarter of 2020 and the first half of 2021. Including associated condensate sales, the Company anticipates average sales of 1,850 boepd to 2,400 boepd for the remainder of 2021. To edify, our estimates fall in the middle of that range whereas actual results for the quarter were at the high end of that range. We intend to keep estimating the middle of that range, so if they continue to produce at the higher end, we will continue to be light in our revenue estimates. We would add, their announced July production was 13.9 mmcfpd so we did reflect that number in the current model. That said, there are a handful of things unfolding here that we think are topical.*

First, (the low hanging fruit) as we have noted in much of the prior research, the Company’s gas sales agreement calls for the resetting of their pricing every 6 months. The reset occurred August 1, (2021) and increases from a realized gas price of \$6.06 for 2Q-F21 (per the filing) to \$7.34. That is a sizable bump that will improve results markedly by itself.

Second, recall, we have also noted in past research that a lack of reserves beyond the Caburé’ asset has also impeded the value of the shares. To that end, the recent filings note: *“In July we commenced construction on our Gomo/Murucututu pipeline which will connect our 183(1) well to our Caburé transfer pipeline. All pipe has been received in the field, welding commenced, and ditches are now being opened to start installation. We anticipate construction will be completed and the 183(1) well to be tied-in and on production by the end of the year”.*

To translate, they anticipate having the first Gomo well contributing in Q1-F22. In the context of the tables below, we have made some assumptions about this production in 2022 and beyond. The Company’s table below reflects, the well metrics they expect to achieve. We would add, the expect to drill Gomo wells 2 & 3 before year end (2021). Obviously, if these wells are successful, we will revisit our models to reflect those additions, but more importantly, we think additional reserve assets will prove constructive for the share price. Keep in mind, the Company has identified a number of well sites at Gomo and it is conceivable that Gomo could collectively provide the Company with more production than Caburé.



In addition to the above, we would note the Company's most current presentation notes that they "*plan to commence dividend payments by Q1 2022*". The timing of that milestone has been a bit elusive, but we think a regular dividend will also provide a more definitive valuation catalyst. To reiterate something we noted in past research, we think the current stock price will provide an extraordinary yield in the context of what the Company is indicating in terms of that planned distribution.

Lastly, about a month ago, the Company reported some initiatives that they were putting to a shareholder vote, and that meeting was held a few days ago. Among those initiatives was a "small lot buyback" wherein shareholders of small numbers of shares (fewer than 2100 shares) would effectively be tendered out of those shares with a cash payment. The impetus for the consolidation is apparently that "*1.6 million of the outstanding shares are held by an estimated 4,275 shareholder accounts*". This initiative effectively amounts to a share buyback, which we think reflects the Company's view that the stock remains undervalued. We would add, in addition to the small lot restructuring, the Company is also looking to reverse split the stock on a 1 for 3 basis. We realize some investors are adamantly opposed to reverse splits, we think it is important for companies to align their cap tables with their levels of business. In the case of Alvopetro, we think it makes considerable sense.

To summarize, Alvopetro continues to perform as (or slightly better than) expected. Further, they are beginning to establish visibility with respect to one of its major wildcards; reserves. Succinctly, the coming 6-12 months should be telling in terms of the development and establishment of identifiable reserves and we think that should provide a basis for higher valuations. Further, we expect them to commence their anticipated dividend plan which should also help with the stock price. In short, we remain bullish on Alvopetro, and we think the stock remains markedly undervalued.

We are maintaining our allocation of 6, and our 12-24 month price target of US\$1.50. We will revisit each as we move forward.

Projected Operating Model

Alvopetro Energy Ltd.						
Projected Operating Model (in USD - '000s)						
By Trickle Research LLC						
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	<u>3/31/21</u>	<u>6/30/21</u>	<u>9/30/21</u>	<u>12/31/21</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>
Oil & Gas Sales	\$ 6,939	\$ 8,124	\$ 9,698	\$ 9,271	\$ 34,032	\$ 45,124
Royalties and Production Taxes	\$ (645)	\$ (607)	\$ (873)	\$ (834)	\$ (2,959)	\$ (4,061)
					\$ -	\$ -
Oil & Gas Revenue	\$ 6,294	\$ 7,517	\$ 8,825	\$ 8,437	\$ 31,072	\$ 41,063
Midstream Transportation Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income	\$ 8	\$ 7	\$ -	\$ -	\$ 15	\$ -
Total Revenue and Other Income	\$ 6,302	\$ 7,524	\$ 8,825	\$ 8,437	\$ 31,087	\$ 41,063
					\$ -	\$ -
Production	\$ 710	\$ 791	\$ 844	\$ 806	\$ 3,151	\$ 3,199
Transportation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General & Administrative	\$ 851	\$ 1,036	\$ 1,042	\$ 1,032	\$ 3,961	\$ 4,328
Depletion and Depreciation	\$ 1,674	\$ 2,092	\$ 1,950	\$ 1,857	\$ 7,574	\$ 7,417
Impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Exploration and Evaluation	\$ -	\$ -	\$ 750	\$ 13	\$ 763	\$ 50
Finance Expenses and Interest	\$ 994	\$ 833	\$ 604	\$ 604	\$ 3,035	\$ 2,163
Accretion of Decommissioning Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Share Based Compensation	\$ 89	\$ 92	\$ 115	\$ 129	\$ 424	\$ 594
Foreign Exchange Loss	\$ 2,065	\$ (2,811)	\$ -	\$ -	\$ (746)	\$ -
Loss on Disposition of Assets	\$ (3)	\$ (13)	\$ -	\$ -	\$ (16)	\$ -
Risk Management Expenses	\$ (58)	\$ 166	\$ -	\$ -	\$ 108	\$ -
Total Operating Expenses	\$ 6,322	\$ 2,186	\$ 5,305	\$ 4,440	\$ 18,253	\$ 17,752
Interest Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total non-operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gain (Loss) Before Taxes	\$ (21)	\$ 5,338	\$ 3,520	\$ 3,997	\$ 12,834	\$ 23,311
Income Tax Charge (Recovery)	\$ 1,068	\$ 1,759	\$ 382	\$ 434	\$ 3,643	\$ 2,529
Net Income	\$ (1,089)	\$ 3,579	\$ 3,138	\$ 3,563	\$ 9,192	\$ 20,782
Exchange (loss) gain on translation of foreign operations	\$ (987)	\$ 4,341	\$ -	\$ -	\$ 3,354	\$ -
Comprehensive (loss) gain	\$ (2,076)	\$ 7,920	\$ 3,138	\$ 3,563	\$ 12,546	\$ 20,782
Net Gain (Loss) per share						
Basic	\$ (0.01)	\$ 0.04	\$ 0.03	\$ 0.04	\$ 0.13	\$ 0.21
Diluted	\$ (0.01)	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.12	\$ 0.19
Shares O/S - Basic	99,726,311	99,794,077	99,963,506	100,088,506	99,893,100	100,401,006
Shares O/S - Diluted	103,674,932	104,701,493	105,847,149	106,870,056	105,273,407	108,336,680

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Alvo Petro 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.