Trickle Research

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

Allocation Increase

VIVAKOR

Vivakor, Inc.

(NasdaqCM : VIVK)

Date: 03/02/23

12- 24 month Price Target: $6.00

Allocation: *5

Closing Stock Price at Initiation (Closing Px: 05/17/22): $1.54

Closing Stock Price at This Allocation Increase (Closing Px: 03/02/23): $1.20

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Disclosure: Portions of this report are excerpted from Vivakor's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

We initiated coverage of Vivakor in May (2022), and there have been some major changes to the story since that initiation that require some attention.

On June 16, 2022, the Company announced an agreement to *"acquire companies with assets located in two major U.S. oil basins with long-term contracts in place*". Thereafter, on August 2, (2022), Vivakor announced the closing of that transaction. Moreover, in November (2022), Vivakor announced that the acquiree of those transactions, oil industry expert James Ballengee, was appointed Vivakor's new Chief Executive Officer and Chairman of the Board of Directors. This set of events is in our view transformational for Vivakor on a handful of levels and we will elaborate, but first, here is an excerpt of the announcement reflecting the addition of Mr. Ballengee, which also includes some financial performance metrics of the acquired assets:

> ***Vivakor, Inc.***
> ***November 7, 2022***
> ***Vivakor Appoints Prominent Oil Industry Expert James Ballengee as Chief Executive Officer and Chairman of the Board***
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> *IRVINE, CA / ACCESSWIRE / November 7, 2022 / Vivakor, Inc. (NASDAQ:VIVK) ("Vivakor" or the "Company"), a socially responsible operator, acquirer and developer of clean energy technologies and environmental solutions, is pleased to welcome oil industry expert James Ballengee as its new Chief Executive Officer and Chairman of the Board of Directors.*
>
> *Mr. Ballengee brings more than 20 years of direct energy industry experience having previously served as CEO of Taylor Logistics, LLC, an oil gathering, storage, and transportation company, which was sold to Gibson Energy, Inc. (TSX: GEI) in 2010. He founded and served as Chairman and Chief Executive Officer of Bridger Group, LLC, a private crude oil marketing firm, from 2010 to 2013. He then managed its successor, Bridger Logistics, LLC from 2013 to 2015, which was sold to Ferrellgas Partners, LP (then, NYSE: FGP). On August 1, 2022, Vivakor acquired Silver Fuels Delhi, LLC ("SFD"), and White Claw Colorado City, LLC ("WCCO") for total consideration of $37.4 million from entities affiliated with Mr. Ballengee.*
>
> *In 2021, Silver Fuels Delhi generated $33.0 million in revenue, $1.7 million operating income and $1.4 million net income, as disclosed in audited financial statements included in the Company's Current Report on Form 8-K/A filed with the U.S. Securities and Exchange Commission on October 17, 2022 (the "Form 8-K/A").*
>
> *For the six months ended June 30, 2022, unaudited, Silver Fuels generated 118% growth to $29.6 million in revenue, $1.8 million of operating income and $1.4 million of net income, as disclosed in audited financial statements included in the Form 8-K/A.*
>
> *The acquisition of SFD and WCCO allows Vivakor to combine the benefits of a midstream oil and gas company with its proprietary, Remediation Processing Centers ("RPCs"), providing the Company with the opportunity to capture a significantly greater portion of the oil storage, transportation, and remediation value chain. Under Mr. Ballengee's leadership, Vivakor intends to continue its ESG focus while seeking opportunities to diversify its products and*

services via presently existing synergies, developing additional projects or acquiring companies that provide additional opportunities and benefits.

"This is an exciting day for me. I consider it an honor to join Vivakor as its Chief Executive Officer and Chairman. I look forward to continuing Vivakor's strong vision to build an environmentally friendly company operating in the oil sector. The combination of this vision and the acquisition of the midstream oil and gas assets of SFD and WCCO presents a unique opportunity to bring ESG technology to the existing traditional midstream industry. I believe my oil industry experience, coupled with Vivakor's existing ESG focus, will allow us to develop opportunities and acquire assets that have the potential to create future value for Vivakor's shareholders. I look forward to leading Vivakor into the future," stated Mr. Ballengee.

First, the acquisition was originally designed to be a synergistic and strategic combination. Silver Fuels Delhi and White Claw Colorado City collectively provide "*crude oil gathering, storage, and transportation*". In addition, the acquired entities provide Vivakor with "*the infrastructure to blend and sell oil which has been recovered via Vivakor's RPC machine from tank bottom sludge*…". Recall, in our initiating coverage of Vivakor, we identified 3 initial markets for the Company's RPC oil extraction technology, and those included extracting bitumen from the Company's tar sand property in Utah, cleaning oil contaminated soil in Kuwait (because of Iraq's invasion in 1991) and using the RPC technology to clean oil storage tank bottoms (initially in Texas). We believe the development of the third of these markets ultimately led to the acquisition of Silver Fuels and White Claw. Ostensibly, the principles of the related entities decided that combining them would create some advantages.

Second, we think the most synergistic portion of the combined entities is James Ballengee. In our view, Mr. Ballengee's contacts within and knowledge of the industry, may create opportunities for Vivakor's RPC technology that may otherwise be more difficult to exploit. While at the time of the acquisition Mr. Ballengee noted that he "*could not be more excited to become a major shareholder of Vivakor and to participate in the Company's future growth*", we do not think that included any direct role with the Company. While we submit, having his expertise as a large shareholder of the Company would certainly be welcome, we do not think it carries the same level of commitment and/or credibility as his being a large shareholder ***and*** the new CEO and Chairman. To reiterate, while the acquisition of the Silver Fuels and White Claw assets appear additive, the addition of Mr. Ballengee may prove to be the more accretive piece of the deal.

Third, the acquisition of Silver Fuels and White Claw, *coupled with* the addition of James Ballengee will likely change the way the Company deploys resources, which (along with the addition of the new assets) will also change many of our model assumptions. Again, looking back at our initiating coverage, the Company essentially had 3 completed RPC units, which is true today as well. At the time of our coverage, we believed that they intended to deploy one into each of these markets. And today, *there is* a unit in each location, although as we understand it, the Houston unit is currently being assembled and they are hoping to have it operational late in 2QF23. Further our initiating coverage noted the following with respect to the oil storage tank bottom (Houston) market:

As we alluded to above, this is the least "seasoned" of the Company's three major projects, but it may also ultimately prove to be the most accretive… In addition, aside from potentially robust economic potential, this particular project coupled with Kuwait may accentuate their ESG posture. Moreover, as we understand it, the hydrocarbons they are recycling from this *project may provide their customers with some environmental or other credits that could measurably enhance the economics of their offering. In that instance, we would surmise that Vivakor and its partner may be able to benefit from those enhancements as well. All things considered, we think the Houston project provides a potentially marked open end to the story.*

Succinctly, we think the acquisition and addition of Mr. Ballengee has likely moved the tank bottom opportunity to the top of the list in terms of priorities for a handful of reasons. Most specifically, as we noted above and will cover additionally below, we think this is likely their most attractive ROI opportunity. Moreover, we think Mr. Ballengee's connections will provide them with access to ample tank bottom customers on one end and blended oil buyers on the other, as well as the people and processes in between the two required to execute the business. While we believe the Company has tried to develop similar turn-key operations in the other markets, their lack of revenue recognition in those respective markets suggests they have been unable to achieve that to this point. For instance, in Kuwait, while they have delivered the RPC and they are prepared to provide the required technical support to operate the unit, they do not have much control over when and to what degree the RPC operates. Further, in Utah, we think they have encountered a handful of challenges that have caused some delays there as well. As a result, our expectation is that tank bottoms, especially given the new additions, will likely represent the critical path in terms of deploying additional units into the foreseeable future. To be clear, we are not suggesting that they are abandoning the other markets, but we do think much of the focus in the near and intermediate terms will be on tank bottoms.

The above noted, it may be helpful for us to revisit some of the tank bottom metrics as we have come to understand them.

- The Company estimates that a single RPC can process approximately 20 tons of oil sludge per hour, which on a 24-hour basis is 480 tons per day. Assuming some downtime, maintenance etc., we are modeling 400 tons per day. Further, they believe they can operate the facility for a rate of approximately $35 per ton. Our modeling assumes $50 per ton, but this is an input we will be closely monitoring as we move forward.

- They believe they can recover 60% to 80% oil from each ton of sludge. Generally, a ton of oil equates to something around 6.5 barrels of oil, but we assume the sludge is a bit heavier so for our calculations, we assume 1 ton equates to 6 barrels of oil. As a result, if they recover 60% to 80% oil from processing a ton of sludge, they will recover between 3.6 and 4.8 barrels for ton. Our modeling assumes around 3.5 barrels per ton.

- One of the more compelling things about the RPC model is that the feedstock in the process is something that historically operators must pay to dispose of. Moreover, because the sludge is considered "hazardous waste" it requires special disposal protocols, which significantly increases the cost of that disposal. As a result, by processing the sludge, the Company can effectively capture that disposal fee along with ultimately selling the recovered oil. In conjunction with prevailing hazardous waste disposal fees, the Company believes they can collect between $100 and $200 per ton of sludge collected. We are modeling the lower end of that range.

- As we noted above, Vivakor intends to augment the RPC processing facility with blending capabilities. This should allow them to maximize the price they received for their recovered oil. Obviously, oil prices are a considerable wildcard here, but for our modeling we have assumed ongoing (recovered) oil prices of around $70 per barrel. Clearly, oil prices will remain a marked wildcard in the analysis and performance of the Company.

- Lastly, while this particular variable remains open-ended, the Company believes, and we are inclined to agree, that their recovered oil will likely benefit from environmental edicts aimed at cleaner and/or lower carbon footprint fuels. We know the Company is reviewing these alternatives, and we think they will ultimately benefit from them, we have no idea how to handicap and/or model this piece of the story. As a result, for now, we are looking at this as a variable that could provide future upside surprises.

Aggregating the above analysis, the Company anticipates getting an RPC operational in Texas in Q2F23. With that assumption, hypothetically, if they process 400 tons of sludge per day 6 days per week (we believe they will operate 7 days per week, but again, we are modeling something less than that), they would collect $80,000 in tolling fees per day, $480,000 per week and approximately $6.3 million per quarter. In addition, if the processed sludge yields 3.5 barrels per ton, and they process 400 tons per day, they will have 1,400 barrels of oil to sell per day. At a $70 per barrel assumption price, that would yield $98,000 in oil sales per day, $588,000 per 6-day work week and approximately $7.64 million per quarter. Therefore, if we add the tolling fees with the oil sales, we get close to $14 million in revenue per quarter. If we account for $50 per ton worth of processing costs, the quarterly processing fees against those revenues would generate gross profit of around $12.5 million per quarter.

The above noted, while we continue to believe the RPC technology could deliver marked value to Vivakor, the fact is, contrary to our estimates the RPC's in place did not contribute in any meaningful way to most recent reported quarter (Q3F22, ended 09/30/22). On the other hand, the newly acquired assets *did contribute* all of the revenues for the quarter and below is some color on our modeling of *these assets* going forward.

To reiterate, the acquired assets consist of Silver Fuels Delhi, LLC and White Claw Colorado City, LLC. Specifically, the White Claw asset(s) consists of a 120,000-barrel storage tank in Colorado City, Texas

White Claw owns a 120,000 barrel oil tanking facility, in the heart of the Permian Basin, located near Colorado City, Texas. The tanking facility is *"presently connected to the Lotus pipeline system and Vivakor intends to further connect the tanking facility to additional pipeline systems. Under the terms of an already existing agreement, White Claw Crude, LLC has agreed to lease the oil storage tank for a period of 10 years"*. The aforementioned lease is for $150,000 per year or $1.8 million per year, so we know the anticipated revenues from this asset.

The second acquired business, Silver Fuels Delhi, is located in Delhi Louisiana. To edify, Silver Fuels buys, blends, stores and transports crude oil with two related parties that sell them crude oil, which they gather, store and transport to buyers. Silver Fuels provides these services under long term fixed rate contracts that guarantee them $5 per barrel, but also provide for additional margins. The Company also has contracts with buyers for up to 60,000 barrels per month (although we believe there are provisions for amounts beyond that). For fiscal 2021, Silver Fuels reported revenues of $33 million, net income of $1.4 million (representing 4% of revenues) and EBITDA of $2 million (representing 6% or revenues). For the first 9 months of 2022, Silver Fuels reflected revenues of close to $46 million, although as a consolidated entity with Vivakor, Silver Fuel's individual operating results are not provided, however, our modeling attempts to segment these numbers. We anticipate that Silver Fuels (as well as White Claw) will continue to be accretive.

While to reiterate, we think these acquisitions include a handful of important synergies, they also include some elements that we think have muted the perception of their value in the street. First, recognize that the "seller" of the assets was ostensibly Vivakor's new CEO and Chairman, James Ballengee. Further, Vivakor's cost of acquisition was pegged at $37.4 million consisting of *"shares of restricted common stock equal to 19.99% of the total issued and outstanding shares of Vivakor's common stock that are subject to lock-up agreements preventing their sale for a period of up to 18 months, promissory notes and certain assumed liabilities which are subject to post-closing adjustments"*. More specifically, the purchase price included the issuance of 3,009,552 Vivakor common shares valued at $4,278,655, or $1.42 per share. The noted promissory notes are secured and have a three-year term with a principal amount of $28,664,284. Moreover, the transaction essentially stipulates that all free cash flow from the acquired operations be used to pay down the principal of the notes. We think that provision has caused some to discount the transaction in terms of its value to Vivakor. However, subsequent to the closing of the transaction and in conjunction with his appointment as CEO and Chairman, Mr. Ballengee converted $10 million of the principal amount into additional shares of Vivakor, at the same $1.42 valuation, or 7.04 million shares. For those who like companies with managers with "skin-in-the-game", that is a topical vote of confidence in our view.

Looking ahead, we think there are a handful of primary operating metrics that we will be trying to identify/model as we move forward, and those metrics will likely determine much of the Company's success and by extension it's valuation in the coming quarters:

Revenues from the newly acquired assets. Clearly, much of the Company's operating revenue through fiscal 2023 will come from the combination of Silver Fuels and White Claw. As noted, we believe there is good visibility into White Claw's revenue because it is essentially a lease ($150,000 per month). On the other hand, revenues for Silver Fuels are a bit more elusive. Silver Fuel's existing customer agreements guarantee Silver Fuels/Vivakor $5 per barrel for each barrel they store and transfer. In addition, they are also able to keep 90% of any margin they can capture selling/transferring the oil to their buyers, but in no case will their total be less than $5 per barrel. Obviously, in this scenario, both revenues and resulting margins will be driven by oil dynamics (supply, demand, pricing etc.). To edify, they recognize revenues as the barrels of oil they store/transfer multiplied by prevailing oil prices, so oil prices will directly impact revenues and gross *margin*, but will not impact gross *profit* commensurately.

Revenues from RPCs. As we illustrated above, we have high expectations for the potential of the Company's RPC technology, and we think the acquisitions coupled with Mr. Ballengee's resume will ultimately speed the path to meaningful RPC commercialization. We submit, in our initiating coverage, we modeled RPC commercialization in Utah and in Kuwait that has yet to materialize. Specifically, we modeled meaningful revenues from Utah and (to a lesser degree) Kuwait to begin in Q3F22, which again, has proven to be aggressive. Ironically, we modeled revenue from sludge recycling to be the third leg of RPC commercialization, which now looks like it will be the first. We think there are a handful of reasons why Utah has been more challenging to start than we (they) anticipated, and as we understand it, they have little control over the commencement of operations in Kuwait. That said, here is how we are modeling the Company's RPC initiatives.

We believe the Company is slating 2QF23 for commencement of RPC operations in Houston. While given the favorable anticipated economics we laid out above we trust it is a high priority for management, we are also acutely aware of the fact that of the *many* small emerging enterprises we have evaluated over the past 2+ decades, most of them take more time (and often more money) to commercialize that their managements believe/articulate. To translate, in the context of a 2QF23 start, we are modeling what we think is a conservative ramp for the commercialization of the "sludge" RPC. Further, we are not modeling any contribution from the Utah and/or the Kuwait RPC units in fiscal 2023. Frankly, if our math and understanding of the respective opportunities are reasonably accurate, the tank bottom sludge opportunities look to be the most optimal, by a considerable measurable. If that is in fact the case, it would seem to us that deploying the Utah RPC into Texas or Louisiana would be a considerably more optimal approach. Granted, there may be other nuances to that we are not understanding and/or are not privy to, but that is our high-level view. That said, again assuming our assumptions regarding various RPC opportunities are reasonable, it also seems to us that the longer-term solution will be to add more RPC units. That brings us to our next point.

Financing and adding RPC units. Historically, Vivakor has been undercapitalized and unprofitable, which has made advancing the RPC technology to commercialization a challenge. As a result, they have attempted to use some off-balance-sheet approaches to financing the buildout of RPC units. Those have generally taken the form of revenue-based royalties. Our assumption going forward is that if our model proves reasonably accurate, they should be able to add RPC units through more traditional financing methods (convention debt or equity raises for instance) that we think would include lower overall costs of capital. If our sense of our discussions with management is correct, we think the facilities/infrastructure they are establishing to install and operate RPCs to clean tank sludge, as well as the respective addressable markets, should provide opportunities to add RPCs going forward. For now, we are modeling one RPC in each location, but again, we view the opportunity for more units as a potential leg up in the story.

Anticipated operating expenses. Trying to nail down operating expenses for small companies, especially those transitioning into commercialization (as well as those integrating new acquisitions) is one of our more difficult tasks. It is not quite as elusive as trying to project revenues but its close. Vivakor's analysis in that regard has been additionally complicated by an offering in February 2022, and a handful of other nuances. That said, our discussions with new management lead us to the conclusion that they believe they can reduce operating expenses markedly from prior period levels. Given the marked increases in revenue provided by the acquired assets, that seems counterintuitive on the face. However, as we understand it, the acquired assets do not require considerable overhead to operate, and much of what they do require are included in COGS. That said, we remain a bit guarded about these line items, especially when it comes to projecting them lower, and we will obviously review them as we move along, and new filings provided added visibility.

Lastly, the Company recently filed and S-3 registration, which suggests that we can expect them to sell additional shares as the markets allow. We suspect that may be the genesis of some of the recent weakness in the stock. While none of us are generally fans of companies issuing more shares and creating additional dilution, the notion that Vivakor will need to raise additional cash to fund a likely working capital deficit until they can begin generating positive operating cash should not be lost on anyone paying attention to the story. Our model reflects that reality as well. That said, keep in mind that Mr. Ballengee is the now the Company's largest shareholder, so we are going to assume that he will be quite diligent with respect to dilution.

To summarize, the new assets as well as the new management are significant “wrinkles” to our original analysis, albeit highly positive changes in our view. Most specially, we think the addition of Mr. Ballengee is a significant wildcard in the story, as we think his posture in the space may provide opportunities that would most certainly be more difficult to address without him. We think the proximity of the new asset to tank sludge operations is part of that view as well. As result, we have recast our model to reflect these changes and have attempted to build some new projections around these additions. Further, we are reiterating our price target of $6.00 and at the same time increasing our allocation from 4 to *5 based on what we believe is the overall improved posture of the Company because of the changes we addressed above as well as some recent compression in the stock. We would add, the share price at this publication represents a 17% discount to the price which CEO and Chairman James Ballengee accepted in equity as part of the original acquisition, as well as the price at which he subsequently converted an additional $10 million of the acquisition debt. We will review our allocation and our price targets as added visibility becomes available.

Projected Operating Model

Vivakor, Inc. **Projected Operating Statement** **By: Trickle Research**	Actual 3/31/2022	Actual 6/30/2022	Actual 9/30/2022	Estimate 12/31/2022	Estimate Fiscal 2022	Estimate 3/31/2023	Estimate 6/30/2023	Estimate 9/30/2023	Estimate 12/31/2023	Estimate Fiscal 2023
Revenues	$ -	$ -	$11,765,975	$15,751,440	$ 27,517,415	$15,418,800	$16,179,681	$18,673,282	$23,543,794	$ 73,815,557
Cost of revenues	$ -	$ -	$10,553,375	$14,389,823	$ 24,943,198	$14,079,174	$14,324,979	$14,847,194	$15,561,086	$ 58,812,433
Gross profit	**$ -**	**$ -**	**$ 1,212,600**	**$ 1,361,617**	**$ 2,574,217**	**$ 1,339,626**	**$ 1,854,702**	**$ 3,826,088**	**$ 7,982,708**	**$ 15,003,124**
Operating expenses:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Sales and marketing	$ 191,339	$ 119,252	$ 50,174	$ 93,757	$ 454,522	$ 92,094	$ 95,898	$ 108,366	$ 132,719	$ 429,078
General and administrative	$ 1,312,807	$ 2,922,753	$ 2,373,615	$ 2,337,572	$ 8,946,747	$ 2,320,940	$ 2,003,038	$ 2,104,446	$ 2,299,266	$ 8,727,690
Bad debt expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amortization and depreciation	$ 375,218	$ 558,595	$ 1,119,737	$ 1,121,478	$ 3,175,028	$ 1,118,114	$ 1,114,759	$ 1,111,415	$ 1,108,081	$ 4,452,369
Total operating expenses	$ 1,879,364	$ 3,600,600	$ 3,543,526	$ 3,552,807	$ 12,576,297	$ 3,531,148	$ 3,213,696	$ 3,324,227	$ 3,540,066	$ 13,609,137
Gain (Loss) from operations	**$ (1,879,364)**	**$(3,600,600)**	**$(2,330,926)**	**$ (2,191,190)**	**$ (10,002,081)**	**$ (2,191,522)**	**$ (1,358,994)**	**$ 501,861**	**$ 4,442,642**	**$ 1,393,986**
Other income:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity investment loss	$ -	$(1,652,755)	$ -	$ -	$ (1,652,755)	$ -	$ -	$ -	$ -	$ -
Gain (loss) on disposition of asset	$ -	$ 2,456	$ -	$ -	$ 2,456	$ -	$ -	$ -	$ -	$ -
Unrealized gain (loss) on marketable securities	$ 1,239,566	$ -	$ 1,074,290	$ -	$ 2,313,856	$ -	$ -	$ -	$ -	$ -
Interest income	$ 6,378	$ 6,083	$ 5,782	$ -	$ 18,243	$ -	$ -	$ -	$ -	$ -
Interest expense	$ (91,965)	$ (22,981)	$ (512,217)	$ (527,818)	$ (1,154,981)	$ (482,513)	$ (437,028)	$ (391,365)	$ (345,757)	$ (1,656,663)
Other income	$ 150	$ 39,934	$ 50	$ -	$ 40,134	$ -	$ -	$ -	$ -	$ -
Total other income (expense)	**$ 1,154,129**	**$(1,627,263)**	**$ 567,905**	**$ (527,818)**	**$ (433,047)**	**$ (482,513)**	**$ (437,028)**	**$ (391,365)**	**$ (345,757)**	**$ (1,656,663)**
Gain/Loss before provision for income taxes	**$ (725,235)**	**$(5,227,863)**	**$(1,763,021)**	**$ (2,719,008)**	**$ (10,435,127)**	**$ (2,674,035)**	**$ (1,796,023)**	**$ 110,495**	**$ 4,096,885**	**$ (262,677)**
Benefit (provision) for income taxes	**$ 800**	**$ -**	**$ -**	**$ (461,851)**	**$ (461,051)**	**$ (455,105)**	**$ (326,553)**	**$ (53,176)**	**$ 462,883**	**$ (371,951)**
Consolidated net gain (loss)	**$ (726,035)**	**$(5,227,863)**	**$(1,763,021)**	**$ (2,257,157)**	**$ (9,974,076)**	**$ (2,218,930)**	**$ (1,469,469)**	**$ 163,671**	**$ 3,634,003**	**$ 109,275**
Less: Net Gain/(Loss) attributable to noncontrolling interests	**$ (125,152)**	**$ (322,546)**	**$ (183,008)**	**$ 360,000**	**$ (270,706)**	**$ 360,000**	**$ 381,000**	**$ 465,000**	**$ 1,011,000**	**$ 2,217,000**
Net loss attributable to Vivakor, Inc.	**$ (600,883)**	**$(4,905,317)**	**$(1,580,013)**	**$ (2,617,157)**	**$ (9,703,370)**	**$ (2,578,930)**	**$ (1,850,469)**	**$ (301,329)**	**$ 2,623,003**	**$ (2,107,725)**
Net loss attributable to common shareholders	**$ (600,883)**	**$(4,905,317)**	**$(1,580,013)**	**$ (2,617,157)**	**$ (9,703,370)**	**$ (2,578,930)**	**$ (1,850,469)**	**$ (301,329)**	**$ 2,623,003**	**$ (2,107,725)**
Dividend on preferred stock	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net income loss to parent	**$ (600,883)**	**$(4,905,317)**	**$(1,580,013)**	**$ (2,617,157)**	**$ (9,703,370)**	**$ (2,578,930)**	**$ (1,850,469)**	**$ (301,329)**	**$ 2,623,003**	**$ (2,107,725)**
Basic net Gain (Loss) per share	**$ (0.04)**	**$ (0.33)**	**$ (0.09)**	**$ (0.10)**	**$ (0.55)**	**$ (0.10)**	**$ (0.06)**	**$ (0.01)**	**$ 0.09**	**$ (0.08)**
Fully Diluted Gain (Loss) per shares	**$ (0.04)**	**$ (0.33)**	**$ (0.09)**	**$ (0.10)**	**$ (0.55)**	**$ (0.10)**	**$ (0.06)**	**$ (0.01)**	**$ 0.09**	**$ (0.08)**
Basic weighted average common shares outstanding	**13,730,159**	**15,038,619**	**17,047,489**	**25,122,092**	**17,734,590**	**25,137,092**	**28,586,435**	**28,601,435**	**28,616,435**	**27,735,349**
Fully Diluted weighted average common shares outstanding	**13,730,159**	**15,038,619**	**17,047,489**	**25,122,092**	**17,734,590**	**25,137,092**	**28,586,435**	**28,601,435**	**28,616,435**	**27,735,349**

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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.