Trickle Research

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

Q1F25 Earnings Update

ALVOPETRO

Alvopetro Energy Ltd.

(TSXV:ALV.V; OTC:ALVOF)

http://alvopetro.com/

Report Date: 05/16/25

12- 24 month Price Target: USD $7.25

Allocation: 8

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 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 Target Increase (Intraday Px: 04/05/24): USD $3.77

Closing Stock Price at Allocation Increase (Closing Px: 03/19/25): USD $3.39

Closing Stock Price at This Update (Closing Px: 05/15/25): USD $4.19

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.

For Q1F25, Alvopetro reported revenue of $14 million and eps of $.16. Those results compare to our estimates of $13.2 million and $.18. Recognize, the Company provides monthly production updates, so we have good visibility around revenues by the time they announce numbers, although that typically occurs prior to the production announcement of the 3rd month of each quarter, so that always provides some room for variances. Final realized revenue numbers are also affected by forex differences, which as we often note, we do not attempt to project. That said, one line item that jumped out for the quarter was the Royalties and Production Taxes expense. That variance (versus our estimate) amounted to about $1.3 million additional expense. As they noted on the call, most of that was related to a redetermination of Gross Over Riding Royalties ("GORR") from several prior periods. However, while much of the impact is non-recurring, they also noted that they expect the line item to approximate 5%-6% going forward and we have adjusted our model accordingly from prior expectations of around 3%.

In terms of the balance of the operating numbers, production costs and G&A came in a bit lower than we modeled, and Depletion/Depreciation were higher. In the aggregate, opex was right in line with our numbers. On the bottom line, we overstated eps by $.02 ($.16 vs. $.18) or about $500,000 which was the result of the aforementioned royalties, offset by some forex adjustments, which again we do not try to project. All in all, it was in our view a very good quarter, albeit not a surprising quarter.

Looking ahead, we think our thesis here remains intact, which on the high level is that Alvopetro is poised to increase production from three primary projects, which include:

- Cabure, where they will be drilling additional wells
- Murucututu where they will be drilling additional wells
- Canada, where they will be participating in additional wells

On a more granular level, we submit, visibility around Murucututu production remains challenging as they drill new wells and encounter associated (but not necessarily unanticipated) obstacles. To be clear, drilling for energy, especially in relatively new areas, is always challenging. In that regard, we remain of the view that their ultimate success there will be a learning process that may very well continue to look like "two steps forward, but one step back" until they understand the best approaches. Here again, we admit, that is a bit precarious when that dynamic includes one of your 2 existing projects and finding new and/or adding more production is paramount to your success. Put another way, if they had 5 projects, then the results from a single project would ostensibly be less critical to the whole. That as much as anything, might answer the question of, "why did they add a third project in Canada"? As they noted on the call, operating in Canada includes a variety of advantages (for instance, going from the signing of a farm in agreement to production in less than 90 days) that in the end amount to improved visibility. In our opinion, Canada provides a counterweight to the lack of visibility at Murucututu. Granted, Canadian production will be more subject to market prices than perhaps Brazil (a point raised by one of the questions on the call), however, we think Canada represents a prescient piece to bridge the gap between now and what we continue to believe will be marked new production from Murucututu in the future. (We would add we have adjusted our model to reflect lower forward energy prices both in Canada and Brazil).

The above noted, our model will likely experience some misses as we attempt to integrate all the moving parts including timing and production of/from new wells at *all three projects*, as well as what looks to be more volatile energy prices. That said, we remain confident that management will achieve its goal of growing production to 3,000 boe/day and in the longer term, perhaps double that number, *which by the way are beyond* the current assumptions of our model and associated price targets, which underlies our confidence in those targets. Thus, we reiterate our allocation of 8 and our 12-24 month price target of $7.25, as well as our speculation that higher dividend payouts through calendar 2025 remain on the table.

Projected Operating Model

Alvopetro Energy Ltd.												
Projected Operating Model (in USD - '000s)												
By Trickle Research LLC												
		Actual		Estimate		Estimate		Estimate		Estimate		Estimate
		3/31/25		**6/30/25**		**9/30/25**		**12/31/25**		**Fiscal 2025**		**Fiscal 2026**
Oil & Gas Sales	$	14,013	$	12,450	$	13,561	$	13,851	$	53,875	$	58,230
Royalties and Production Taxes	$	(1,673)	$	(685)	$	(746)	$	(762)	$	(3,865)	$	(3,203)
									$	-	$	-
Net Oil & Gas Revenue	$	12,340	$	11,765	$	12,815	$	13,089	$	50,010	$	55,027
Other Income	$	403	$	400	$	400	$	400	$	1,603	$	1,600
Total Revenue and Other Income	$	12,743	$	12,165	$	13,215	$	13,489	$	51,613	$	56,627
									$	-	$	-
Production	$	1,167	$	1,452	$	1,402	$	1,415	$	5,436	$	4,967
General & Administrative	$	1,526	$	1,574	$	1,594	$	1,699	$	6,394	$	6,548
Depletion and Depreciation	$	3,122	$	2,621	$	2,617	$	2,665	$	11,025	$	10,928
Impairment	$	6	$	-	$	-	$	-	$	6	$	-
Exploration and Evaluation	$	-	$	-	$	-	$	-	$	-	$	-
Finance Expenses and Interest	$	456	$	375	$	375	$	375	$	1,581	$	1,500
Accretion of Decommissioning Liabilities	$	-	$	-	$	-	$	-	$	-	$	-
Share Based Compensation	$	329	$	250	$	250	$	250	$	1,079	$	1,000
Foreign Exchange Loss	$	(865)	$	-	$	-	$	-	$	(865)	$	-
Loss on Disposition of Assets	$	4	$	-	$	-	$	-	$	4	$	-
Risk Management Expenses	$	-	$	-	$	-	$	-	$	-	$	-
Total Operating Expenses	$	5,745	$	6,271	$	6,238	$	6,405	$	24,659	$	24,944
Interest Expenses	$	-	$	-	$	-	$	-	$	-	$	-
Other Non-Operating Expenses	$	-	$	-	$	-	$	-	$	-	$	-
Total non-operating Expenses	$	-	$	-	$	-	$	-	$	-	$	-
Gain (Loss) Before Taxes	$	6,998	$	5,894	$	6,977	$	7,085	$	26,953	$	31,683
Income Tax Charge (Recovery)	$	928	$	899	$	1,064	$	1,080	$	3,971	$	4,832
Net Income	$	6,070	$	4,995	$	5,913	$	6,004	$	22,982	$	26,851
Exchange (loss) gain on translation of foreign operations	$	4,386	$	-	$	-	$	-	$	4,386	$	-
Comprehensive (loss) gain	$	10,456	$	4,995	$	5,913	$	6,004	$	27,368	$	26,851
Net Gain (Loss) per share												
Basic	$	0.16	$	0.14	$	0.17	$	0.17	$	0.64	$	0.78
Diluted	$	0.16	$	0.14	$	0.17	$	0.17	$	0.63	$	0.78
Shares O/S - Basic		37,312,011		35,935,453		35,578,642		35,209,888		36,008,999		34,353,527
Shares O/S - Diluted		37,752,121		36,707,486		35,578,642		35,209,888		36,312,034		34,353,527

General Disclaimer:

Trickle Research LLC produces and publishes independent research, due diligence and analysis for the benefit of it investor base. Our publications are for information purposes only. Readers should review all available information on any company mentioned in our reports or updates, including, but not limited to, the company's annual report, quarterly report, press releases, as well as other regulatory filings. Trickle Research is not registered as a securities broker-dealer or an investment advisor either with the U.S. Securities and Exchange Commission or with any state securities regulatory authority. Readers should consult with their own independent tax, business and financial advisors with respect to any reported company. Trickle Research and/or its officers, investors and employees, and/or members of their families may have long/short positions in the securities mentioned in our research and analysis and may make purchases and/or sales for their own account of those securities. David Lavigne does not hold a position in Alvopetro.

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.