

Trickle Research

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



3QF25 Earnings Update & Price Target Increase



Alvopetro Energy Ltd.

(TSXV:ALV.V; OTC:ALVOF)

<http://alvopetro.com/>

Report Date: 21/03/25

12- 24 month Price Target: USD *\$8.50

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: 08/12/25): USD \$4.22
Closing Stock Price at This Target Upgrade (Closing Px: 12/02/25): USD \$4.38

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 Q3F25, Alvopetro reported revenue of \$14.2 million and eps of \$.12. Those results compare to our estimates of \$14.3 million and \$.17. The 5¢ per share miss was related to a \$1.9 million impairment charge, so the results were largely spot-on with our assessments. We would add, they generated funds flows from operations of \$10.4 million or \$0.28 per basic and diluted share (also in line with our estimate). That noted, here are a few other brief highlights.

First, we want to note a bit of narrative from the 3QF25 earnings call that we think is telling on multiple levels. Here is the transcription from that narrative:

“...Quarter over quarter, the production has been relatively steady through the year. We did have a slight decrease in our third quarter production in Brazil mostly in the month of September, which we’d already announced previously, and that was just due to some demand disruptions. And just keep in mind that occurred right at about the same time as we brought on our new 183-D4 well on our Murucututu project. So, we had quite a bit of productive capacity at that moment. So what we did is we agreed to a spot sales contract with Bahiagas for the month of October and for a good portion of October we were actually producing at our plant capacity of 18,000,000 cubic feet a day then...”

Demand disruption has been a scenario that Alvopetro has dealt with in the past, and at times they have reflected lower sales volumes than we anticipated as a result. Along the way, we have argued that some of those issues were related to the old pricing scheme, which at times (we believe) likely resulted in higher prices for Alvopetro gas than perhaps their customer could acquire elsewhere. To that end, recall, Alvopetro and their gas customer Bahiagas adopted a new gas sales agreement effective January 1, 2025, which in our view essentially paved the way for greater sales volumes, and more market sensitive gas prices. To that end, in **Table 1** below, which is excerpted from Alvopetro’s most recent presentation, we added the prevailing gas price for each particular quarter (the October estimate is from the Company’s collateral). Notice, higher prices tend to correlate with lower sales volumes, and the opposite seems to be true as well. Again, our ongoing expectation is for pricing to align more with prevailing spot energy prices going forward, but the current pricing calculus, along with occasional variable demand issues in the marketplace, may continue to create instances where demand from Alvopetro’s partner is higher or lower than anticipated. More specifically, we believe, and we are modeling, increasing sales volumes for 2026, in part because Alvopetro is now in a position to deliver those volumes, largely as a result of the marked new production capacity they have added in Brazil, as well as in Canada. Further, we are also modeling prices in the sub \$10 range into the foreseeable future. That brings us to our next highlight.

Table 1.
Alvopetro - Daily sales volumes (boepd)

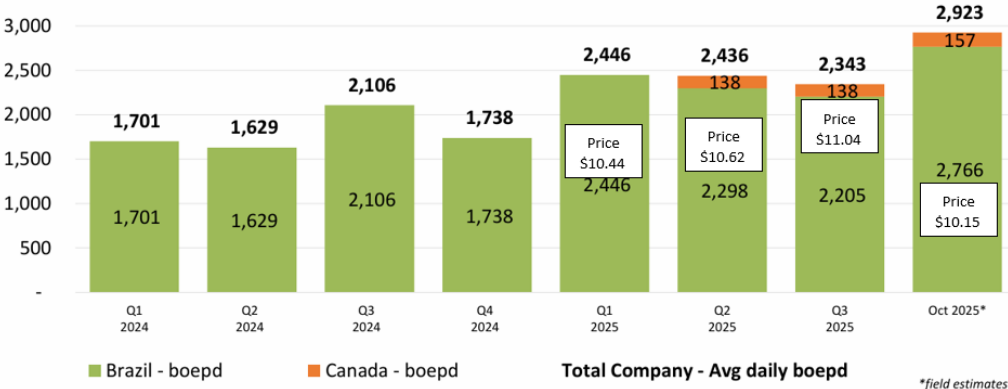


Table 2. below is also from Alvopectro’s most recent presentation, and it reflects the Company’s distribution of cash flows generated (“flow of funds”).

Table 2.

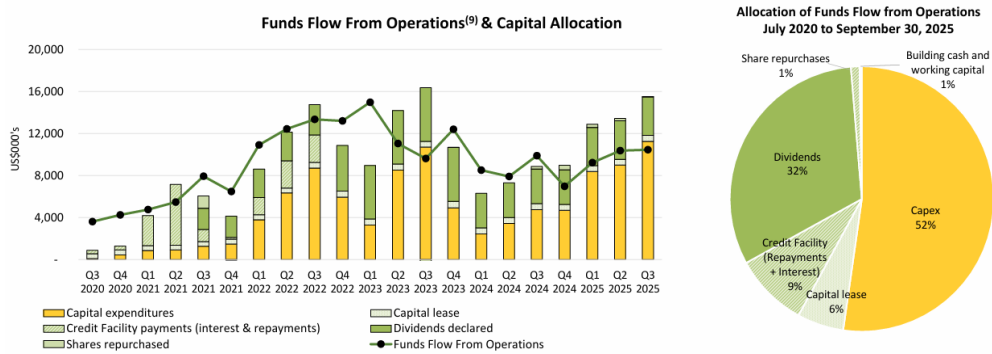


Table 2. is important from multiple perspectives that we think are topical to the discussion of where the Company is today, and why we believe the shares represent a marked value at current prices. Some retrospective in that regard might be helpful. Before we get to that, but in conjunction, **Table 3.** reflects Alvopectro’s respective share price over the same period as that reflected in **Table 2** above. Note, the Company’s share price peaked in 3QF23, and that was preceded by both an increase in the dividend (dark green bars in **Table 2**) and the initial production from well 197-1 (2QF23), which was the Company’s initial production from Murucututu. Thereafter in Q3F23, Alvopectro commenced drilling the second Murucututu well, “183-A3”, and they announced those initial, result in October 2023. However, recognize, unlike 197-1, which was drilled to the Gomo, 183-A3 was the Company first Caruaçu well. Further, while the well was completed in October 2023, the production from the well was limited until they recompleted it roughly one year later in October 2024. That noted, again in retrospect, the mid-2023 highs in the share price in mid-2023 coincided with a host of positive datapoints that ostensibly supported those levels. Specifically, the Company had raised its dividend in early 2023 to US\$.14, they had completed their first two wells in Murucututu, and per their gas sale agreement, they were experiencing the highest realized gas sales prices in their history. On the other hand, fiscal 2024 brought some challenges that have in turn negatively impacted valuations, and we will cover those below.

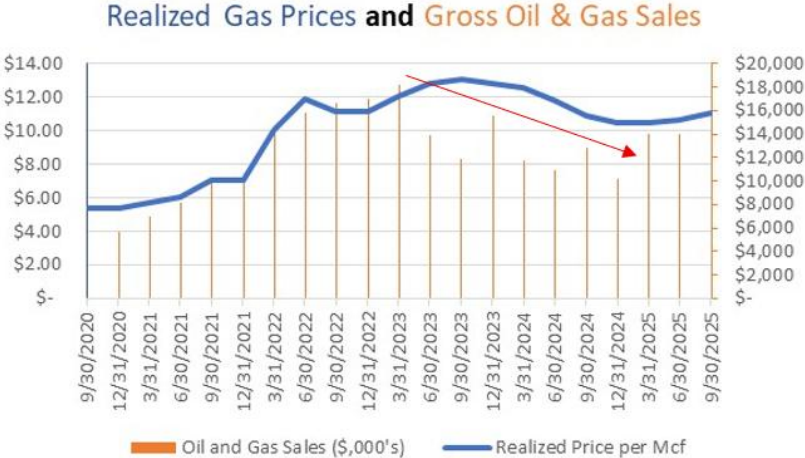
Table 3.



As we alluded to above, the Company sales levels started to decline in Q4F23 and persisted largely related to lower demand from their customer Bahiagas. As we also covered above, we are of the view that some of that demand

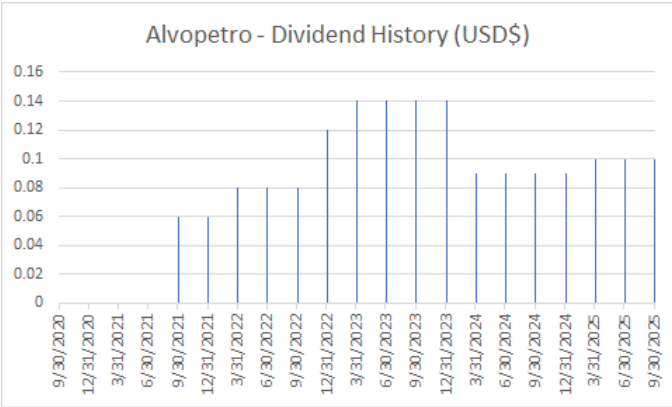
destruction is related to pricing, but on top of that suppressed demand, as reflected in **Table 4**, prices thereafter started to subside, which also negatively impacted revenue.

Table 4.



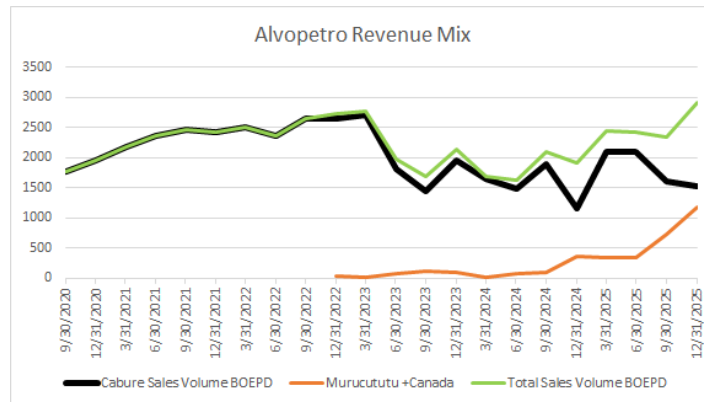
As a result of a diminished demand/pricing environment through F24, there were other challenges that emerged as a result. For instance, as **Table 5** below reflects, (which is also illustrated in **Table 2** above), lower sales generated less available capital for shareholder distributions, so through fiscal 2024, the Company reduced the dividend from US\$.14 to US\$.09 (**Table 5**). Lower dividends had a commensurate impact on the share price through F24, again as reflected in **Table 3**. In addition, we believe that there was further concern around the Company’s ability to replace reserves at their flagship Cabure' project, and some of that concern was likely related to the development results out of Murucututu.

Table 5.



Succinctly, the 183-A3 well was originally completed in October F23. However, as **Table 6** below reflects, production from Murucututu from the time of 183-A3’s *original* completion in October 2023, through 183-A3’s recompletion one year later (October 2024), did not increase significantly. In our view, in addition to the headwinds noted above, we think the share price compression through F24 was also likely impacted by a lack of visibility around Murucututu’s potential to provide Alvopetro their next production leg to add to and ultimately replace production from the legacy Caburé project. More specifically, we think 183-A3’s original results may have created some of that consternation. Using the same logic, those concerns should have been mitigated with the results of 183-A3’s recompletion, and subsequently the completion and robust initial production results from 183-D4 (August 2025). We are not sure that connection has been made yet.

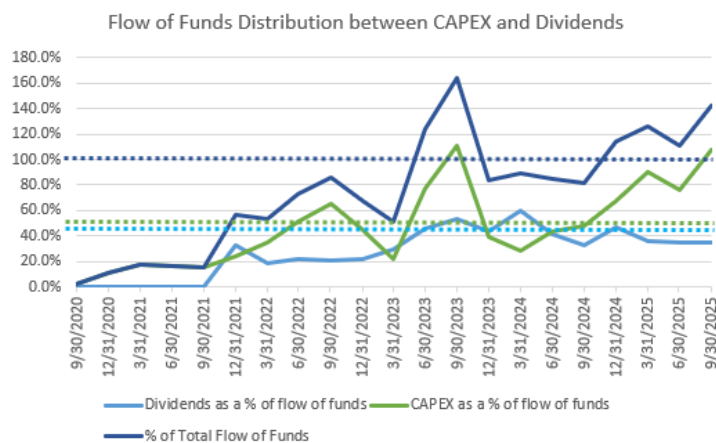
Table 6.



As **Table 6** illustrates, Murucututu production began trending up with the recompletion of 183-A3 in 4QF24 and began another new, positive trend with the completion and addition to production of 183-D4 (3QF25). We would note, the 3QF25 production bump from Murucututu was also accompanied by initial production from Alvopetro’s new Canadian assets, which posted initial production in 2QF25. (We would also add, as of this writing, the 12/31/25 quarter above is an estimate). That brings us to the most important takeaways from this update, which is that we believe Alvopetro has now completed a number of initiatives that have collectively created the setup for markedly improved results for Alvopetro in the coming quarters. The following bullet points are the basis for our thesis around that setup.

First, recall, the Company’s goal (outside of debt repayment) was/is to distribute earned fund flows roughly evenly between new capital expenditures and stakeholder distributions either as dividends or share buybacks, interest and capital lease payments. **Table 7.** below reflects, the approximate distribution amongst these buckets since the Company began paying dividends, with the dotted lines representing the distribution “goal”.

Table 7.



To clarify, the Company’s goal is to allocate funds flows roughly evenly between CAPEX and “stakeholders”. Recognize, “stakeholders” include shareholders (dividends), but also some other line items, for instance, capital lease payments to Enerflex for the gas plant. Our analysis below is focused solely on shareholder dividends, so some of our math may differ in the regard to similar references the Company reflects in some of its presentations.

There are some apparent takeaways from **Table 7.** To edify, when the solid lines above rise above their respective dotted lines, it means that the capital was allocated above the stated distribution goal. Clearly, in most cases CAPEX

expenditures exceed the 50% distribution goal, while dividends in turn lagged the goal. In some of those cases, CAPEX spending actually caused the distributions to exceed flow of funds, which historically was paid for via excess capital accumulated/saved from prior periods. From another vantage point, since the Company began paying dividends in 2HF21, the average distribution of dividends as a % of total fund flows is approximately 36%. On the other hand, over the same period, CAPEX has average about 58% of earned flow of funds. Moreover, to reiterate, since our initiating coverage, **that CAPEX** has led to 2 new producing projects (Murucututu and Canada), as well as additional producing wells at their legacy Caburé project. We are highlighting that for two reasons. First, as we alluded to above, we think there was a point in the past, prior to the visibility at Murucututu provided by the recompletion of 183-A3 and the initial production from 183-D4, as well as prior to the Company’s entree into Canada, that Alvopetro’s ability to replace and grow reserves at Caburé were in question, and we think it negatively impacted the stock. To that end, **we believe visibility to higher reserves as well as higher production has improved markedly since the beginning of the year, and much of that visibility has been achieved by robust and well placed CAPEX expansion that started in early F24 and has continued through the present. Again, we think the set up here is growing production as a result of (successful) CAPEX, which should lead to record production, record sales and record reserves in the coming quarters. That brings us to shareholder distributions (dividends).**

As we alluded to regarding **Table 7.**, CAPEX has historically taken a larger share of the flow of funds than the 50/50 goal would indicate. Some of that is certainly due to the emergence of and addition of Canada, which we did not contemplate until recently. However, we also think it is driven by success at Murucututu, which has validated the notion of further development there. To that end, we are modeling a continuation of CAPEX at 60% to 65% of fund flows into the foreseeable future as they add wells at Murucututu and in Canada. We are modeling new wells in these areas around Company guidance therein, which for Murucututu contemplates “12 additional wells based on the **current** Prospective Resource (best estimate)”, and for Canada, “12 Gross wells per year starting in 2026 (52 wells total)”, which we have modeled at just 70% of that total. On the flip side, that would leave approximately 35% to 40% of fund flows available for dividends and/or stock repurchases, which is consistent with historic allocations. **Tables 8.** and **Table 9.** below illustrate *our projections* for flow of funds, CAPEX and dividends through the foreseeable future. (Our projections are reflected in the shaded areas of the tables, while unshaded areas represent actual results).

Table 8.

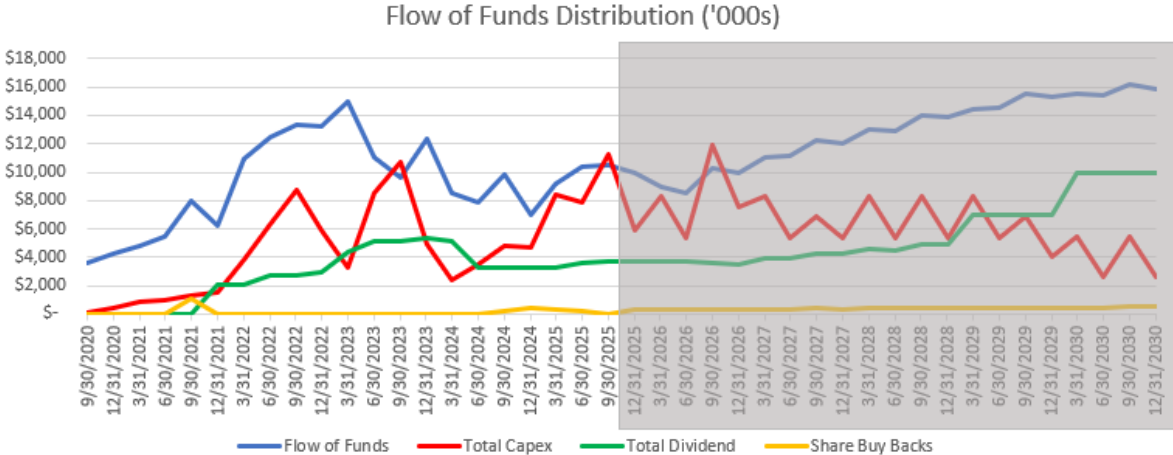
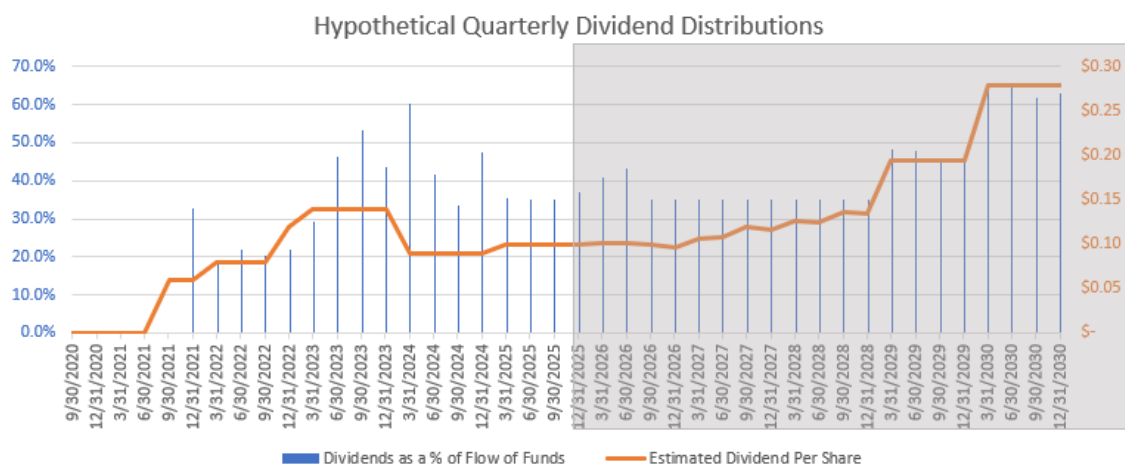


Table 9.



To be clear, we have provided **Tables 8 & 9** as illustrations of where our model reflects future production and sales from Alvopetro, as well as how we see them distributing the free cash that those results would create. Further, our assumptions about how they would allocate that cash are based first on the CAPEX we believe it would require to develop Murucututu as well as the Canadian assets according to the guidance the Company has provided therein. We submit, those plans could change as the environment dictates. Moreover, we submit the above dividend trajectory appears aggressive. For example, it contemplates an annual dividend of \$1.12 per share in F30, or nearly 3X the current dividend, and a yield of roughly 26% relative to *the current share price*. All of that said, what can go wrong here?

First, we have argued for some time now that some of the Company’s challenges around lower demand from their sole customer, Bahiagas, has been driven in part by prevailing gas prices. We think that notion has been supported by the Company’s January 1, 2025 sales agreement with Bahiagas, which essentially calls for pricing that is closer to real time market prices, but in return, higher minimum take-or-pay concessions from the customer. That tells us that, setting aside the macro pricing environment of volatile worldwide energy prices, the future is likely to portend lower gas prices than Alvopetro has been getting, offset by higher demand from Bahiagas. That said, demand will certainly continue to fluctuate, which could impact sales volumes in some periods, but overall, our basic view is that with appropriate pricing, Bahiagas can use all of the gas Alvopetro can provide in the context of Alvopetro’s current production outlook. If we are wrong about that demand, then our assessments here will likely be overstated. However, we would add, we have been modeling lower future gas prices for Alvopetro for some time now, so that part of the calculus has not mitigated our conclusions much. On the other hand, energy prices in general will remain relevant here, and as such, they continue to represent risks/rewards to the story.

Second, some of our enthusiasm for Alvopetro’s future production profile is based on improving results out of Murucututu, and perhaps more specifically, the initial results from 183-D4. That said, one well does not constitute a trend, and while we think there is past data to support the likely decline curve math, we do not know how 183-D4 will continue to perform into the future. That is true of their Canadian assets as well. Succinctly, new wells may perform better or worse than we are modeling. We recognize that risk, but to that end we would also provide some additional cover.

If we look back at the wells drilled at Murucututu, the trend has been that each well has performed better than the last. Granted, this is a small sample as statistics go, but recognize, if we understand this correctly, the reworked 183-A3 well IP’d at roughly 350 boepd, compared to 197-1’s 220 boepd. Importantly, that may not be “apples-to-apples” because 197 is a gomo well while 183-A3 is in the Caruaçu. On the other hand, the second Caruaçu well, 183-D4, IP’d at *1,071 boepd*, or roughly 3X that of its predecessor, 183-A3. For reference, we are modeling future

wells at Murucututu to look more like 183-A3 than like 183-D4. However, if we model the inverse, the production numbers are off the charts, along with resulting valuations. For instance, if we model future wells to IP like 183-D4, our hypothetical dividend, model would yield 2030 dividends of *closer to the current share price than a fraction thereof*. We are not going there, but we would point out something that we think we have also addressed in the past.

Alvopetro management has done a great job of monetizing their Caburé assets, which recall, included building midstream infrastructure to deliver Caburé gas to a customer they didn't even have at the time. However, and this is the part we have discussed in the past, management's greater expertise in their past endeavors has been in identifying promising O&G assets in the ground and then figuring out the best ways to extract them. Succinctly, we are of the view that improving IP results from each subsequent Murucututu well have more to do with management's expertise and learning curve than with dumb luck. We submit, that does not mean future wells will necessarily look more like 183-D4 than 183-A3, but we actually think that is more likely than less.

Third, we have noted above that we believe concerns around reserves have impacted the Alvopetro share price at times in the past. We say that in part, because it raised concerns with us at times, so we are assuming it raised concerns with others. In retrospect, those concerns were probably misplaced a bit by our own mismanaged expectations, because while there were some challenges along the way, the required reworking of 183-A3 for instance, we think the timeline for getting Murucututu online, especially around 183-D4, has been pretty close to management's plan. To that end, the Company will release a new reserve report for 2025, sometime in Q1F26, and we believe that with new data from Murucututu and Canada, the reserve profile should show marked improvement. Further, with new wells coming online in Caburé, we think those reserves should also reflect a similar profile to the last reserve report, despite the production/depletion since that last report.

Fourth, we have gone to some lengths to provide the hypothetical dividend scenario reflected in **Tables 8 & 9** above. While we believe the Company is committed to maintaining a robust dividend policy, we also think they are highly focused on fully developing the assets they have accumulated. To translate, as we have seen in the past, the dividend may continue to take a back seat at times when management believes the appropriate path is more CAPEX. On the other hand, we would note, the Company recently announced an attractively priced \$20 million credit facility that we think is telling. Conceptually, this credit facility could be used to bridge increased CAPEX, thus underpinning the dividend strategy. That is our speculation by the way, as they may have entirely different plans for the facility than we are aware of.

To conclude, we have been beating the drum on Alvopetro since we initiated the coverage in 2018, and overall the stock has performed well, especially considering that over that time they have distributed dividends equal to \$1.70 per share, or about 150% of the initiating price. That noted, we believe the current share price continues to reflect a considerable discount to various valuation metrics we typically rely on (as well as some others we do not). Moreover, we think the Company's progress over the past 12 months, on multiple fronts, is providing the set up for what we believe are coming inflections in fundamental metrics that will further support our "*considerable discount*" convictions. Additionally, to reiterate the Company should release a new reserve report over the next 90 days. Given new data from both Murucututu and Canada, as well as newly added wells at Caburé, we expect that report to reveal marked expansion in the Company's reserve base providing another compelling valuation metric. Lastly, we believe the Company has provided some valuable guidance around coming development plans both at Murucututu and Canada, that provide us with a sense of the CAPEX cadence going forward. If we are reading that correctly, those requirements may keep the dividend where it is at for the next few quarters, however, our expectation is that as new production bolsters the ongoing flow of funds, we are likely to see commensurate increases in the dividend as well.

As a final point to valuation, we would reiterate that based on the progress we have seen at Murucututu to this point, we think new wells could prove more prolific than we are modeling, and potentially considerably more prolific in part because we think management is developing a better understanding of the underlying assets. If we are correct about that notion, it would likely speak to better valuations than our new price target reflects.

As a result of what we see as “coming inflections in fundamental metrics”, we are establishing a new 12-24 month price target of *\$8.50 replacing our prior target of \$7.25. Frankly, we are inclined to raise our allocation except it already sits at 8 (of a possible 10), so for now we will reiterate that rank and use any weakness in the shares as an opening to raise it in the future (again).

Projected Operating Model

Alvopetro Energy Ltd.							
Projected Operating Model (in USD - '000s)							
By Trickle Research LLC							
	Actual	Actual	Actual	Estimate	Estimate	Estimate	Estimate
	3/31/25	6/30/25	9/30/25	12/31/25	Fiscal 2025	Fiscal 2026	Fiscal 2027
Oil & Gas Sales	\$ 14,013	\$ 14,010	\$ 14,175	\$ 15,162	\$ 57,361	\$ 61,516	\$ 73,849
Royalties and Production Taxes	\$ (1,673)	\$ (659)	\$ (763)	\$ (794)	\$ (3,889)	\$ (3,581)	\$ (4,648)
					\$ -	\$ -	\$ -
Net Oil & Gas Revenue	\$ 12,340	\$ 13,351	\$ 13,412	\$ 14,368	\$ 53,471	\$ 57,935	\$ 69,200
Other Income	\$ 403	\$ 418	\$ 645	\$ 400	\$ 1,866	\$ 1,600	\$ 1,600
Total Revenue and Other Income	\$ 12,743	\$ 13,769	\$ 14,057	\$ 14,768	\$ 55,337	\$ 59,535	\$ 70,800
					\$ -	\$ -	\$ -
Production	\$ 1,167	\$ 1,190	\$ 1,314	\$ 1,208	\$ 4,879	\$ 8,343	\$ 9,540
General & Administrative	\$ 1,526	\$ 1,465	\$ 1,582	\$ 1,653	\$ 6,226	\$ 6,630	\$ 6,877
Depletion and Depreciation	\$ 3,122	\$ 2,836	\$ 3,559	\$ 2,958	\$ 12,476	\$ 12,656	\$ 14,702
Impairment	\$ 6	\$ -	\$ 1,859	\$ -	\$ 1,865	\$ -	\$ -
Exploration and Evaluation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Finance Expenses and Interest	\$ 456	\$ 371	\$ 357	\$ 375	\$ 1,559	\$ 1,500	\$ 1,500
Accretion of Decommissioning Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Share Based Compensation	\$ 329	\$ 325	\$ 273	\$ 250	\$ 1,177	\$ 1,000	\$ 1,000
Foreign Exchange Loss	\$ (865)	\$ (404)	\$ (302)	\$ -	\$ (1,571)	\$ -	\$ -
Loss on Disposition of Assets	\$ 4	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -
Risk Management Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 5,745	\$ 5,814	\$ 8,690	\$ 6,445	\$ 26,694	\$ 30,130	\$ 33,402
Interest Expenses	\$ -	\$ -	\$ -	\$ 35	\$ 35	\$ 595	\$ 560
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total non-operating Expenses	\$ -	\$ -	\$ -	\$ 35	\$ 35	\$ 595	\$ 560
Gain (Loss) Before Taxes	\$ 6,998	\$ 7,955	\$ 5,367	\$ 8,288	\$ 28,608	\$ 28,810	\$ 36,838
Income Tax Charge (Recovery)	\$ 928	\$ 1,125	\$ 754	\$ 1,264	\$ 4,071	\$ 4,393	\$ 5,618
Net Income	\$ 6,070	\$ 6,830	\$ 4,613	\$ 7,024	\$ 24,537	\$ 24,416	\$ 31,220
Exchange (loss) gain on translation of foreign operations	\$ 4,386	\$ 3,718	\$ 2,094	\$ -	\$ 10,198	\$ -	\$ -
Comprehensive (loss) gain	\$ 10,456	\$ 10,548	\$ 6,707	\$ 7,024	\$ 34,735	\$ 24,416	\$ 31,220
Net Gain (Loss) per share							
Basic	\$ 0.16	\$ 0.19	\$ 0.12	\$ 0.19	\$ 0.67	\$ 0.67	\$ 0.86
Diluted	\$ 0.16	\$ 0.18	\$ 0.12	\$ 0.18	\$ 0.65	\$ 0.65	\$ 0.83
Shares O/S - Basic	37,312,011	36,592,864	36,932,097	36,542,430	36,844,851	36,403,680	36,224,269
Shares O/S - Diluted	37,752,121	37,452,366	38,536,836	37,974,071	37,928,848	37,808,077	37,600,557

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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.