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Avanti Energy Inc. (AVN-V)

The Picture Is Getting Clearer

Event: Avanti announced that the completions work, which included an acidization and clean-up, on the Flathead Cambrian zone at its WNG 11-22 helium well is finished. The Flathead zone is the deepest of three prospective zones in the well and looks to be the main (or sole) producing zone initially.

First, let's look at the data, which confirms or improves the previous data from the Flathead zone. The helium concentration was 1.1% with 97.5% nitrogen, 1.1% methane and 0.3% Co2. With the high level of nitrogen, AVN will be able to produce Green Helium, which is an important consideration for the company.

As for the raw gas rate, the well peaked at 4 mmcf/d over a 6-day period at 350psig. It is important to note that that rate was restricted due to choke size. AVN is confident the well could produce at much higher raw gas rates without restriction.

In order to expedite production from the WNG 11-22 well, AVN (in conjunction with IHSMarkit) is reviewing the use of a small, portable facility that has a raw gas capacity of 5 mmcf/d, resulting in ~55 mcf/d of helium production. At that rate, the WNG 11-22 well would be one of the top two helium producing wells in Canada.

A consideration for expediting production is that AVN noted that recent helium prices have been in the US$600/mcf (wholesale) to US$2,000/mcf (retail) range. We see market dynamics supporting this price level for some time as security of supply is becoming a larger issue. As the Amur plant in Russia was to be by far the largest wedge of new global supply, the issues that have kept that facility offline, along with obvious strategic issues of location, mean that North American end-users are looking to lock up supply certainty. At US$1,000/mcf, the WNG 11-22 well would payout in less than two months.

Completions and testing work continues on the two uphole Souris River zones. If those zones are capable of production, the Souris River zones may be produced up the anulus of the wellbore and would augment the Flathead zone in order to keep the facility full.

Conclusion & Recommendation: AVN's E&D drilling is to include additional wells at WNG to define reservoir size along with exploration drilling on some of the other 8 helium structures identified that may hold over 1 bcf of recoverable He. We maintain our $3.80 target price, which is derived from an 8.5x EV/EBITDA multiple of our 2023 forecasts, and our Spec Buy rating.

WNG 11-22 Helium Well Data

Spec Buy (unch) **$3.80 (unch)**

Recent/Closing Price	$1.32
12-month Target Price	$3.80
Potential Return	188%
52 Week Price Range	$1.07 - $3.17

Estimates

YE: Dec 31	FY21E	FY22E	FY23E
Helium prod (mcf/d)	0	13	275
Revenue ($M)	$0.0	$1.7	$40.7
EBITDA ($M)	($4.2)	($2.2)	$21.9
FFOPS (FD)	($0.13)	($0.04)	$0.36
EPS (FD)	($0.21)	($0.04)	$0.23

Valuation

YE: Dec 31	FY21E	FY22E	FY23E
P/CF	neg	neg	3.6x
EV/EBITDA	neg	neg	3.3x
EV/MMCFPD	neg	$5,228,451	$220,734

Stock Data

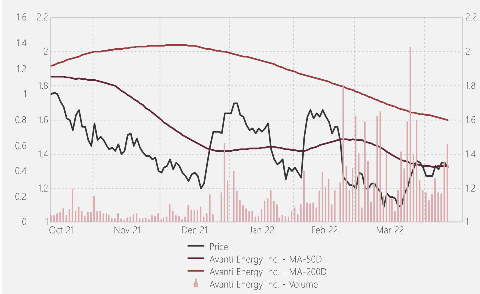
Shares Outstanding	
Basic	49.6
Fully Diluted	55.0
Market Cap (C$M)	
Basic	$65.4
Fully Diluted	$72.6
Net Debt/(Cash) ($M)	$(6.8)
Enterprise Value ($M)	$58.7

About the Company

Avanti Energy is focused on the exploration, development and production of helium across western Canada and the western United States via the deployment of its proprietary exploration model.

All prices in C$ unless otherwise stated

Stock Performance



Operating & Financial Summary

AVANTI ENERGY INC.

Recommendation: SPEC BUY **Target price: $3.80**

SHARE INFORMATION	
Price	$1.32
Shares O/S – basic (mm)	49.6
Shares O/S – float (mm)	39.4
Shares O/S – f.d. (mm)	55.0
Market cap ($mm)	$65
Enterprise value ($mm)	$59
52-week range	$1.07 - $3.17
Total projected return	**188%**

COMMODITY PRICES	2020A	2021E	2022E	2023E
Helium (US$/mcf)	-	-	$300	$325
Fx (C$/US$)	$0.75	$0.80	$0.80	$0.80

PRODUCTION	2020A	2021E	2022E	2023E
Helium (mcf/d)	-	-	13	275
He/MM Basic Shares	-	-	0.2	4.7
Production Growth	-	-	-	2079%
Prod Growth Per Share	-	-	-	2003%

FINANCIAL ($mm)	2020A	2021E	2022E	2023E
Revenue	-	0.0	1.7	40.7
Royalties	-	0.0	(0.3)	(8.1)
Operating	-	0.0	(0.3)	(7.5)
G&A	-	(4.2)	(3.2)	(3.2)
EBITDA	-	**(4.2)**	**(2.2)**	**21.9**
Interest	-	0.0	0.0	(0.1)
DD&A	-	(0.0)	(0.3)	(6.0)
Taxes	-	0.0	0.1	(1.6)
Other	-	(4.3)	(0.2)	(0.2)
Net Income	-	**($8.5)**	**($2.5)**	**$14.0**
	-			
FFO (mm)	-	($5.5)	($2.2)	$21.8
FFOPS (basic)	-	($0.13)	($0.04)	$0.37
FFOPS (diluted)	-	**($0.13)**	**($0.04)**	**$0.36**
	-			
EPS Fully Diluted	-	**($0.21)**	**($0.04)**	**$0.23**
Net Debt	($1.8)	($6.8)	$0.5	($4.8)
D/EBITDA - trailing	NA	NA	NA	NA
D/EBITDA - forward	NA	3.1x	0.0x	
Borrowing capacity	NA	NA	$0.0	

CAPITAL PROGRAM	2020A	2021E	2022E	2023E
Total Capex (mm)	$0	$5	$15	$17
% of cash flow	n.a.	n.a.	-693%	76%

VALUATION		2022E	2023E
EV/EBITDA		neg	3.3x
P/CF (diluted)		neg	3.6x
P/E		neg	5.6x
EV/production ($/mcf/d)		$5,228,451	$220,734
Price/ PDP NAV	-	-	-
Price/ 1P NAV	-	-	-
Price/ 2P NAV	-	-	-

NETBACKS ($/mcf)	2020A	2021E	2022E	2023E
Revenue	-	-	$375.00	$406.25
Royalties	-	-	($75.00)	($81.25)
Operating & Trans	-	-	($75.00)	($75.00)
Operating Netback	-	-	$225.00	$250.00
G&A	-	-	($695.65)	($31.92)
Interest	-	-	$0.00	($0.87)
Other	-	-	$0.00	$0.00
Cash Flow Netback	-	-	**($470.65)**	**$217.20**
DD&A	-	-	($60.00)	($60.00)
Stock based compensation	-	-	($43.48)	($2.00)
Other non-cash	-	-	$0.00	$0.00
Deferred tax	-	-	$31.15	($15.52)
Earnings Netback	-	-	**($542.98)**	**$139.69**

RESERVES (mmcf)	2020E	2021E	2022E	2023E
PDP	-	-	-	-
Proved (1P)	-	-	-	-
Proved + Probable (2P)	-	-	-	-
PDP NAV ($/Share)	-	-	-	-
1P NAV ($/Share)	-	-	-	-
2P NAV ($/Share)	-	-	-	-

2022 QRTLY FORECASTS	Q1E	Q2E	Q3E	Q4E
Helium (mcf/d)	0	0	0	50
Revenue ($MM)	$0.0	$0.0	$0.0	$1.7
EBITDA ($MM)	-$0.8	-$0.8	-$0.8	$0.2
FD FFO	-$0.01	-$0.01	-$0.01	$0.00
FD EPS	-$0.01	-$0.01	-$0.01	$0.00

MANAGEMENT & BOARD	
Chris Bakker	CEO & Director
Rob Gamley	President & Director
Genja Nadaraju	VP, Subsurface Geology
Ali Esmail	VP, Engineering
Dr. Jim Wood	Director of Geoscience
Natasha Tsai	CFO
Greg Bronson	Director
Michael Leo	Director

Source: Company reports, Beacon Securities Limited

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Risks

- **Commodity Price Fluctuations** – The company has direct exposure to the price for helium, which is an opaque market. Downward movements in this commodity can adversely affect the financial performance of the company. To offset this risk, the company may enter into take-or-pay contracts to manage its exposure to commodity price fluctuations.
- **Financing** – Exploring for and developing helium may require a combination of debt and equity capital. Our models may incorporate fluctuations in net debt and while we have forecast additional equity, there is no certainty that the company can raise equity capital or that its bank lines will remain static or increase.
- **Foreign exchange & Interest Rates** – Any movement in either of these rates has the potential to adversely affect the company's financial performance.
- **Cost Overruns** – Unexpected drilling, completion and/or operational cost overruns can mitigate the operational and financial performance of the company.
- **Exploration risk** – Due to limited number of dedicated helium wells drilled on or in relative proximity to the company's lands, there may be a heighted level of risk associated with the company's exploration drilling.
- **Weather and Seasonal Factors** – Extreme weather conditions may influence results.
- **Change in Fiscal Regime** – A change in the royalty or tax rates as they relate to helium production may adversely affect cash flows.
- **Well Performance** – The company may have a higher than normal amount of risk associated with its wells or plays due to the early-stage nature of its asset base. Lower production volumes, higher decline rates and/or dry holes can adversely affect the results of the company, particularly from a potential negative reserve revision perspective. Past performance may not be indicative of future execution.

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As of March 31, 2022	#Stocks	Distribution
BUY	71	77.2%
Speculative Buy	15	16.3%
Hold	2	2.2%
Sell	0	0.0%
Under Review	3	3.3%
Tender	1	1.1%
Total	92	100%

BUY	Total 12-month return expected to be > 15%
Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return is expected to be between 0% and 15%
Sell	Total 12-month return is expected to be negative
Under Review	
Tender	Clients are advised to tender their shares to a takeover bid or similar offer

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