Trickle Research

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

Research Update and Price Target Decrease

VIVAKOR

Vivakor, Inc.

(NasdaqCM : VIVK)

Date: 01/02/24

12- 24 month Price Target: *$4.75

Allocation: 5

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

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

Closing Stock Price at Price Target Decrease (Closing Px: 12/29/23): $1.01

Prepared By:
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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. Our enthusiasm at the time centered on the Company Remediation Processing Center ("RPC") technology. To refresh, that technology is capable of extracting oil and other hydrocarbons from dirt and sand. That functionality has presented a handful of opportunities with different goals. Initially, the Company developed the technology to extract oil from natural oil sands located (primarily) in Utah. As our initial coverage points out, oil sands host marked amounts of bitumen, which most would recognize as the black viscous "tar" in asphalt. As an aide, bitumen is often what is left over in the oil refining process, and it can also be turned into other higher value hydrocarbon products if the refinery also includes "cracking" technology. Cracking is more economic at higher oil prices, which can impact the supply of bitumen required to build asphalt roads. In part, the original business plan sought to use the RPC technology to extract bitumen from oil sand and sell it to the construction industry.

In addition to extracting bitumen from oil sands, the Company also discovered that the technology could be used to remediate sand and dirt impacted by oil/gas accidents or other spills. Specifically, they were able to initiate a demonstration of the technology for agencies of the Kuwaiti government (in conjunctions with the United Nations), which was trying to remediate 500,000 tons of contaminated sand and soil as a result of Iraq's invasion of Kuwait in 1990, wherein they set over 700 Kuwaiti oil wells on fire. That demonstration eventually led to a contract that we believe the Company will begin monetizing shortly.

Aside from the two applications above, the Company also discovered that the technology had other potential commercial applications as well. Specifically, Vivakor determined that their RPCs could be used to remediate oil "sludge". Oil sludge is a by-product of the oil storage and transportation process and over time it accumulates in the bottom of stationary oil storage tanks/silos as well as in highway and railroad (oil) transportation tanks. The sludge is largely oil mixed with sand, dirt, paraffins and other sediments, as well as water. The sludge must be periodically removed from these tanks as it eventually impacts their storage capacity and/or worse yet, corrodes the tanks. Once the sludge is removed from the tank, (typically a manual process) it needs to be disposed of, which creates additional problems. In many cases, due to its high hydrocarbon content, the sludge is deemed hazardous waste, which impacts where/how it can be disposed of and adds considerably to the overall costs of removing it from the tanks. Additionally, in many cases, the sludge must be dewatered before it can ever be sent to a disposal site since sites of that nature only accept solid waste. In short, while a necessity, cleaning the sludge from oil storage tanks, as well as from the truck and/or railroads tankers is an expensive endeavor.

While the above summed up Vivakor's collective opportunities as we understood them at the time of our initiating coverage, some additional events occurred along the way that significantly changed the narrative. Specifically, shortly after our initiation, In August (2022) Vivakor closed the acquisition of two producing assets; Silver Fuels Delhi, LLC ("SFD"), and White Claw Colorado City, LLC ("WCCO") from entities affiliated with Mr. James Ballengee. Today, those acquired assets represent the entirety of the Company's *current* operating footprint. Further, following the acquisition, on November 7, 2022, Mr. Ballengee became the CEO of Vivakor.

Thereafter, on November 1, 2023, Mr. Ballengee provided a Company update that included some new data points. Here are some of our high-level observations regarding the current posture of the business per that update:

- First, as we noted, the two acquired pieces of the business, Silver Fuels Delhi, LLC and White Claw Colorado City, LLC represent virtually all the current operating business of the Company. In short, Silver Fuels provides oil storage/transfer services, and they are guaranteed a minimum spread on the fuel they handle. That being the case, they have a finite amount of storage capacity, and while there are instances when it is able to capture spreads larger than the guaranteed rate, we do not expect considerable variability from this portion of the business in terms of revenues and/or gross profit. In addition, White Claw owns a storage facility which earns a static rent payment, so this part of the business is generally predictable as well. Further, as we understand it, the original purchase agreement requires the cash flow from these businesses to be used to pay down the purchase value of the assets. To edify, when the Company first initiated the acquisition, we did not think the operating pieces themselves represented the most additive value of the transaction. Rather, our view was that the greater value of these acquisitions was the industry "beachhead" that came with them. We still believe that. We will expand on that a bit later in this update.

- Second, our initial enthusiasm for Vivakor was focused on the potential for its RPC technology. It still is. As we attempted to delineate above, the Company has multiple potential opportunities for that technology, but some of those opportunities appear to have changed since the time of our initiation. Most notably, at that time the Vernal Utah oil sands endeavor was the legacy/flagship project, but that has been moved to the "back-burner" in favor of some other options. That however, is not largely surprising because in our initiating coverage, we noted that the tank bottom sludge opportunity(s) would likely turn out to be the highest margin and most open-ended opportunity the Company had in front of it. Further, we think the addition of Mr. Ballengee as CEO probably elevated this option because of his presence and associated contacts in the oil storage and transport business in and around Houston. More specifically, we think he has probably provided openings for the Company that may not have come to fruition without his direct participation/association.

- Setting aside the Houston project for a moment, the Company's recent update provided some additional information regarding their Kuwait activities. Specifically, they are moving the Utah RPC unit to Kuwait, and the update suggests that the unit should be in Kuwait by now. (We would add, their Kuwaiti customer provided a $1.9 million loan to move the RPC unit to Kuwait). If we understand this correctly, they should now (or shortly) have 2 RPCs in Kuwait. They also note they expect to be paid a license fee of $20 per ton and will not share in any of the expenses. We have attempted to model what we think is a reasonable start date around the frame of the update, as well as a ramp-up phase on their way to processing what they indicate should be 40 tons per hour (20 tons per unit) at $20 per ton. We believe this is a bit different revenue model than they were anticipating when we initiated our coverage, so we have made associated changes to our model. Given those differences, we will attempt to get some additional clarity on this arrangement. To be clear, we have not been able to establish much access to management, so we have some questions about this (and other) arrangements.

- Circling back to Houston, the update provided some added color there too. Specifically,

> *The RPC Houston project has hit many significant milestones. In Q4 of 2022, the Company finalized the lease of approximately 3 three acres close to Lake Houston. In Q1 of 2023 an SPV closed its offering, netting approximately $13.7 million for the manufacture of facilities to process up to 40 tons of material at the Houston site. We were able to prepare the facility to process and store both the tank bottom sludge and other contaminated soil that it will be receiving along with the cleaned soil and recovered oil from its remediation process.*
>
> *In addition, the Company, in Q2 2023, closed on a $2.2 million debt financing to expand the Houston site to add a washout facility. The addition of the washout capability will allow Vivakor's Houston facility to offer a full-service remediation center for the producers of the tank bottom sludge. With this addition of the wash plant, we anticipate customers will be able to drop off contaminated waste for remediation*

into sellable, reclaimed oil, and have their trucks and containers cleaned for reuse in the same facility.

Construction of the RPC in Houston is nearly complete and the wash plant is in the latter stages of construction. We are currently waiting on permits from the Texas Railroad Commission and the EPA to allow us to operate the facility. We anticipate those to be approved in the near future and to begin processing samples shortly after receiving the permits.

- Frankly, the preparation/commercialization of the Houston facility has taken more time and more money than we anticipated. Specifically, we were originally looking for it to begin initial operations by the end of 2QF23. Clearly, our assessment in that regard was markedly aggressive, but it does look like they could see some *limited contribution* from Houston in Q1F24 pending the aforementioned permits.

To summarize, Vivakor looks a bit different than we envisioned it would look at this point when we initiated the coverage. Perhaps most notably the Silver Fuels and White Claw acquisitions, but more notably in our view, the onboarding of James Balengee. That said, we continue to believe the Company's larger opportunities hinge on their ability to advance the commercialization of their RPC technology, in conjunction with management's apparent industry reputation. In that regard, while again we thought RPC commercialization would be further along by now, it appears that 2024 could represent the breakout in that regard. We have recast our model to reflect and align with some of the guidance in the corporate update. To that end, it may be helpful to go over the "back-of-the-napkin" math regarding the metrics the Company provided around the Houston opportunity (and in the context of how we understand them).

They indicate they believe they can process 40 tons of tank sludge per hour at the Houston facility. We believe that will require two RPC units. On the face, if they process 40 tons per hour that equates to 960 tons per day (assuming a 24/7 schedule), and roughly 87,000 tons per quarter (960 tons per day * 91 days). They also indicate that they expect to get 1.3 barrels of recovered oil for each ton they process, which, using the same math, would yield around 113,000 barrels of oil per quarter. Ostensibly, at $70 per barrel, recovered oil sales would approximate $8 million per quarter, although as we understand it, RPC investors would be entitled to 25% of that revenue stream so the Company would net around $6 million in oil sales per quarter. Further, the Company also indicates that current market pricing for tolling fees for accepting/treating/disposing of tank bottom sludge is *"between $400-$500 per ton and current wash fees can run as much as $2,000 per truck with all of its containers"*. Setting aside wash fees, given the above math, if the Houston facility operates at full capacity, processing 87,000 tons per quarter, and collecting a $400 fee per ton would generate just under *$35 million in toll fees per quarter*. In terms of margins, we assume $150 per ton in processing fees (a number that is higher than that which were assumed in some of the prior iterations the Company was modeling). Those are the rough numbers as we understand them. So then, if Vivakor can garner customers (an endeavor that we believe is made possible by management's relationships in the Houston oil storage and transfer market) and can operate at even a fraction of their anticipated capacity, the numbers are extraordinary.

That brings us to our final point.

In short, to this point we have found it difficult to communicate with Vivakor's (new) management. In fairness, we think some of that is the result of their attempts to get their arms around the business and the adjustments associated with running a public company. We understand that, on the other hand, providing research on small early-stage companies with poor visibility is challenging enough, but trying to do so with little or no access to management is exponentially more difficult, and in our experience, prone to failure.

Despite what we see as delays in the rollout of the RPC commercialization, we remain constructive on Vivakor's prospects, largely because, as the numbers we laid out above indicate, the opportunity here is extraordinary if the assumptions regarding production capacity, oil recovery and tolling fees are even remotely accurate. That noted, our continued coverage of the name will likely depend on management's willingness to communicate the business better, especially given our reliance on metrics that have yet to be demonstrated. To that end, we submit, the November update was encouraging.

To reiterate, we have recast our model around some of the information the Company has provided. As a result, we are reiterating our allocation of 5 and we are establishing a new 12-24 month price target of *$4.75, which represents a marked discount to the valuations that the above numbers might otherwise imply. Again, we think that approach (heavy discounts to the assumptions) is appropriate given the unproven nature of those assumptions in terms of potential customers, tolling fees and production capacity and utilization, as well as our continued guardedness over management's willingness to communicate the metrics of the business. As usual, we will reassess our targets as new data points emerge.

Projected Operating Model

Vivakor, Inc.
Projected Operating Statement
By: Trickle Research

	Actual	Actual	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	3/31/2023	**6/30/2023**	**9/30/2023**	**12/31/2023**	**Fiscal 2023**	**3/31/2024**	**6/30/2024**	**9/30/2024**	**12/31/2024**	**Fiscal 2024**
Revenues	$ 11,194,467	$ 11,570,742	$ 11,096,507	$ 10,455,000	$ 44,316,716	$ 11,134,062	$ 15,671,752	$ 18,192,384	$ 20,042,688	$ 65,040,886
Revenues-Related Party										
Total Revenue										
Cost of revenues	$ 14,031,714	$ 12,375,874	$ 14,492,071	$ 9,317,940	$ 50,217,599	$ 9,687,046	$ 11,462,224	$ 12,586,622	$ 13,324,094	$ 47,059,985
Gross profit	**$ 1,513,158**	**$ 1,214,764**	**$ 68,229**	**$ 1,137,060**	**$ 3,933,211**	**$ 1,447,017**	**$ 4,209,528**	**$ 5,605,762**	**$ 6,718,594**	**$ 17,980,901**
Operating expenses:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Sales and marketing	$ 589	$ 628	$ 1,240	$ 11,455	$ 13,912	$ 12,134	$ 16,672	$ 19,192	$ 21,043	$ 69,041
General and administrative	$ 1,852,922	$ 1,384,203	$ 1,473,728	$ 1,318,200	$ 6,029,052	$ 1,340,810	$ 1,474,935	$ 1,553,683	$ 1,609,192	$ 5,978,620
Bad debt expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Impairment Loss	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amortization and depreciation	$ 784,520	$ 667,867	$ 817,058	$ 678,884	$ 2,948,329	$ 676,847	$ 674,817	$ 672,792	$ 670,774	$ 2,695,231
Total operating expenses	$ 2,638,031	$ 2,052,698	$ 2,292,026	$ 2,008,539	$ 8,991,293	$ 2,029,791	$ 2,166,423	$ 2,245,668	$ 2,301,009	$ 8,742,891
Gain (Loss) from operations	**$ (1,124,873)**	**$ (837,934)**	**$ (2,223,797)**	**$ (871,479)**	**$ (5,058,082)**	**$ (582,774)**	**$ 2,043,105**	**$ 3,360,094**	**$ 4,417,585**	**$ 9,238,010**
Other income:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity investment loss	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Gain (loss) on disposition of asset	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unrealized gain (loss) on marketable securities	$ (495,826)	$ 165,275	$ (661,101)	$ -	$ (991,652)	$ -	$ -	$ -	$ -	$ -
Interest income	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest expense	$ (451,294)	$ (459,079)	$ (516,357)	$ (414,389)	$ (1,841,119)	$ (414,389)	$ (405,913)	$ (397,255)	$ (388,597)	$ (1,606,154)
Interest expense- Related parties	$ (754,375)	$ (804,409)	$ (828,739)	$ (700,000)	$ (3,087,523)	$ (700,000)	$ (671,748)	$ (642,887)	$ (614,026)	$ (2,628,661)
Other income	$ 10,000	$ 14,116	$ 99,420	$ -	$ 123,536	$ -	$ -	$ -	$ -	$ -
Total other income (expense)	**$ (1,691,495)**	**$ (1,084,097)**	**$ (1,906,777)**	**$ (1,114,389)**	**$ (5,796,758)**	**$ (1,114,389)**	**$ (1,077,661)**	**$ (1,040,142)**	**$ (1,002,623)**	**$ (4,234,815)**
Gain/Loss before provision for income taxes	**$ (2,816,368)**	**$ (1,922,031)**	**$ (4,130,574)**	**$ (1,985,868)**	**$ (10,854,840)**	**$ (1,697,163)**	**$ 965,444**	**$ 2,319,952**	**$ 3,414,962**	**$ 5,003,195**
Benefit (provision) for income taxes	**$ 800**	**$ -**	**$ -**	**$ (351,880)**	**$ (351,080)**	**$ (329,364)**	**$ 2,617**	**$ 142,793**	**$ 288,144**	**$ 104,189**
Consolidated net gain (loss)	**$ (2,817,168)**	**$ (1,922,031)**	**$ (4,130,574)**	**$ (1,633,988)**	**$ (10,503,760)**	**$ (1,367,799)**	**$ 962,828**	**$ 2,177,159**	**$ 3,126,818**	**$ 4,899,006**
Less: Net Gain/(Loss) attributable to noncontrolling interests	**$ (282,575)**	**$ (77,358)**	**$ (134,517)**	**$ 360,000**	**$ (134,450)**	**$ 498,600**	**$ 948,000**	**$ 1,368,000**	**$ 1,494,000**	**$ 4,308,600**
Net loss attributable to Vivakor, Inc.	**$ (2,534,593)**	**$ (1,844,673)**	**$ (3,996,057)**	**$ (1,993,988)**	**$ (10,369,310)**	**$ (1,866,399)**	**$ 14,828**	**$ 809,159**	**$ 1,632,818**	**$ 590,406**
Net loss attributable to common shareholders	**$ (2,534,593)**	**$ (1,844,673)**	**$ (3,996,057)**	**$ (1,993,988)**	**$ (10,369,310)**	**$ (1,866,399)**	**$ 14,828**	**$ 809,159**	**$ 1,632,818**	**$ 590,406**
Dividend on preferred stock	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net income loss to parent	**$ (2,534,593)**	**$ (1,844,673)**	**$ (3,996,057)**	**$ (1,993,988)**	**$ (10,369,310)**	**$ (1,866,399)**	**$ 14,828**	**$ 809,159**	**$ 1,632,818**	**$ 590,406**
Basic net Gain (Loss) per share	**$ (0.14)**	**$ (0.10)**	**$ (0.22)**	**$ (0.11)**	**$ (0.57)**	**$ (0.09)**	**$ 0.00**	**$ 0.04**	**$ 0.08**	**$ 0.03**
Fully Diluted Gain (Loss) per shares	**$ (0.14)**	**$ (0.10)**	**$ (0.22)**	**$ (0.11)**	**$ (0.57)**	**$ (0.09)**	**$ 0.00**	**$ 0.04**	**$ 0.08**	**$ 0.03**
Basic weighted average common shares outstanding	**18,064,838**	**18,064,838**	**18,219,582**	**18,234,582**	**18,145,960**	**19,694,582**	**19,709,582**	**19,724,582**	**19,739,582**	**19,717,082**
Fully Diluted weighted average common shares outstanding	**18,064,838**	**18,064,838**	**18,219,582**	**18,234,582**	**18,145,960**	**19,694,582**	**19,709,582**	**19,724,582**	**19,739,582**	**19,717,082**

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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.