Helium One Global

Updating our NAV on higher risked resource

Increasing our risked NAV to 25p/sh on lower risking and extra prospect

We have updated our NAV to incorporate an additional prospect, Tai, which Helium One now intends to drill as its first prospect in early July. We have also doubled the exploration chance of success on the prospects to 21% on average and we have lowered our discount rate to 12% from 14% to factor in a lower cost of capital for helium companies relative to oil and gas companies given the investor appetite for the sector and the higher percentage of debt funding at the development stage. We have also updated our USD/GBP exchange rate to \$1.40 from \$1.35, which has an offsetting negative impact. In aggregate this leads to an increase in our risked NAV to 25p/sh from 11p/sh previously.

Encouraging results from Helium One's 2D seismic campaign

HE1 completed an extended 200km 2D seismic shoot in early May, which focussed on areas of known prospectivity to provide greater clarity over subsurface structures, which HE1 believed to have the highest chances of successfully discovering helium. This modern seismic data is of a higher quality than earlier work, resulting in a better understanding of the subsurface and reassessment of geological risk across its portfolio. The company has not updated the chance of success on the prospects; however, we believe that the chance of success will have increased and as a result we have doubled the chance of success used by the reserves consultants. Initial data interpretation has upgraded and expanded the Tai prospect, which was poorly defined on legacy seismic data, but now clearly demonstrates a faulted 3-way dip closure concurrent with a gravity high. We assume a 6bcf prospect (in line with the average of the other planned prospects), which we see as worth 39p/sh unrisked.

Updates to global helium supply and demand data: bullish data points

We have updated our global supply outlook to factor in recent data and news flow. The USGS reported that US helium production (the world's largest supplier) was down 10% last year and helium supply out of the BLM storage was down 38% - in total US helium supply was 2.7bcf/d (-17% y/y). US helium exports fell 5%. Supply out of La Barge in the US fell by 8.5% versus 2018 to 1.3bcf/d. Algerian supplies into Europe were down 30% y/y in 2020, on the back of lower gas production. In terms of new capacity Russia's Amur plant seems unlikely to have any impact in 2021 given delays and Qatar's new capacity is likely to only ramp up slowly. The US BLM volumes are likely to be down sharply again this year with potential reservoir issues being flagged up also at the Cliffside field used for storage. Import data from early 2021 shows demand is picking up in Europe and Asia.

Market developments: strong stock performance and robust helium pricing

Listed helium companies soared in value over 2020. This trend has continued in 2021 with strong performance from companies such as Desert Mountain Energy (+194% ytd), Avanti Energy (+490%), Renergen (+74%) and Royal Helium (+41%) – Helium One is up 198% year to date. There have been several capital raises by helium focused companies also and three more companies coming to market in Canada: Global Helium, Imperial Helium and Royal Helium. This demonstrates the strong market appetite for helium investment, with Helium One the only listed helium company in the UK. Looking at updated pricing and volume data suggests that helium prices have remaining robust into 2021. Data from Asia implies helium import pricing of >US\$300/mcf from Qatar.

Valuation: ~6x upside on an unrisked basis

In our base case scenario, we use a helium price of US\$250/mcf long-term flat from 2021 and a 12% discount rate from 1/1/2021. Our risked NAV is 25p/sh, which implies 25% upside from the current share price. On an unrisked basis, we have a NAV of £1.33/sh or ~6x upside. Further to this are the follow-on prospects that are not included in our NAV and its other exploration areas. A US\$50/mcf increase in the helium price would increase our risked NAV by 6p/sh and unrisked by 33p/sh.

GICS Sector	**Energy**
Ticker	LN:HE1
Market cap 21-May-21 (US\$m)	180
Share price 21-May-21 (GBp)	20.8

NAV summary (p/sh)

Asset	Unrisked	Risked
Kasuku	28	7
Itumbula	29	5
Mbuni	37	6
Tai	31	4
Cash/other	3	3
Total NAV	**128**	**25**

>US\$1bn

Unrisked value of the 4 prospects planned to be drilled in 2021

>650%

Share price performance of the 3 primary helium E&P companies in 2020

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NAV update

NAV

Asset	Gross bcf	Interest	Net bcf	NPV US$/mcf	Unrisked US$m	Unrisked £/sh	Geo./techn. CoS	Comm. CoS	Well cost US$m	Risked US$m	Risked £/sh
Kasuku (Rukwa)	5.2	84.0%	4.4	$58	$257	£0.28	28%	85%	$1	$62	£0.07
Itumbula (Rukwa)	5.4	84.0%	4.6	$58	$267	£0.29	19%	85%	$1	$45	£0.05
Mbuni (Rukwa)	7.0	84.0%	5.9	$58	$342	£0.37	20%	85%	$1	$58	£0.06
Tai (Rukwa)	5.9	84.0%	5.0	$58	$290	£0.31	15%	85%	$1	$38	£0.04
YE'20 net cash					$7	£0.01				$7	£0.01
2021 capital raise					$14	£0.01				$14	£0.01
Working capital and other					$0	£0.00				$0	£0.00
Options proceeds					$7	£0.01				$7	£0.01
G&A	@	2.0x			$4	£0.00				$4	£0.00
Total NAV					**$1,187**	**£1.28**				**$233**	**£0.25**

Source: H&P estimates

We have updated our NAV to incorporate an additional prospect, Tai (worth 4p/sh risked or 31p/sh unrisked), which Helium One now intends to drill as its first prospect in early July. We have also doubled the exploration chance of success on the prospects to 21% on average and we have lowered our discount rate to 12% from 14% to factor in a lower cost of capital for helium companies relative to oil and gas companies given the investor appetite for the sector and the higher percentage of debt funding at the development stage. We have also updated our USD/GBP exchange rate to $1.40 from $1.35, which has an offsetting negative impact. In aggregate this leads to an increase in our risked NAV to 25p/sh from 11p/sh previously.

In our base case scenario, we use a helium price of US$250/mcf long-term flat from 2021 and a 12% discount rate from 1/1/2021. Our risked NAV is 25p/sh, which implies 25% upside from the current share price. On an unrisked basis, we have a NAV of £1.33/sh or ~6x upside. Further to this are the follow-on prospects that are not included in our NAV and its other exploration areas. A US$50/mcf increase in the helium price would increase our risked NAV by 6p/sh and unrisked by 33p/sh.

NAV sensitivity to helium price and discount rate

Risked		Helium Price ($/mcf)				
		$100.00	$175.00	$250.00	$325.00	$400.00
Discount rate	8%	10.1p	20.9p	31.6p	42.4p	53.2p
	10%	8.9p	18.5p	28.1p	37.7p	47.3p
	12%	7.9p	16.5p	**25.1p**	33.7p	42.3p
	14%	7.0p	14.8p	22.5p	30.3p	38.0p
	16%	6.2p	13.3p	20.3p	27.3p	34.3p

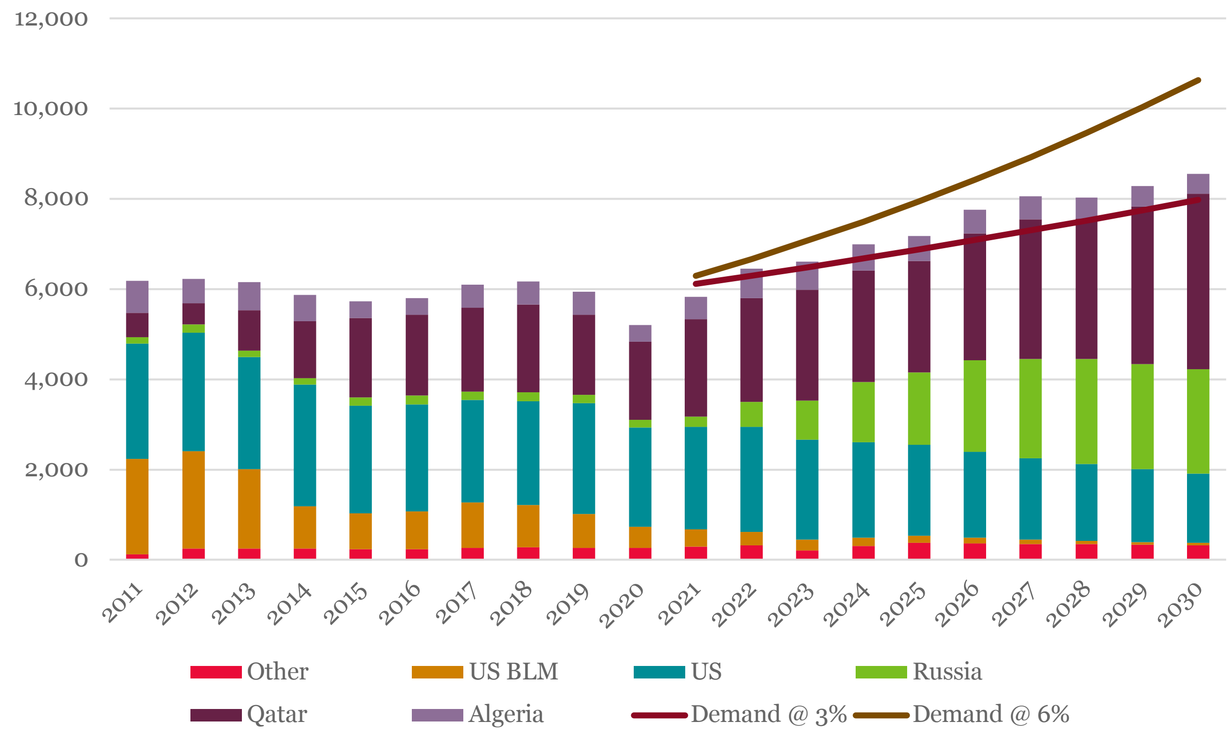
Unrisked	Helium Price ($/mcf)				
	$100.00	$175.00	$250.00	$325.00	$400.00
8%	41p	103p	166p	228p	291p
10%	34p	90p	145p	201p	257p
12%	28p	78p	**128p**	178p	228p
14%	23p	68p	113p	158p	203p
16%	18p	59p	100p	141p	181p

Source: H&P estimates

Helium market update

Helium demand was impacted by COVID in 2021, however pricing appears to have held up after significant rises in late 2019/early 2020. Supply was weaker on lower volumes coming out of storage from the US BLM and weaker natural gas production from Algeria due to weak global gas demand, reducing associated helium production.

Estimated supply demand balance for helium (mmcf/y)



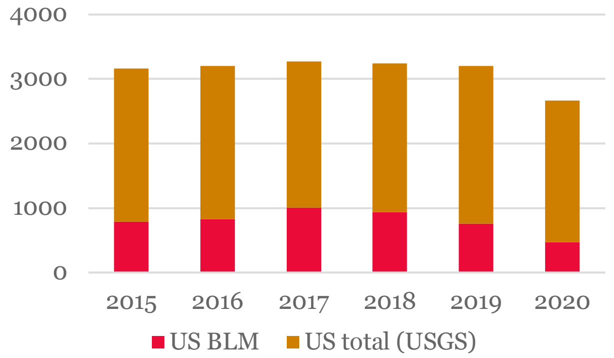
Source: Akap Energy estimates

The updated supply and demand balance in the chart above, sees lower supply expectations over the coming years because of production issues at some existing facilities and expected slower ramp-up of new capacity. We expect that helium supply will grow at a CAGR of around 6% over the next five years based on all the current projects planned but this would be a 3% CAGR based off the more normal 2019 levels. Also, we see risk skewed to the downside given the history of delays/ramp-up issues for new projects and also the risk of operational/geopolitical disruptions from existing projects.

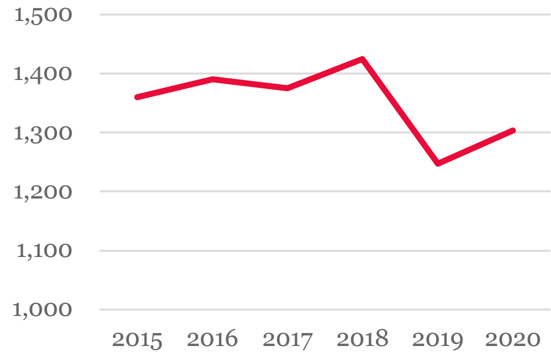
On the demand side, we believe that there is latent, unfulfilled demand for helium as there has been limited supply for several years. A wave of new supply could bring back some of the demand that has been lost over the period of shortages and stimulate new demand from growth technology industries that previously were not able to source helium. We expect that helium demand will grow in a range of 3-6% p.a., which suggests that some of the current tightness may be eased; however, if there is downward pressure on price from incremental supply, we see the potential for higher demand as companies look to secure supplies at lower prices and possibly also look to top up storage levels.

Supply

US helium production (mmcf)



La Barge, Wyoming helium sales (mmcf)



Source: USGS, Wyoming Oil and Gas Conservation Commission

The USGS reported that US helium production was down 10% last year and helium supply out of the BLM storage was down 38% - in total US helium supply was 2.7bcf/d (-17% y/y). US helium exports fell 5% y/y.

Supply out of La Barge in the US was up slightly y/y but more importantly fell by 8.5% versus 2018 to 1.3bcf/d (2019 production was lower due to extended maintenance). Exxon also cancelled a CO_2 sequestration project associated with La Barge, which means that production is at risk given declining demand for the huge quantities of CO_2 being produced and the environmental push back on venting.

Production from the BLM storage was likely somewhat impacted by lower demand but a study out last year on the storage facility suggested that the reservoir was having issues and there is the risk that production rates out of storage could decline rapidly. Overall, it is painting a bearish picture for US supply.

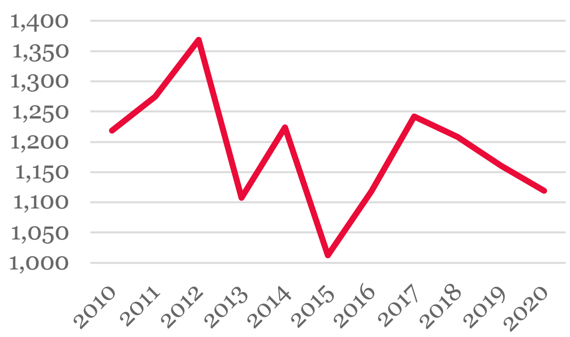
The second largest producing field in the US, the Hugoton, continues to decline at ~5-6% per annum and we estimate is currently producing around 400mmcf/y. There are a few US fields that seem to be underperforming expectations such as the Doe Canyon field in Colorado, where total gas production has dropped by 50% since 2015 implying helium volumes have declined by an equivalent amount. Also, there is lower than expected production coming out of the Lisbon processing facility.

Algerian volumes in 2020 appeared weak as European imports of helium from Algeria fell by >30% y/y. However Qatari exports to the Europe increased by 4% y/y, although were 13% lower than 2018 levels. Russian production was down 6% y/y to 170mmcf.

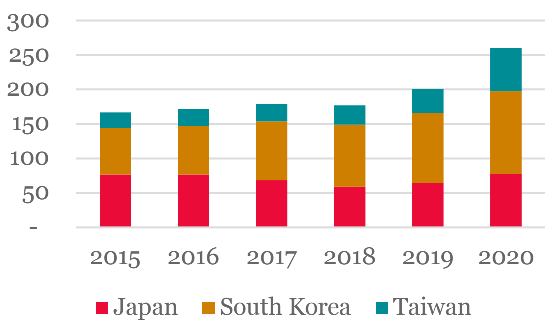
In terms of future supply, we see Russian capacity ramping up slower than previously expected due to some delays at Amur train 1 (~700mmcf/y capacity) and subsequent trains being delayed also. Furthermore, we believe that comments from Gazprom suggest a substantial amount of this gas will go towards strategic storage. The other large project, Qatar Train 3 has also been delayed but is thought to be ramping up currently but will likely take a couple of years to get to 400mmcf/y nameplate capacity.

Demand

EU helium imports (mmcf)



Far East helium imports from US ($mm)

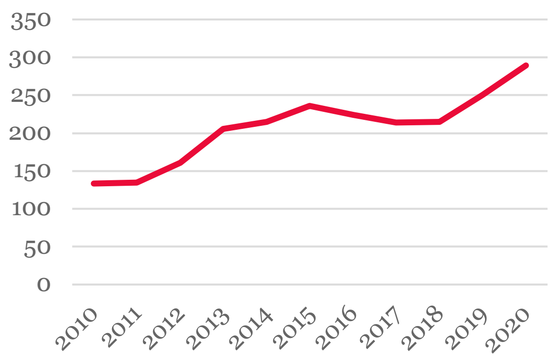


Source: Akap Energy estimates

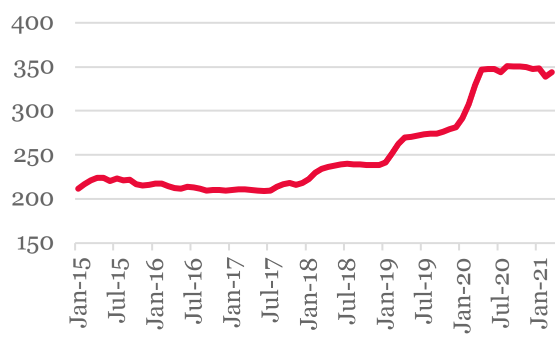
In the key helium consuming markets, import data suggests that helium demand was unsurprisingly weaker in 2020 than 2019. For example, looking at imports from the US, European helium imports fell 3.5% y/y and Far East imports fell by 7%. However, there are some positive data points: South Korea and Taiwan in aggregate increased imports from Qatar by 22% in 2020 y/y. Also, 2021 data is showing improving volumes after the mid-2020 lows.

Pricing

EU helium import pricing ($/mcf)



Far East 3 month moving average helium import pricing from Qatar ($/mcf)



Source: Akap Energy estimates

Market pricing for helium is difficult to ascertain as it is not a traded commodity and pricing is normally based on long-term, confidential contracts, resulting in opaque pricing given there are only a few key suppliers and industrial gas buyers.

We believe our price forecast of US$250/mcf balances the risk of oversupply dampening the market with the upside risk to prices from the potential supply and bullish demand factors mentioned above. Our forecast appears to be substantially lower than current market pricing and in-line with some longer-term contract pricing.

Wholesale helium pricing appeared to strengthen into 2020 and hold up well in the face of COVID. For example, we estimate that EU import pricing was ~US$290/mcf (+16% y/y). Looking at imports from Qatar, we see an even bigger rise in pricing in Asia in 2020 of ~25% to ~US$340/mcf, which is likely due to price increases following the strong demand growth that had been seen up to 2019.

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