

# Trickle Research

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



## Production Update



## Alvopetro Energy Ltd.

(TSXV:ALV.V; OTC:ALVOF)

<http://alvopetro.com/>

**Report Date: 10/08/24**

**12- 24 month Price Target: USD \$7.25**

**Allocation: 7**

**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 This 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 This Update (Closing Px: 10/09/24): USD \$3.74**

**Prepared By:  
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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.

We do not typically comment on Alvopectro's monthly production announcements, however we do use them to update our model because the information they include provide much of the data that is needed to get the numbers for the quarter right. That said, yesterday (October 7, 2024) the Company announced the results for the month of September and the detail of the report was in our view quite telling. Those who are familiar with and tuned into the minutia of these announcements and the metrics they entail ("*e3m3/d*", "*MMcfpd*", "*boepd*" etc.), likely recognized the same thing we did, but for those who perhaps did not we will provide some color. A bit of background to the end may be helpful.

In late June and early July 2023, Alvopectro briefly traded to all-time highs in the \$8+ range. Thereafter, the share price has largely struggled, trading below \$3 in March (2024) and as been range bound between the low \$3's to the mid to high \$3's since that time. We submit, there have been some data points and corresponding risks that have emerged over past 15 months or so that probably reflect some of the compression in the shares. Here are a few bullet points (in no particular order reflecting what we see as the more relevant of those datapoints/risks, as well as some of our corresponding color (denoted in **blue**) regarding the status of each.

Over the past few reporting periods, the Company has reported generally lower gas sales. The Company has noted that this is the result of their customer's difficulties in gauging/forecasting demand. We have discussed this at length in prior updates, but suffice it to say, we think there are some other elements to this that include available market pricing relative to the Company's contracted/derived pricing, but regardless of the reason, Q3F24 appears to be a better quarter than Q1F24 and Q2F24, which may not constitute a trend, but it does fit with some of the Company's general narrative that they believe the lower demand is not a new normal. Further, from our view, while we would like to see them sell as much gas as possible, *they will sell their gas*, one day or another.

In December 2023, Alvopectro announced that under the terms of the Unit Operating Agreement ("UOA") with their operating partner at Caburé a redetermination would occur that would potentially change the relative shares of Caburé gas for Alvopectro vs. its operating partner. In short, that redetermination had the potential to be either bad or good for Alvopectro depending on what the arbitrator decided the appropriate ongoing split should be. In retrospect, we felt like that risk created some pressure on the shares over the following weeks and months. However, in April 2024, the redetermination was decided in Alvopectro's favor increasing their share significantly from 49.1% to 56.2%. Clearly, that data point was/is highly positive for Alvopectro, and while it did impact the stock positively initially, we are not sure that the lasting impact of the decision has been properly reflected in the shares. Our view aside, that risk is clearly off the table and to the contrary has become wind at their back.

In early August (2024), the Company announced the results of the biannual repricing of their long-term gas sales agreement. Per that release: "*while the BRL contracted price was virtually unchanged from the February 1, 2024 contracted price, the expected USD price of \$10.83/Mcf, based on the July 31, 2024 exchange rate of 5.66, is 8% lower than the realized natural gas price of \$11.83/Mcf in Q2 2024, which was based on the Q2 2024 average exchange rate of 5.21*". In short, the weakness in the Real has caused compression in their USD equivalent pricing. As we have noted many times throughout our Alvopectro research, predicting forex is above our pay grade and frankly those who do not like the Real's prospects vs. USD should take that into consideration. That said, we would remind readers that the biannual repricing is determined by a basket of international energy proxies, the heaviest weighted of which is Brent Crude. As a result of favorable energy prices since the time that the long-term sales agreement was adopted, Alvopectro's pricing under the agreement has been quite favorable. As a point of reference, the sales agreement was adopted prior to Alvopectro's first sales which occurred in September 2020. At that time, Brent Crude was in the \$40/bbl range, but it had come from below \$20/bbl a few months prior in the midst of the pandemic. For further reference, we believe the Company's first sales were at USD5.21/mmbtu, or less than half of the current pricing and at the time, at the bottom of the agreed collar. In retrospect, we suspect if the Company's customer had anticipated the future trajectory of energy markets when the agreement was adopted, the terms might be different. On the other hand, while projecting future oil prices is also not our primary charge, we will not be surprised to see their future pricing reset to lower levels and we have modeled as much. To reiterate, if our hunch

that their customer's demand may increase with lower reset prices proves accurate, lower contract prices may have an upside. Either way, we tend to think that the market continues to perceive lower pricing as a tangible risk.

And lastly, in our view, (setting aside the lowering of the dividend) there remains an elephant in the room. Historically, the Company's reserves and as such projections of its future revenues and earnings, have been based on their share of the Caburé resource. Consequently, the intermediate and longer-term focus requires some visibility around the Company's other development projects. To date, those have included some exploration around some conventional assets that have not yielded constructive results, but also, and more prospectively, the development of their Murucututu project located north of Caburé. In short, there are currently three existing wells at Murucututu, which include the 197(1) well and the 183(1) well, both of which were drilled in 2014, and the 183-A3 well which was drilled in 2023. The most recent filing provided the following regarding those wells:

*Alvopetro is working to enhance production from the existing wells. The chemical injection program on the 197(1) well was completed in Q2 2024 at a total cost of \$0.1 million. The well is back online and we are monitoring the effectiveness of the program. In the third quarter of 2024 we are recompleting both the 183(1) well and the 183(A3) well, with total estimated expenditures in the quarter of \$3.0 million. The recompletions are targeting the Caruaçu Formation in each well.*

Succinctly, we think there is an appropriate expectation that the Company's future success will require that they discover and develop production to ultimately replace the depleting Caburé resource. Murucututu is the most likely answer to that goal, and the early results from these three wells have not been encouraging in terms of being able to draw conclusions that they might ultimately replace Caburé. **We believe that conclusion has likely been the biggest contributor to the compression in the stock.** However, as indicated, and as we have suggested along the way, at the time of the above filing none of these wells had been fully evaluated ("recompleted"). That brings us to the announcement below, and our reason for this update.

*News Release Issued: Oct 7, 2024 (5:00pm EDT)*

*Alvopetro Announces September 2024 Sales Volumes and an Operational Update*

*CALGARY, AB, Oct. 7, 2024 /CNW/ - Alvopetro Energy Ltd. (TSXV: ALV) (OTCQX: ALVOF) announces September 2024 sales volumes and an operational update.*

*President & CEO, Corey C. Ruttan commented:*

*"We saw increased production levels through the third quarter, and we are very excited about strong early production results from our 183-A3 completion. We look forward to continued production from the well and based on these early results we expect to be drilling follow up locations starting later this year."*

*September Sales Volumes*

*September sales volumes averaged 1,963 boepd including natural gas sales of 11.2 MMcfpd, associated natural gas liquids sales from condensate of 87 bopd and oil sales of 9 bopd, based on field estimates. Our Q3 2024 sales averaged 2,106 boepd, a 29% increase compared to 1,629 boepd in Q2 2024.*

	September 2024	August 2024	Q3 2024	Q2 2024
Natural gas, NGLs and crude oil sales:				
Natural gas (Mcfpd), by field:				
Caburé	10,016	10,648	11,379	8,822
Murucututu	1,185	336	615	422
Total Company natural gas (Mcfpd)	11,201	10,984	11,994	9,244
NGLs (bopd)	87	79	95	76
Oil (bopd)	9	9	12	12
Total Company (boepd)	1,963	1,919	2,106	1,629

### Operational Update

In September, we finished the initial completion of our 183-A3 well. The well came on production during September and is still cleaning up as we produce natural gas and completion fluids. For the last 72 hours of continuous production, the 183-A3 well has produced at an average rate of 59.4 e3m3/d (2.1 MMcfpd) gas, 175 barrels of completion fluid per day and 50 barrels of condensate per day. Flowing wellhead pressure has averaged 1,195psi (8,239kPa) during this period, with the final value being 1,150 psi (7,926kPa). Production has been managed through a constant 18/64" choke and we still have not recovered all the completion fluid introduced into the well. In parallel, we finished the recompletion of our 183-1 well in an uphole Caruaçu zone and, based on swab results, we have contacted a zone that is only producing water. We will continue to monitor the production from the 183-A3 well and based on those results we expect to design a follow up intervention for the 183-1 well and commence a drilling project up-dip of the 183-A3 well from our prebuilt 183-D pad location.

Recognize, the announcement is favorable in that it confirms that 3QF24 trajectory of improved sales over Q1F24 and Q2F24. However, perhaps more importantly, it provides some results from the recompletion of 183-A3. Again, recall, this well is the most recently drilled, which we think is topical because it was drilled ostensibly based on the knowledge gained regarding the two prior wells as well as other information they have learned along the way. Specifically, the table from the release notes that Murucututu production grew from 336 Mcfpd in August to 1185 Mcfpd in September. We believe that added production came from the recompleted 183-A3 well, and for only some portion of September. Further, the release notes that “for the last 72 hours (the first few days of October, 2024) of continuous production, the 183-A3 well has produced at an average rate of 59.4 e3m3/d (2.1 MMcfpd) gas, 175 barrels of completion fluid per day and 50 barrels of condensate per day”.

That noted, consider this comparison.

Caburé produced 10,016 mcfpd in September and in the first few days of October, 183-A3 produced 2,100 mcfpd (“2.1 MMcfpd”). That means that for the past few days, 183-A3 has produced an amount that should roughly equal the average of ALVOF’s share of the production from each Cabure well. So hypothetically, 5 (100% owned) Murucututu wells doing that type of production would replace (or be roughly equal to) Alvo’s net (56%) production from Caburé. We would add, the relative condensate yield was quite positive as well.

These are very strong results. We submit, this does not mean they can definitively go drill four or five more just like it and effectively replicate/replace the net production from Caburé, but we believe the prospects of that outcome just became a lot more likely, which we think derisks the story providing a basis for higher share prices.

In addition to the above, we would note that the Company is also in the process of the developing Unit C at Caburé. To that end the most recent filing notes:

*The parties have agreed to a development plan at the Unit including drilling and completing five wells in 2024 and 2025. Alvopetro's share of these wells at its Redetermined Working Interest of 56.2% is estimated to be \$7.2 million.*

We think Unit C at Caburé is another avenue whereby the Company will likely extend and grow the production profile of the Company. Again, we think the prevailing view to the contrary (waning prospects for future production and growth) has resulted in the stock being oversold. We believe that view is inaccurate.

We reiterate our Allocation of 7 as well as our 12-24 month Price Target of \$7.25. we will review each shortly following the release of complete 3QF24 results.

## Projected Operating Model

Alvopetro Energy Ltd.						
Projected Operating Model (in USD - '000s)						
By Trickle Research LLC						
	Actual	Actual	Estimate	Estimate	Estimate	Estimate
	3/31/24	6/30/24	9/30/24	12/31/24	Fiscal 2024	Fiscal 2025
Oil & Gas Sales	\$ 11,752	\$ 10,672	\$ 12,576	\$ 18,030	\$ 53,030	\$ 80,306
Royalties and Production Taxes	\$ (312)	\$ (287)	\$ (252)	\$ (361)	\$ (1,211)	\$ (1,606)
					\$ -	\$ -
Net Oil & Gas Revenue	\$ 11,440	\$ 10,385	\$ 12,324	\$ 17,670	\$ 51,819	\$ 78,700
Other Income	\$ 398	\$ 444	\$ 250	\$ 250	\$ 1,342	\$ 1,000
Total Revenue and Other Income	\$ 11,838	\$ 10,829	\$ 12,574	\$ 17,920	\$ 53,161	\$ 79,700
					\$ -	\$ -
Production	\$ 1,201	\$ 850	\$ 1,190	\$ 1,619	\$ 4,860	\$ 6,400
General & Administrative	\$ 1,423	\$ 1,570	\$ 1,514	\$ 1,751	\$ 6,258	\$ 6,908
Depletion and Depreciation	\$ 1,847	\$ 1,701	\$ 1,966	\$ 2,235	\$ 7,749	\$ 9,945
Impairment	\$ 91	\$ -	\$ -	\$ -	\$ 91	\$ -
Exploration and Evaluation	\$ 96	\$ -	\$ -	\$ -	\$ 96	\$ -
Finance Expenses and Interest	\$ 383	\$ 371	\$ 350	\$ 350	\$ 1,454	\$ 1,400
Accretion of Decommissioning Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Share Based Compensation	\$ 287	\$ 315	\$ 200	\$ 200	\$ 1,002	\$ 800
Foreign Exchange Loss	\$ 1,170	\$ 3,204	\$ -	\$ -	\$ 4,374	\$ -
Loss on Disposition of Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Risk Management Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 6,498	\$ 8,011	\$ 5,220	\$ 6,155	\$ 25,884	\$ 25,452
Interest Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total non-operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gain (Loss) Before Taxes	\$ 5,340	\$ 2,818	\$ 7,354	\$ 11,765	\$ 27,277	\$ 54,248
Income Tax Charge (Recovery)	\$ 790	\$ 468	\$ 1,122	\$ 1,794	\$ 4,174	\$ 8,273
Net Income	\$ 4,550	\$ 2,350	\$ 6,233	\$ 9,971	\$ 23,103	\$ 45,975
Exchange (loss) gain on translation of foreign operations	\$ (1,462)	\$ (5,175)	\$ -	\$ -	\$ (6,637)	\$ -
Comprehensive (loss) gain	\$ 3,088	\$ (2,825)	\$ 6,233	\$ 9,971	\$ 16,466	\$ 45,975
Net Gain (Loss) per share						
Basic	\$ 0.12	\$ 0.06	\$ 0.17	\$ 0.27	\$ 0.63	\$ 1.27
Diluted	\$ 0.12	\$ 0.06	\$ 0.17	\$ 0.27	\$ 0.61	\$ 1.27
Shares O/S - Basic	37,281,649	37,066,651	36,855,868	36,649,219	36,963,347	36,152,559
Shares O/S - Diluted	37,975,282	37,773,293	37,575,265	37,381,119	37,676,240	36,152,559

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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.**