Trickle Research

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

Research Update

VIVAKOR

Vivakor, Inc.

(NasdaqCM : VIVK)

Date: 02/12/24

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

Closing Stock Price at This Update (Closing Px: 02/12/24): $.88

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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 provided an update on Vivakor a month or so ago, and one of our critiques was that management has been a bit tightlipped about some of the Company's opportunities. However, last week, the Company provided an update that was along the lines of what we have been looking for, specifically around the deployment of their initial RPC unit in Houston. Below is a portion of that announcement.

Vivakor Achieves Milestone for its RPC in Houston, Texas

DALLAS, TX / ACCESSWIRE / February 5, 2024 / Vivakor, Inc. (Nasdaq:VIVK) ("Vivakor" or the "Company"), a clean energy technology company focused on the oil remediation and natural resources sectors, is pleased to announce the completion of the factory acceptance tests for its Remediation Processing Center (RPC) in Houston, Texas.

The tests were done in conjunction with RK Energy and checked out all the Control Logic, Operating Screens, PLC controls, Plant Interlocks and all plant equipment, instruments and devices.

This represents a major milestone in moving forward towards operation. The Vivakor team is pressing forward to gain the necessary permits and access to power for the site, which are the final steps needed to get the RPC into commercial operation.

Vivakor Chairman and Chief Executive Officer James Ballengee commented, "This is a significant milestone and provides support for some of the rationale behind our acquisitions from the summer of 2022, as we believed in the synergies between the RPCs and our oil and gas expertise. We have now successfully completed the onsite Factory Acceptance Tests (FAT) on our Remediation Processing Center (RPC) located in Houston, Texas, and look forward to moving this unit into commercial operation."

Ballengee, continued, "We are excited to establish this first-of-its-kind center for processing and recovery of tank bottom sludge and other oil-industry waste. Millions of tons of this waste are generated annually, just within the U.S. and are typically treated with hardening agents and disposed of in hazardous waste landfills. The goal of our facility is to process this waste and recover and recycle the embedded oil - reducing the need to drill for new oil and preventing the waste from ending up in landfills."

Vivakor previously entered into a 10-year Land Lease Agreement, under which the Company agreed to lease approximately 3.5 acres of land in Houston, Texas (commonly known as The San Jacinto River & Rail Park, 18511 Beaumont Highway, Houston, Texas). When the RPC's main plant is fully operational, Vivakor's expectation is for processing 700 to 900 tons of raw material a day for an average of 600 to 800 barrels of crude production on average and production of 100's of tons of clean solids with less than 1% Hydrocarbons per 24-hour day.

As plant wide construction and main power to the facility finalizes along with the construction completion of the Wash Plant, the RPC will be ready to perform its final tuning using cleaning fluids and raw materials fed to it by the wash plant/raw material handling side.

Once operational, this will be Vivakor's first site to process tank bottom sludge and other oil-industry based waste. The plan for the facility is to recover the oil within the sludge utilizing its patented, environmentally-friendly RPC processing technology, which has been validated for the treatment of soil. Recent testing of the RPC technology at another site showed the *treated soil Total Petroleum Hyrdrocarbons range was measured between 0.2% to 0.4%, which was well within the excepted range of TPH < 1%.*

RPCs are designed, engineered and manufactured off site and then moved on site for construction and the Factory Acceptance Test.

There are some takeaways from this release that deserve some consideration.

First, there are still some pieces that need to fall into place before the plant can commence commercial operations. These apparently include some final construction, completion of the main power supply to the facility, and we believe some final permitting. That said, while they did not provide specific time frames around when they expect these to be completed (and commercialization to commence) this news gives us greater confidence in our model assumptions regarding measurable RPC contributions is 2QF24.

Second, we have had several discussions with management regarding their anticipated metrics around RPC operations. Those included assessments of collateral and other public pro forma information the Company has provided from time to time prior to and since our initiation. In retrospect, much of *that* information centered on the use of RPC's to extract oil from (Utah) oil sands and/or from contaminated sand and soil in Kuwait. In that regard, the economics and anticipated throughput was in part of a function of the feedstock. Unless we missed something along the way, the announcement above includes some metrics that we have not seen before specifically regarding the sludge bottom operations in Texas. In short, the guidance above is much more robust than our model currently reflects. Here are some of the bigger differences.

The announcement notes that they expect to process *"700 to 900 tons of raw material a day for an average of 600 to 800 barrels of crude production on average and production of 100's of tons of clean solids with less than 1% Hydrocarbons per 24-hour day.* By comparison, we have modeled about 250 tons per day, which we knew was likely conservative, but to be clear, the 700 to 900 tons metric was a surprise to us. By extension, the estimate for crude production was equally robust relative to our modeling.

Third, in conjunction with the production guidance above, it may be helpful to go through the math again as we understand it. From our update in January (2024):

*…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.*

To summarize, the above announcement and resulting math suggests that the Houston facility can generate annual revenues of in excess of $100 million. Moreover, we believe the Company could generate pre-tax profits of over 50% if the above metrics come to fruition. While we are not prepared to model/project that just yet, we are becoming increasingly constructive on Vivakor's prospects and management's ability to execute on them. As such we are reiterating our allocation of 5 and as well as our12-24 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. However, as we said, we are becoming increasingly bullish on Vivakor. We would strongly encourage people to start paying attention to the Company's progress as we believe this could be an extraordinary emerging opportunity.

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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Vivakor has paid fees to present at investor conferences co-sponsored by Trickle Research.

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.