

# Trickle Research

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



## 3Q-F21 Earnings Update



### Alvopetro Energy Ltd.

(TSXV:ALV.V; OTC:ALVOF)

<http://alvopetro.com/>

**Report Date: 11/15/21**

**12- 24 month Price Target: USD \$7.00**

**Allocation: 6**

**Closing Stock Price at Initiation (Closing Px: 11/07/18): USD \$1.14 (Post Split)**

**Closing Stock Price at Allocation Upgrade (Closing Px: 05/17/19): USD \$1.26 (Post Split)**

**Closing Stock Price at Target Upgrade (Closing Px: 05/26/20): USD \$1.56 (Post Split)**

**Closing Stock Price at Price Target and Allocation Upgrade (Closing Px: 02/11/21): USD \$1.87 (Post Split)**

**Closing Stock Price at Price Target Upgrade (Closing Px: 05/13/21): USD \$2.34 (Post Split)**

**Closing Stock Price at Target Upgrade (Closing Px: 09/29/21): USD \$3.57**

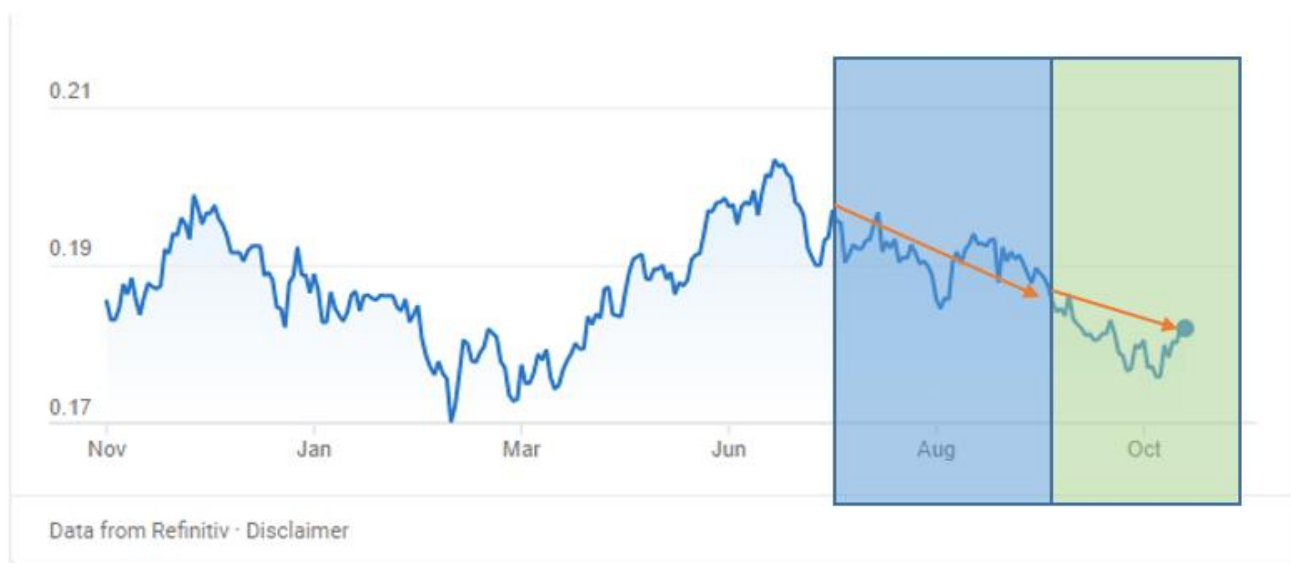
**Closing Stock Price at This Update (Closing Px: 11/12/21): USD \$3.86**

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**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 3Q-F21 Alvo Petro reported revenues of \$9.96 million versus our estimate of \$10.40 million and pre-tax net income of \$2.86 million versus our estimate of \$3.82 million. Our revenue estimates were a bit high largely because of Forex issues that also impacted the earnings piece. We will address the earning portion first.

As we have seen in prior periods, the Company has experienced some measurable foreign exchange variability and that has typically been largely reflected in separate line items on the operating statement, one of which is an operating line item, the other which is not. Just to edify, as we understand it, the operating piece is typically derived from intercompany accounting (and are non-cash in nature). The Company deals with three separate currencies in that they are domiciled in Canada, operate in Brazil and reflect their financials in US Dollars. Again, the variability of the operating item is a function of the exchange rate volatility of the Brazilian Real, which has been quite volatile throughout 2021:



Recall (and as the chart above implies), the exchange rate issues negatively impacted Alvo Petro's Q1 numbers, positively impacted Q2 results, and negatively impacted Q3.

The above noted, while the exchange rate impact is specifically reflected in the two line items on the operating statement ("Foreign Exchange Loss" and "Exchange (loss) gain on translation of foreign operations") there is also an adjustment to the Company's quarterly revenues, in terms of the exchange adjusted price it is paid for its gas. That is, the Company's reported gas sale price for each quarter reflects the prevailing exchange rate variability for the same period (reflected in the US Dollar to Brazilian Real exchange rate.) Specifically, as we alluded to above, the roughly 4% difference between our quarterly revenue estimate and their actual reported revenue is almost entirely related to that exchange volatility. That said, our estimates of pricing (and revenues for that matter) going forward do not include assumptions around changing exchange rates, so that notion could continue to produce "surprises" in our numbers.

We would add, aside from revenues, the foreign exchange issues obviously also contributed to our operating earnings miss. However, excluding the Foreign Exchange Loss, the Company reflected lower operating expenses than our estimates, which provided an additional positive data point.

To summarize, the Company produced another recording breaking quarter, and as we addressed at length in our last update, prevailing energy prices and by extension the proxies upon which their future gas sale

prices are determined remain robust. That being the case, if production continues to hold in the ranges they have been achieving lately, (in/around 2300 boe/d), we think our earnings estimates (setting aside the exchange rate fluctuations we noted above), should continue to prove reasonably accurate.

Looking ahead, we believe they anticipate tying in well 183 in the first half of 2022, as well as stimulating and tying in 193 in the second half of 2022. We also anticipate further exploration/development and added resource visibility as we move through 2022. As we have discussed, we think the lack of visibility regarding production to eventually replace Cabure has been a headwind for the valuation of Alvopetro shares, so (continued) positive data points in that regard should prove constructive for the shares. We would add, as much of the above narrative implies, we think the Brazilian Real's weakness has likely also provided some challenges for the stock price. Obviously, that is an intrinsic risk to the story that will remain.

Lastly, we remain of the view (and we think the 3Q-F21 earnings calls supported) that the path here is likely one of continued strong cash generation from Alvopetro that we think will in turn result in increasing shareholder distributions as we move through 2022, which we also think will generate yields that will speak to higher share prices for Alvopetro shares.

We reiterate our 12-24 month price target of \$7.00 as well as our allocation of 6.

## Projected Operating Model

<b>Alvopetro Energy Ltd.</b>						
<b>Projected Operating Model (in USD - '000s)</b>						
<b>By Trickle Research LLC</b>						
	Actual	Actual	Actual	Estimate	Estimate	Estimate
	3/31/21	6/30/21	9/30/21	12/31/21	Fiscal 2021	Fiscal 2022
Oil & Gas Sales	\$ 6,939	\$ 8,182	\$ 9,963	\$ 10,556	\$ 35,640	\$ 54,852
Royalties and Production Taxes	\$ (645)	\$ (607)	\$ (910)	\$ (950)	\$ (3,112)	\$ (4,937)
					\$ -	\$ -
Oil & Gas Revenue	\$ 6,294	\$ 7,575	\$ 9,053	\$ 9,606	\$ 32,528	\$ 49,916
Midstream Transportation Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income	\$ 8	\$ 7	\$ 915	\$ -	\$ 930	\$ -
Total Revenue and Other Income	\$ 6,302	\$ 7,582	\$ 9,968	\$ 9,606	\$ 33,458	\$ 49,916
					\$ -	\$ -
Production	\$ 710	\$ 791	\$ 824	\$ 918	\$ 3,243	\$ 3,322
Transportation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General & Administrative	\$ 851	\$ 1,036	\$ 1,139	\$ 1,114	\$ 4,140	\$ 4,771
Depletion and Depreciation	\$ 1,674	\$ 2,092	\$ 2,667	\$ 2,421	\$ 8,855	\$ 8,987
Impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Exploration and Evaluation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Finance Expenses and Interest	\$ 994	\$ 833	\$ 686	\$ 604	\$ 3,117	\$ 2,163
Accretion of Decommissioning Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Share Based Compensation	\$ 89	\$ 92	\$ 120	\$ 560	\$ 861	\$ 2,585
Foreign Exchange Loss	\$ 2,065	\$ (2,811)	\$ 1,813	\$ -	\$ 1,067	\$ -
Loss on Disposition of Assets	\$ (3)	\$ (13)	\$ (23)	\$ -	\$ (39)	\$ -
Risk Management Expenses	\$ (58)	\$ 166	\$ (115)	\$ -	\$ (7)	\$ -
Total Operating Expenses	\$ 6,322	\$ 2,186	\$ 7,111	\$ 5,617	\$ 21,236	\$ 21,829
Interest Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total non-operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gain (Loss) Before Taxes	\$ (21)	\$ 5,396	\$ 2,857	\$ 3,989	\$ 12,221	\$ 28,086
Income Tax Charge (Recovery)	\$ 1,068	\$ 1,759	\$ 1,367	\$ 608	\$ 4,802	\$ 4,283
Net Income	\$ (1,089)	\$ 3,637	\$ 1,490	\$ 3,381	\$ 7,419	\$ 23,803
Exchange (loss) gain on translation of foreign operatio	\$ (987)	\$ 4,341	\$ (633)	\$ -	\$ 2,721	\$ -
Comprehensive (loss) gain	\$ (2,076)	\$ 7,978	\$ 857	\$ 3,381	\$ 10,140	\$ 23,803
Net Gain (Loss) per share						
Basic	\$ (0.01)	\$ 0.04	\$ 0.04	\$ 0.10	\$ 0.30	\$ 0.70
Diluted	\$ (0.01)	\$ 0.03	\$ 0.04	\$ 0.09	\$ 0.28	\$ 0.65
Shares O/S - Basic	99,726,311	99,794,077	33,710,000	33,751,667	33,730,833	33,855,833
Shares O/S - Diluted	93,760,594	104,701,493	35,947,256	36,182,402	36,064,829	36,501,108

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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.**