Trickle Research

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

Research Update & Target Increase

Alvopetro Energy Ltd.

(TSXV:ALV.V; OTC:ALVOF)

http://alvopetro.com/

Report Date: 04/05/24

12- 24 month Price Target: USD *$7.25

Allocation: 7

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 Target Upgrade (Closing Px: 09/29/21): USD $3.57

Closing Stock Price at This Allocation Upgrade (Closing Px: 03/15/22): USD $3.75

Closing Stock Price at Price Target Increase (Closing Px: 03/27/23): USD $5.30

Closing Stock Price at Target Increase & Allocation Decrease (Closing Px: 08/15/23): USD $7.90

Closing Stock Price at Allocation Upgrade (Closing Px: 02/01/24): USD $4.33

Closing Stock Price at Target Decrease (Closing Px: 03/22/24): USD $2.97

Closing Stock Price at This Target Increase (Intraday Px: 04/05/24): USD $3.77

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.

Briefly, this morning the Company announced the result of their much-awaited redetermination of the unitization agreement with their contiguous partner at Caburé. To refresh, the unitization agreement and subsequent redetermination is part of Brazil's resource law that essentially says that owners of bordering resource rights must agree to share the resources (the unitization) in accordance with a predetermined split of the resources that are recovered (the determination). The split is "determined" by a process whereby each owner submits a report that describes what they believe is their appropriate share of the resources, and a third party decides which of the two reports they believe is the most accurate, and that report determines the split of recovered resources that each party will receive. The law also stipulates that the agreement will be "redetermined" periodically to reflect new information that may evolve to suggest that the spit needs to be reset. In short, as a result of this redetermination, AlvoPetro's share of Caburé production will increase from 49.1% to 56.2%. That is a highly positive piece of news and a bit above our expectations. In our most recent update, we noted the following regarding the redetermination:

"…we addressed the redetermination process at Caburé in our last update, and the Company referenced it on the call as well. We do not know what that will yield (good or bad) and that seems to be the Company's position as well. However, in our update a few weeks ago we suggested that it seemed to us that the greatest likelihood is that it will not be materially different than currently exists and most of that view is gleaned from our discussions with management that leads us to believe that their assessment of the appropriate redetermination is not significant. Perhaps we misread that because it was admittedly very high level, or in the alternative, maybe they are wrong about that. We submit, the lack of visibility here involves some risk. Again, we are hard pressed to believe that risk is properly reflected in the recent share compression, but it remains a wildcard. However, speaking of Caburé, the Company referenced a new well program and some anticipated capex therein. In short, our expectation is that these efforts at Caburé will likely lead to added future resource reserves and ultimately production beyond our current modeling. That is perhaps another Caburé wildcard and one that we think is understated in terms of valuation potential".

Looking at the above, it begs the question, what were we thinking a "significant" redetermination might be, and to be honest, we had not determined that ourselves. In retrospect, we would say the result is on the edges of that construct. That is, it remains in the "50-something%" versus "40 something%", so the adjustment is (in our view) not something dramatic, but the greater issue is that it falls in Alvopetro's favor. Given the compression in the shares as of late, and recognizing there are other issues afoot that have also negatively impacted the shares, it seems fair for us to suggest that this is a better outcome than the street had anticipated, and perhaps markedly so.

We have adjusted our model to reflect this change, and that is the basis for our new target.

As a result of this change, we are increasing our (recently lowered) price target from $6.50 up to *$7.25 as a result of the impact this redetermination has on our derived valuations in general, but also to reflect what we believe is an improved risk profile that we typically reflect in the (now lower) discount rates to our DCF model. We will revisit all of these as more data points become available. We would add, as we noted in our update of 03/22/24, after some of the recent demand machinations, as well as the initial results out of new Murucututu wells, we recast our model to essentially reflect some of these results as the "new normal". Having sat through two management presentations since that write-up, one at our recent Spring Conference and the other at a shareholder presentation the day after, we are comfortable suggesting, and this is just our sense as opposed to *their words*, that management remains of the view that recent demand issues are more of an anomaly than the beginning of a new trend, and that (100% owned) Murucututu is more likely than not to ultimately provide as much **net production** to Alvopetro as we are used to seeing out of Caburé, which to reiterate just got redetermined higher. (We would caution, we could be wrong about our sense of *their* view, and even if it is their view, they could be wrong as well). Further, they are drilling new wells at Caburé that at least in part, are not part of any resource calculations. Of course, that would be appropriate at this point, but that provides the basis for perhaps future added resource assessments at Caburé.

To be clear, if we were to include these assessments to our model (eventual net Murucututu production that rivals the high end of Alvopetro's recent *net* Caburé production, as well as extending the life of Caburé production as a result of success with the new/upcoming wells), our price targets would comfortably exceed our *prior* $10 target. Further, those numbers would be consistent with management's continued narrative of the goal to increase the capacity of their midstream plant to 35 mmcf/d as well as recasting the gas sale agreement to the same. To translate, we continue to view the Alvopetro story as open ended in terms of identifiable/defensible potential for targets that would approach 2X our new target, which is not particularly provocative, as that would essentially be based on 2X recent production highs.

Projected Operating Model

Alvopetro Energy Ltd.					
Projected Operating Model (in USD - '000s)					
By Trickle Research LLC					
	Estimate	Estimate	Estimate	Estimate	Estimate
	3/31/24	6/30/24	9/30/24	12/31/24	Fiscal 2024
Oil & Gas Sales	$ 12,890	$ 14,270	$ 17,384	$ 18,325	$ 62,869
Royalties and Production Taxes	$ (451)	$ (499)	$ (608)	$ (641)	$ (2,200)
Net Oil & Gas Revenue	$ 12,439	$ 13,771	$ 16,775	$ 17,684	$ 60,669
Other Income	$ 250	$ 250	$ 250	$ 250	$ 1,000
Total Revenue and Other Income	$ 12,689	$ 14,021	$ 17,025	$ 17,934	$ 61,669
Production	$ 1,034	$ 1,138	$ 1,326	$ 1,326	$ 4,824
General & Administrative	$ 1,222	$ 1,257	$ 1,335	$ 1,458	$ 5,272
Depletion and Depreciation	$ 1,955	$ 1,888	$ 1,974	$ 2,037	$ 7,854
Impairment	$ -	$ -	$ -	$ -	$ -
Exploration and Evaluation	$ -	$ -	$ -	$ -	$ -
Finance Expenses and Interest	$ 350	$ 350	$ 350	$ 350	$ 1,400
Accretion of Decommissioning Liabilities	$ -	$ -	$ -	$ -	$ -
Share Based Compensation	$ 200	$ 200	$ 200	$ 200	$ 800
Foreign Exchange Loss	$ -	$ -	$ -	$ -	$ -
Loss on Disposition of Assets	$ -	$ -	$ -	$ -	$ -
Risk Management Expenses	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 4,762	$ 4,832	$ 5,184	$ 5,371	$ 20,149
Interest Expenses	$ -	$ -	$ -	$ -	$ -
Other Non-Operating Expenses	$ -	$ -	$ -	$ -	$ -
Total non-operating Expenses	$ -	$ -	$ -	$ -	$ -
Gain (Loss) Before Taxes	$ 7,927	$ 9,189	$ 11,841	$ 12,563	$ 41,519
Income Tax Charge (Recovery)	$ 1,209	$ 1,401	$ 1,806	$ 1,916	$ 6,332
Net Income	$ 6,718	$ 7,787	$ 10,035	$ 10,647	$ 35,188
Exchange (loss) gain on translation of foreign operations	$ -	$ -	$ -	$ -	$ -
Comprehensive (loss) gain	$ 6,718	$ 7,787	$ 10,035	$ 10,647	$ 35,188
Net Gain (Loss) per share					
Basic	$ 0.18	$ 0.21	$ 0.27	$ 0.29	$ 0.96
Diluted	$ 0.18	$ 0.21	$ 0.27	$ 0.28	$ 0.93
Shares O/S - Basic	36,994,640	36,870,650	36,749,091	36,629,916	36,811,074
Shares O/S - Diluted	37,969,121	37,852,634	37,738,430	37,626,466	37,796,663

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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.

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

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.