Avanti Energy Inc. (AVN-V)

Montana Land Acquisition Is The Largest Yet

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Event. Avanti has entered binding agreements on two properties in Montana that add approximately 50,000 acres to its existing lands at Greater Knappen in Alberta. AVN has ~9,500 acres north of the AB/MT border and will increase its holdings in the area to nearly 60,000 acres (see Exhibit 1 next page for map).

Details for the newly acquired lands are limited as negotiations are on-going, but we understand the two properties included in this deal will be under farm-in agreements with a royalty payable to the "seller".

A key reason the Avanti technical team is excited about this new land is the apparent continuation of identifiable structural highs and helium concentrations up to 2% with 96% nitrogen. Several 4-way closed structures with 70 to 170 meters of relief in Devonian and Cambrian formations are evident, which is ideal for trapping helium during its upward migration.

While many more dominoes may fall as Avanti continues to build its portfolio of opportunities, the company now has a contiguous land block that may support several years of drilling. The company has already stated it plans to undertake its initial drilling program later this year that could conceivably include an exploration well or two on these new Montana lands. If successful, numerous development wells would follow with production in H2/22 once facilities are configured and installed.

Conclusion & Recommendation: We believe critical mass has been achieved and Avanti now has a key asset on which its world-class technical team can explore. We maintain our $3.80 target price and our Spec Buy rating.

Montana Land Acquisition				
SPEC BUY (unch)		**$3.80** (unch)		
Recent Price				$2.40
12-month Target Price				$3.80
Potential Return				58%
52 Week Price Range				$0.13 - $3.17
FYE				Dec 31
Assumptions	**2020A**	**2021E**	**2022E**	**2023E**
Helium price (US$/mcf)	-	-	$300	$325
US$/CDN$	$0.75	$0.79	$0.79	$0.78
Production				
Helium (mcf/d)	-	-	63	330
HE/MM Basic shares	-	-	1.2	5.9
Financial ($MM, except Per Share item)				
EBITDA	$0.0	($1.0)	$6.0	$40.4
FFO	$0.0	($1.0)	$6.0	$40.3
CAPEX	$0.0	$5.7	$15.0	$16.5
YE Net Debt (cash)	($3.6)	($3.3)	($7.8)	($31.7)
Net Debt/CF	n.a.	n.a.	n.a.	n.a.
FFOPS - Fully Diluted	$0.00	($0.02)	$0.11	$0.70
EPS - Fully Diluted	$0.00	($0.03)	$0.08	$0.52
Valuation				
P/CF		n.a.	21.6x	3.4x
EV/EBITDA		n.a.	21.0x	2.5x
EV/MCFPD		n.a.	$1,508,897	$215,851
Stock Data				
Shares Outstanding, Basic (MM)				42.9
Shares Outstanding, Diluted (MM)				49.7
Insider Holdings, Basic				24%
Market Capitalization (MM)				$102.9
Enterprise value (MM)				$94.4

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 depolyment of its proprietary exploration model.

All prices in C$ unless otherwise stated

Stock Performance

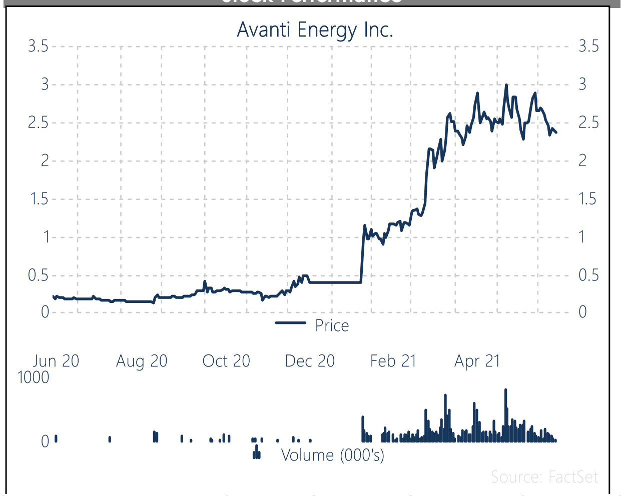
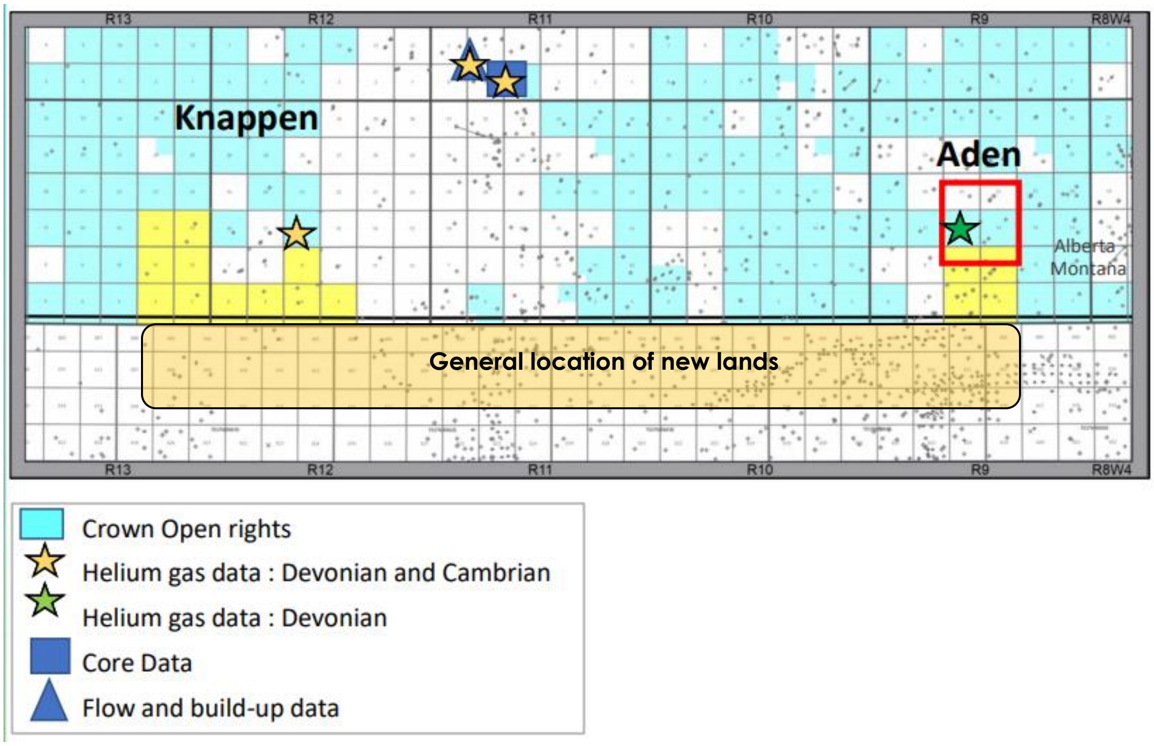


Exhibit 1: Greater Knappen area



Source: Company presentation, Beacon Securities Limited

- AVN has added approximately 50,000 acres of land just south of the Alberta/Montana border, which we have shown in a general location vis-à-vis the company's Greater Knappen area in Exhibit 1.
- The new Montana land is comprised of two properties, one large block (~46,000 acres) and one smaller block (~4,000 acres).
- We understand that the company is in the process of normal due diligence prior to signing a final agreement. Avanti expects to complete that process next month.
- When all is said and done, we expect AVN will retain 100% WI subject to a sliding-scale type royalty payable to the seller (a likely average of ~17%).
- Avanti has undertaken a detailed proprietary evaluation process in the area, including on its Greater Knappen lands as well as the newly acquired Montana lands.
- Based on data from proximal wells, the helium contents are quite impressive in both the Cambrian and Devonian-aged formations.
    - Cambrian: 1.5% to 2.2% He content
    - Devonian: 0.7% to 1.7% He content
    - Nitrogen content is up to 96%

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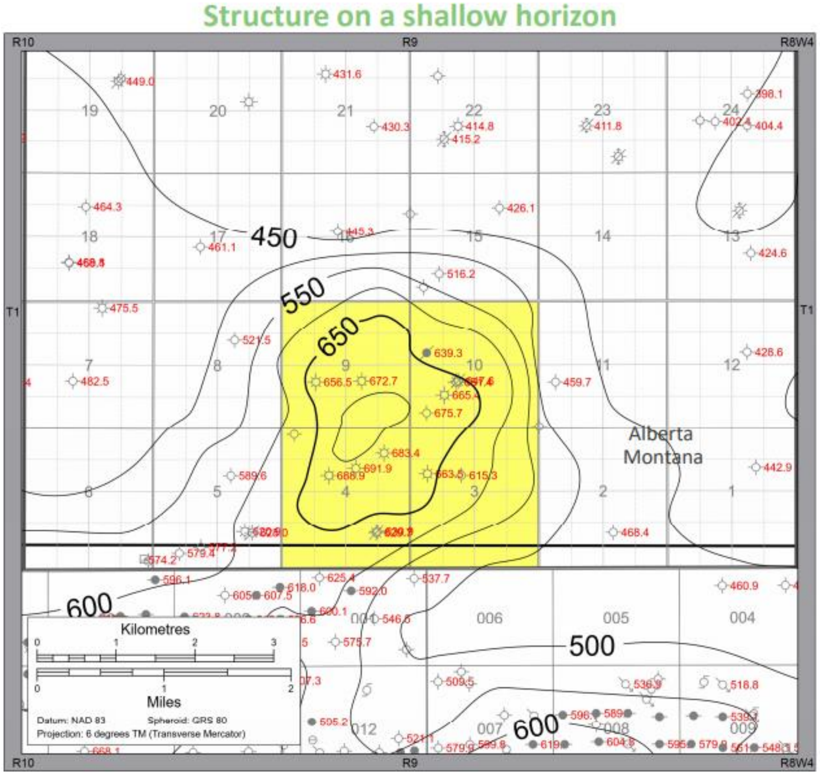
- The evaluation process has identified several 4-way closed structural highs that can be ideal for the trapping of helium. As shown in Exhibit 2, the Aden, Alberta property has 75 meters of structural relief. AVN can see up to 175 meters of relief over the general area, meaning this area may hold tremendous potential for helium exploration and development.

Exhibit 2: Aden, AB property



Source: Company presentation

- It appears that the structural high at Aden extends to the southwest, which is where we believe some of the new lands are located.
- In our opinion, Avanti now has now assembled a sufficient land base that gives clarity to a potential multi-well drilling program upon exploration success. While we expect AVN will continue to evaluate and accumulate additional land, we are also confident that an initial drilling program is being designed for later this year. This was part of our original thesis for the company and it was delivered in short order.

Operating & Financial Summary

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

SHARE INFORMATION	
Price	$2.40
Shares O/S – basic (mm)	42.9
Shares O/S – float (mm)	32.7
Shares O/S – f.d. (mm)	49.7
Market cap ($mm)	$103
Enterprise value ($mm)	$94
52-week range	$0.13 - $3.17
Total projected return	**58%**

COMMODITY PRICES	2020E	2021E	2022E	2023E
Helium (US$/mcf)	-	$300	$300	$325
Fx (C$/US$)	$0.75	$0.79	$0.79	$0.78

PRODUCTION	2020E	2021E	2022E	2023E
Helium (mcf/d)	0	0	63	330
Production Growth	-	-	-	424%
Prod Growth Per Share	-	-	-	374%

FINANCIAL ($mm)	2020E	2021E	2022E	2023E
Revenue	0.0	0.0	8.7	50.2
Royalties	0.0	0.0	(0.4)	(2.1)
Operating	0.0	0.0	(1.2)	(6.0)
G&A	0.0	(1.0)	(1.2)	(1.6)
EBITDA	**0.0**	**(1.0)**	**6.0**	**40.4**
Interest	0.0	0.0	0.0	(0.1)
DD&A	0.0	0.0	(1.4)	(7.2)
Taxes	0.0	0.0	(0.3)	(3.3)
Other	0.0	(0.2)	(0.2)	(0.2)
Net Income	**$0.0**	**($1.2)**	**$4.1**	**$29.6**
FFO (mm)	$0.0	($1.0)	$6.0	$40.3
FFOPS (basic)	$0.00	($0.02)	$0.12	$0.72
FFOPS (diluted)	**$0.00**	**($0.02)**	**$0.11**	**$0.70**
EPS Fully Diluted	**$0.00**	**($0.03)**	**$0.08**	**$0.52**
Net Debt	($3.6)	($3.3)	($7.8)	($31.7)
D/CF - trailing	NA	3.3x	NA	NA
D/CF - forward	3.6x	NA	NA	
Borrowing capacity	$0.0	$0.0		

CAPITAL PROGRAM	2020E	2021E	2022E	2023E
Total Capex (mm)	$0	$6	$15	$17
% of cash flow	n.a.	-570%	249%	41%

VALUATION	2020E	2021E	2022E	2023E
EV/EBITDA		n.a.	21.0x	2.5x
P/CF (diluted)		n.a.	21.6x	3.4x
P/E		n.a.	31.7x	4.7x
EV/production ($/mcf/d)		n.a.	$1,508,897	$215,851
Price/ PDP NAV		-	-	-
Price/ 1P NAV		-	-	-
Price/ 2P NAV		-	-	-

NETBACKS ($/mcf)	2020E	2021E	2022E	2023E
Revenue	-	-	$379.75	$416.67
Royalties	-	-	($16.14)	($17.71)
Operating & Trans	-	-	($50.00)	($50.00)
Operating Netback	-	-	$313.61	$348.96
G&A	-	-	($52.17)	($13.28)
Interest	-	-	$0.00	($0.73)
Other	-	-	$0.00	$0.00
Cash Flow Netback	-	-	**$261.43**	**$334.95**
DD&A	-	-	($60.00)	($60.00)
Stock based compensation	-	-	($8.70)	($1.66)
Other non-cash	-	-	$0.00	$0.00
Deferred tax	-	-	($14.61)	($27.33)
Earnings Netback	-	-	**$178.13**	**$245.96**

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	100	150
Revenue ($MM)	$0.0	$0.0	$3.5	$5.2
EBITDA ($MM)	-$0.3	-$0.3	$2.6	$4.0
FD FFO	-$0.01	-$0.01	$0.05	$0.07
FD EPS	-$0.01	-$0.01	$0.04	$0.05

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 at May 31st, 2021	#Stocks	Distribution
BUY	69	73.4%
Speculative Buy	22	23.4%
Hold	1	1.1%
Sell	0	0.0%
Under Review	1	1.1%
Tender	1	1.1%
Total	94	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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