

Avanti Energy Inc. (AVN-V)

Resource Report: 168 mmcf of Risked Recoverable Helium at WNG

Event: Avanti announced that McDaniel & Associates has prepared a resource estimate for AVN's WNG area in Montana. This is an important achievement for both Avanti as well as the sector as a whole as it is the first resource estimate of a helium property (that we are aware of) from an independent 3rd-party engineering firm.

The resource report was based on the test data from the Flathead Cambrian Sandstone zone from the WNG 11-22 well. In addition, there are two follow-up wells built into the evaluation. The Best Estimate unrisks contingent resource (2C) of helium is broken down as follows:

- 11-22 well: 77 mmcf (1.1% of 7 bcf of raw gas)
- 2 appraisal wells: 55 mmcf each (1.1% of 5 bcf of raw gas)

WNG total: 187 mmcf of recoverable helium

At a 90% CoC (chance of commerciality), the total best estimate risked contingent resource is 168 mmcf of He with a range of recoverable He of 59 – 337 mmcf (low – high). In Exhibit 1, we provide a review of the potential NPV per FD share from WNG. While we provide various price and recoverable helium scenarios, we highlight the 168 mmcf line under the Best Estimate grid that shows **WNG may add \$0.34 to \$2.80 per share**. While our forecasts remain based on a US\$300/mcf price, we continue to hear anecdotes of helium selling for US\$1,000-US\$2,000/mcf in North America. With the deglobalization that is sure to develop due to the Russian invasion of Ukraine, we believe these elevated helium prices could stick.

Upside to the resource estimate exists. AVN plans to drill one or two appraisal wells at its WNG property, the first of which is likely to spud by the end of July. That well (WNG 10-21) will be 1 km west and 50 meters down-dip of WNG 11-22 as AVN looks to define the edge of the pool and the water contact. In addition, the WNG 10-21 well will provide further information on the uphole Souris River zone that is not included in the McDaniel report.

8 additional potential structures identified. AVN has now drilled two of its 10 initially identified structures at its Greater Knappen area, which is approximately 77,000 acres in size. As the company moves forward with its exploration program at Knappen, the potential for AVN to find multiple bcf of recoverable helium continues to be reasonable.

Conclusion & Recommendation: The McDaniel's resource report is a huge step for AVN to move from a discovery to reserves at WNG where that property may have as much as \$2.80/FD share of value at a US\$1,500/mcf He price. It also allows AVN to properly plan its facilities. 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.

Resource Report

Spec Buy (unch) \$3.80 (unch)

Recent/Closing Price	\$1.11
12-month Target Price	\$3.80
Potential Return	244%
52 Week Price Range	\$1.07 - \$3.08

Estimates

YE: Dec 31	FY21A	FY22E	FY23E
Helium prod (mcf/d)	0	0	235
Revenue (\$M)	\$0.0	\$0.0	\$34.9
EBITDA (\$M)	(\$4.4)	(\$4.7)	\$17.5
FFOPS (FD)	(\$0.15)	(\$0.10)	\$0.28
EPS (FD)	(\$0.26)	(\$0.12)	\$0.17

Valuation

YE: Dec 31	FY21A	FY22E	FY23E
P/CF	neg	neg	4.0x
EV/EBITDA	neg	neg	3.9x
EV/MMCFPD	-	-	\$290,306

Stock Data

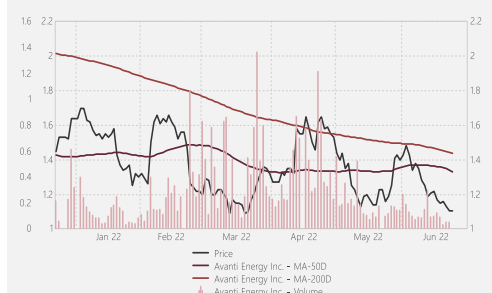
Shares Outstanding	
Basic	58.2
Fully Diluted	69.3
Market Cap (C\$M)	
Basic	\$64.3
Fully Diluted	\$76.5
Net Debt/(Cash) (\$M)	\$(6.2)
Enterprise Value (\$M)	\$58.1

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

All prices in C\$ unless otherwise stated

Stock Performance



**Exhibit 1: Potential Risked NPV10 Per FD Share For Flathead Zone At WNG
Low Case (6 bcf recoverable raw gas)**

		Helium Price (US\$/mcf)						
		\$300	\$500	\$650	\$800	\$1,000	\$1,250	\$1,500
Recoverable Helium (mmcf)	50	\$0.07	\$0.20	\$0.31	\$0.41	\$0.54	\$0.71	\$0.88
	60	\$0.08	\$0.25	\$0.37	\$0.49	\$0.65	\$0.85	\$1.06
	75	\$0.11	\$0.31	\$0.46	\$0.61	\$0.81	\$1.06	\$1.32
	100	\$0.14	\$0.41	\$0.61	\$0.82	\$1.09	\$1.41	\$1.76
	125	\$0.18	\$0.51	\$0.76	\$1.02	\$1.36	\$1.77	\$2.20
	150	\$0.21	\$0.61	\$0.92	\$1.23	\$1.63	\$2.12	\$2.65

Best Case (17 bcf recoverable raw gas)

		Helium Price (US\$/mcf)						
		\$300	\$500	\$650	\$800	\$1,000	\$1,250	\$1,500
Recoverable Helium (mmcf)	150	\$0.30	\$0.67	\$0.94	\$1.22	\$1.58	\$2.04	\$2.50
	168	\$0.34	\$0.75	\$1.05	\$1.36	\$1.78	\$2.29	\$2.80
	175	\$0.35	\$0.78	\$1.09	\$1.42	\$1.85	\$2.38	\$2.92
	200	\$0.40	\$0.89	\$1.25	\$1.62	\$2.11	\$2.72	\$3.33
	225	\$0.45	\$1.00	\$1.41	\$1.82	\$2.38	\$3.06	\$3.75
	250	\$0.50	\$1.12	\$1.56	\$2.03	\$2.64	\$3.40	\$4.17

High Case (34 bcf recoverable raw gas)

		Helium Price (US\$/mcf)						
		\$300	\$500	\$650	\$800	\$1,000	\$1,250	\$1,500
Recoverable Helium (mmcf)	300	\$0.58	\$1.25	\$1.74	\$2.23	\$2.90	\$3.73	\$4.55
	335	\$0.65	\$1.40	\$1.94	\$2.49	\$3.24	\$4.16	\$5.08
	350	\$0.68	\$1.46	\$2.03	\$2.60	\$3.39	\$4.35	\$5.31
	400	\$0.77	\$1.67	\$2.32	\$2.98	\$3.87	\$4.97	\$6.07
	450	\$0.87	\$1.88	\$2.61	\$3.35	\$4.35	\$5.59	\$6.83
	500	\$0.97	\$2.08	\$2.90	\$3.72	\$4.84	\$6.21	\$7.59

Source: Avanti Energy, Beacon Securities Limited

Operating & Financial Summary

AVANTI ENERGY INC.
Recommendation: SPEC BUY
Target price: \$3.80

SHARE INFORMATION					VALUATION				
Price			\$1.11		EV/EBITDA			neg	3.9x
Shares O/S – basic (mm)			58.2		P/CF (diluted)			neg	4.0x
Shares O/S – float (mm)			39.4		P/E			neg	6.7x
Shares O/S – f.d. (mm)			69.3		EV/production (\$/mcf/d)			-	\$290.306
Market cap (\$mm)			\$64		Price/ PDP NAV	-	-	-	-
Enterprise value (\$mm)			\$58		Price/ 1P NAV	-	-	-	-
52-week range			\$1.07 - \$3.08		Price/ 2P NAV	-	-	-	-
Total projected return			244%						
COMMODITY PRICES					NETBACKS (\$/mcf)				
	2020A	2021A	2022E	2023E		2020A	2021A	2022E	2023E
Helium (US\$/mcf)	-	-	\$300	\$325	Revenue	-	-	-	\$406.25
Fx (C\$/US\$)	\$0.75	\$0.80	\$0.79	\$0.80	Royalties	-	-	-	(\$81.25)
PRODUCTION					RESERVES (mmcf)				
	2020A	2021A	2022E	2023E		2021A	2022E	2023E	
Helium (mcf/d)	-	-	0	235	PDP	-	-	-	
He/MM Basic Shares	-	-	0.0	4.0	Proved (1P)	-	-	-	
					Proved + Probable (2P)	-	-	-	
Production Growth	-	-	-	-	PDP NAV (\$/Share)	-	-	-	
Prod Growth Per Share	-	-	-	-	1P NAV (\$/Share)	-	-	-	
					2P NAV (\$/Share)	-	-	-	
FINANCIAL (\$mm)					2022 QRTL FORECASTS				
	2020A	2021A	2022E	2023E		Q1A	Q2E	Q3E	Q4E
Revenue	-	0.0	0.0	34.9	Helium (mcf/d)	0	0	0	0
Royalties	-	0.0	0.0	(7.0)	Revenue (\$MM)	\$0.0	\$0.0	\$0.0	\$0.0
Operating	-	0.0	0.0	(6.4)	EBITDA (\$MM)	-\$1.4	-\$1.1	-\$1.1	-\$1.1
G&A	-	(4.4)	(4.7)	(4.0)	FD FFO	-\$0.04	-\$0.02	-\$0.02	-\$0.02
EBITDA	-	(4.4)	(4.7)	17.5	FD EPS	-\$0.05	-\$0.02	-\$0.02	-\$0.02
Interest	-	0.0	0.0	(0.1)					
DD&A	-	(0.0)	(0.0)	(5.1)					
Taxes	-	0.0	0.4	(1.1)					
Other	-	(6.2)	(2.6)	(1.2)					
Net Income	-	(\$10.6)	(\$6.9)	\$9.9					
FFO (mm)	-	(\$6.1)	(\$5.7)	\$16.6					
FFOPS (basic)	-	(\$0.15)	(\$0.10)	\$0.28					
FFOPS (diluted)	-	(\$0.15)	(\$0.10)	\$0.28					
EPS Fully Diluted	-	(\$0.26)	(\$0.12)	\$0.17					
Net Debt	(\$1.8)	(\$4.0)	\$4.0	\$4.0					
D/EBITDA - trailing	NA	NA	NA	0.2x					
D/EBITDA - forward	NA	0.7x	0.1x						
Borrowing capacity	NA	NA	\$0.0						
CAPITAL PROGRAM					MANAGEMENT & BOARD				
	2020A	2021A	2022E	2023E					
Total Capex (mm)	\$0	\$5	\$10	\$17	Chris Bakker	CEO & Director			
% of cash flow	n.a.	n.a.	-182%	100%	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

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 heightened 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 May 31, 2022	#Stocks	Distribution
BUY	73	79.3%
Speculative Buy	14	15.2%
Hold	1	1.1%
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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