

# Trickle Research

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



## Allocation Increase



### Alvopetro Energy Ltd.

(TSXV:ALV.V; OTC:ALVOF)

<http://alvopetro.com/>

**\*\*Report Date: 05/20/19**

**(\*\*See Operating Table for Revision note)**

**12- 24 month Price Target: USD \$1.10**

**Allocation: \*5**

**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**

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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.

We have not provided many individual updates on Alvopectro since the initiating coverage (although we have provided some research notes to our subscribers). Succinctly, we generally put out notes around the earnings releases, and since the Company is for all intents and purposes pre-revenue (aside from some limited well participation) the earnings updates are not particularly telling. That said, the Company did recently make an announcement that we think is important:

*May 10, 2019*

*CALGARY, May 10, 2019 /CNW/ - Alvopectro Energy Ltd. (TSX-V: ALV; OTCQX: ALVOF) announces that INEMA, the Bahia State environmental regulator, has issued the environmental installation permits required to commence the construction of our strategic midstream infrastructure (100% Alvopectro) underpinning the commercialization of our Caburé natural gas field (49.1% Alvopectro). This midstream infrastructure includes an 11-kilometre transfer pipeline and the construction of a gas treatment facility (the "Facility"). All pipe for the transfer pipeline has already been shipped to the field staging area and our contractor is ready to commence field installation. Our Facility is being constructed by Enerflex Ltd. whereby they will construct, own and operate the Facility. Enerflex is responsible for all operations and maintenance of the Facility and is warranting the delivery schedule and on-stream performance of the Facility. Initial equipment for the Facility has been assembled, tested, and is ready for shipment to Brazil. Alvopectro expects to start natural gas deliveries from the Caburé field in early 2020. Our natural gas is being sold under our long-term gas sales agreement with Bahiagas, the local distribution company for the state of Bahia.*

*Corey Ruttan, President & CEO, stated "This is a very important development for Alvopectro, and the state of Bahia. These highly strategic midstream assets provide the platform to unlock the natural gas potential in Alvopectro's assets and more broadly in the Recôncavo Basin. This is a transformational time for Alvopectro as we move toward commercial production and cash flow. Our Caburé project, alone, has the ability to generate attractive returns for our shareholders while also providing the free cash flow to reinvest in our portfolio of high impact upstream opportunities."*

We view this announcement as another check off of the list of risks in this deal. As we have noted in past discussion of Alvopectro, we think the Company developed a plan for the monetization of their Brazilian assets and has worked to execute that plan towards that end (monetization) and with each new milestone they have systematically "derisked" the project. We think this permitting (albeit something rightly or wrongly we generally viewed has a forgone conclusion) removes one of the few remaining major hurdles confronting the completion of the project.

In addition to the above, in their recent update, the Company also expressed the following:

*We have received the permit to and drill the 57(A1) well on Block 57. We expect to spud the well late in the second quarter, pending rig availability. Alvopectro received the environmental license for the stimulation of our 183-1 well, which will test initial deliverability of our Gomo natural gas project. We expect to complete this operation in the next three months, subject to equipment availability.*

We think this narrative is topical as well. Recognize, for some time now, and certainly since our initiation, much of the discussion and focus on Alvopectro has been on the core Caburé /City Gate gas project. To that point, we have focused our valuation approach on the completion and assumed cash flow of that project including (almost exclusively) gas production from Caburé, delivery over their own midstream assets and sales via the City Gate sales agreement. Put another way, we *have not* tried to place valuations around more typical resource proxies such as reserves because we have generally viewed this as a unique production story. On the other hand, there are

potential resource elements to the story that require some valuation attention at some point, and we have likely surpassed past that point already.

That said, recognize, the company narrative above speaks directly to the idea that additional resource development has the potential to add valuation legs in this story, and we are likely at the front end of data points that could help delineate those additional values. Granted, those development endeavors could certainly end with results that suggest their development properties *do not hold* additional economic resources. However, here's the point from our perspective. We think the stock currently represents a discount to the core endeavor, provided that does in fact progress to gas sales. Data points like the permitting announcement above, solidify our confidence in that. Thus, from the broader view, if the development work fails to yield positive results, but the core business proceeds to fruition (our current valuation assumptions), we think the stock is quite undervalued. So then if the development work over the next few months yields positive results **and** the core business proceeds to fruition, we will likely have the basis for valuations beyond our current targets. Put another way, we feel a bit like investors at this level are getting the upside potential of the additional development for something *less than nothing*...

We will be quite interested to see the results of their continued exploration/development program that is commencing shortly.

While fundamentally, we are inclined to add some sort of valuation piece to our targets around the development opportunities, it may be better to wait until we see some additional data points. Besides, we think we have already made our argument for markedly higher valuations without that piece, so we don't see the need to pile on the enthusiasm. However, to reiterate, we believe these endeavors have the potential to provide a marked catalyst for the stock perhaps through the balance of 2019.

In recognition of the additional "derisking" via the approved permitting as one of the last remaining hurdles to Alvopetro's monetization of Caburé gas, we are raising our allocation from 4 to 5. We will look to additional visibility, which at this point looks like it could be news on the resource development front, to revisit our allocations and our price targets.

## Projected Operating Model

Alvopetro Energy Ltd.						
Projected Operating Model (in USD)						
By Trickle Research LLC						
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	3/31/19	6/30/19	9/30/19	12/31/19	Fiscal 2019	Fiscal 2020
Oil & Gas Sales	\$ 68	\$ 97	\$ 98	\$ 99	\$ 362	\$ 41,002
Royalties and Production Taxes	\$ 60	\$ (9)	\$ (9)	\$ (9)	\$ 34	\$ (4,510)
					\$ -	\$ -
Oil & Gas Revenue	\$ 128	\$ 89	\$ 89	\$ 90	\$ 395	\$ 36,492
Midstream Transportation Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue and Other Income	\$ 128	\$ 89	\$ 89	\$ 90	\$ 395	\$ 36,492
					\$ -	\$ -
Production	\$ 94	\$ 170	\$ 170	\$ 170	\$ 604	\$ 2,710
Transportation	\$ -	\$ 3	\$ 3	\$ 3	\$ 10	\$ 94
General & Administrative	\$ 682	\$ 753	\$ 753	\$ 753	\$ 2,941	\$ 4,230
Depletion and Depreciation	\$ 54	\$ 90	\$ 94	\$ 113	\$ 351	\$ 8,383
Impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Exploration and Evaluation	\$ 8	\$ 191	\$ 1,452	\$ 1,452	\$ 3,104	\$ 209
Finance Expenses	\$ 26	\$ -	\$ -	\$ -	\$ 26	\$ -
Accretion of Decommissioning Liabilities	\$ -	\$ 10	\$ 10	\$ 10	\$ 30	\$ 40
Share Based Compensation	\$ 33	\$ 20	\$ 20	\$ 20	\$ 93	\$ 80
Foreign Exchange Loss	\$ (6)	\$ -	\$ -	\$ -	\$ (6)	\$ -
Loss on Disposition of Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
UPGN Operating Fees & Lease	\$ -	\$ -	\$ -	\$ 725	\$ 725	\$ 2,900
Total Operating Expenses	\$ 891	\$ 1,237	\$ 2,503	\$ 3,247	\$ 7,877	\$ 18,647
Interest Expenses	\$ -	\$ 420	\$ 378	\$ 378	\$ 1,176	\$ 1,260
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total non-operating Expenses	\$ -	\$ 420	\$ 378	\$ 378	\$ 1,176	\$ 1,260
Gain (Loss) Before Taxes	\$ (763)	\$ (1,568)	\$ (2,791)	\$ (3,535)	\$ (8,658)	\$ 16,585
Income Tax Charge (Recovery)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Loss	\$ (763)	\$ (1,568)	\$ (2,791)	\$ (3,535)	\$ (8,658)	\$ 16,585
Exchange (loss) gain on translation of foreign operations	\$ (192)	\$ -	\$ -	\$ -	\$ (192)	\$ -
Comprehensive (loss) gain	\$ (955)	\$ (1,568)	\$ (2,791)	\$ (3,535)	\$ (8,850)	\$ 16,585
Net Gain (Loss) per share						
Basic	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.09)	\$ 0.17
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.09)	\$ 0.17
Shares O/S - Basic	96,593,492	96,636,009	96,673,971	99,574,865	97,369,584	99,642,841
Shares O/S - Diluted	96,593,492	96,636,009	97,343,310	100,611,884	97,796,174	99,642,841

**\*\* This table has been modified table included in the original transmission of this update. The table has been corrected from the original to reflect proper share counts.**

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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.**