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Desert Mountain Energy Corp. (DME-V)

Unique Opportunity with Natural Gas Acquisition

Desert Mountain announced it has signed a binding letter to acquire the 76,500 acre Pecos Slope West Abo gas field in New Mexico, along with the gas gathering system, for a total price of US$2.5 million. This is a bit of a change in strategy as Pecos Slope West is an existing natural gas field, although DME has identified significant potential volumes of helium (1.4%-3.9% He concentration range) in its review of the 187 existing well files.

Currently, the field produces approximately 1.5 mmcf/d of natural gas but no helium or NGLs as there is no processing facility on site. Further, there is no field compression and seven choke points that restrict flow rates have been identified. DME sees opportunity to put a small compressor in the field, eliminate the choke points (combined capex of ~US750k), and install one of its helium processing plants at Pecos Slope West that should allow a significant increase in natural gas volumes, the production of NGLs and strip out the helium. We believe the natural gas can reach 3.5 mmcf/d with helium of over 100 mcf/d when a processing facility is in place in FQ4/24.

The Pecos Slope West gas is sold under an existing contract for US$3.63/mcf and is subject to a 25% compression fee from the pipeline company (despite no compression) along with a royalty rate that averages 24%. DME sees several options to optimize its gas sales when the contract expires in April 2024, including using some of the gas to power the processing facility.

When this acquisition closes at the end of June, DME will have two immediate sources of revenue, including the trucking/rig payments and now the natural gas sales. The company maintains a strong financial position with a net cash position of $20.8 million at the end of FQ2/23.

Conclusion & Recommendation: DME has consistently stated that it looks for opportunities to produce and/or process helium in the U.S. Southwest and the Pecos Slope West acquisition fits that strategy. We are waiting on results from the McCauley optimization program, which should come in a little over a month from now. We continue to expect McCauley to reach 150 mcf/d of helium production when the optimal level of raw gas is reached. We have trimmed our price target to $3.85, which tracks to an unchanged 3.5x EV/EBITDA multiple of our F2024 forecasts. We maintain our Spec Buy rating.

New Mexico Acquisition

Spec Buy (unch) — **$3.85 (was $4.00)**

Recent/Closing Price	$1.14
12-month Target Price	$3.85
Potential Return	238%
52 Week Price Range	$0.96 - $3.35

Estimates

YE: Sept 30	FY22A	FY23E	FY24E
Nat Gas prod (mmcf/d)	0.0	0.3	1.5
Helium prod (mcf/d)	0	41	300
Revenue ($M)	$0.2	$16.4	$110.7
EBITDA ($M)	($3.1)	$9.2	$86.5
EPS (FD)	($0.10)	$0.06	$0.79

Valuation

YE: Sept 30	FY23E	FY24E
EV/EBITDA	neg	0.6x
EV/MCFPD	$320,128	$28,285
P/E	19.1x	1.4x

Stock Data

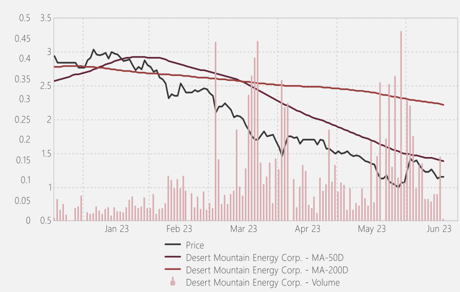
Shares Outstanding	
Basic	90.3
Fully Diluted	111.8
Market Cap (C$M)	
Basic	$102.9
Fully Diluted	$127.4
FQ2/23 Net Debt/(Cash) ($M)	$(20.8)
Enterprise Value ($M)	$82.1

About the Company

Desert Mountain Energy is focused on the exploration, development and production of primary helium and noble gases in the U.S. Southwest.

All prices in C$ unless otherwise stated

Stock Performance



Operating & Financial Summary

DESERT MOUNTAIN ENERGY — **Recommendation: SPEC BUY** — **Target price: $3.85**

SHARE INFORMATION	
Price	$1.14
Shares O/S – basic (mm)	90.3
Shares O/S – float (mm)	60.8
Shares O/S – f.d. (mm)	111.8
Market cap ($mm)	$103
Enterprise value ($mm)	$82
52-week range	$0.96 - $3.35
Total projected return	**238%**

COMMODITY PRICES	F2021A	F2022A	F2023E	F2024E
WTI (US$/bbl)	$59.43	$93.08	$80.47	$91.86
HHub gas (US$/mcf)	$3.20	$6.23	$3.71	$5.19
Helium (US$/mcf)	-	-	$750	$750
Fx (C$/US$)	$0.79	$0.78	$0.75	$0.78

PRODUCTION	F2021A	F2022A	F2023E	F2024E
NGL (bbl/d)			-	13
Natural Gas (mmcf/d)			0.3	1.5
Raw Gas (mmcf/d)			1.4	10.0
Avg concentration			3.0%	3.0%
Helium (mcf/d)	**-**	**-**	**41**	**300**
He/MM Basic Shares	-	-	0.5	3.3
Production Growth	-	-	-	635%
Prod Growth Per Share	-	-	-	587%

FINANCIAL ($mm)	F2021A	F2022A	F2023E	F2024E
Revenue	0.0	0.2	16.4	110.7
Royalties	0.0	0.0	(1.4)	(10.4)
Operating	0.0	(0.2)	(1.5)	(9.7)
G&A	(1.2)	(3.2)	(4.2)	(4.2)
EBITDA	**(1.2)**	**(3.1)**	**9.2**	**86.5**
Interest	0.0	0.0	0.0	0.0
DD&A	(0.0)	(0.2)	(1.1)	(5.5)
Taxes	0.0	0.0	(0.5)	(7.9)
Other	(5.7)	(4.3)	(2.7)	(2.0)
Net Income	**($6.9)**	**($7.5)**	**$5.0**	**$71.2**
FFO (mm)	($1.2)	($3.1)	$8.7	$82.6
FFOPS (basic)	($0.02)	($0.04)	$0.10	$0.92
FFOPS (diluted)	**($0.02)**	**($0.04)**	**$0.10**	**$0.92**
EPS Fully Diluted	**($0.11)**	**($0.10)**	**$0.06**	**$0.79**
Net Debt (Surplus)	$0.0	($11.0)	($9.1)	($49.7)
D/EBITDA - trailing	NA	3.5x	NA	NA
D/EBITDA - forward	0.0x	NA	NA	
Borrowing capacity	NA	NA		

CAPITAL PROGRAM	F2021A	F2022A	F2023E	F2024E
Total Capex (mm)	$4	$16	$32	$42
% of cash flow	n.a.	-507%	368%	51%

VALUATION		F2023E	F2024E
EV/EBITDA		neg	0.6x
P/FFO (diluted)		11.0x	1.2x
P/E		19.1x	1.4x
EV/production ($/mcf/d)		$320,128	$28,285
Price/ PDP NAV	-	-	-
Price/ 1P NAV	-	-	-
Price/ 2P NAV	-	-	-

NETBACKS ($/mcfe)	F2021A	F2022A	F2023E	F2024E
Revenue	-	-	$152.98	$161.39
Royalties	-	-	($13.26)	($15.13)
Operating & Trans	-	-	($14.10)	($14.10)
Operating Netback	-	-	$125.62	$132.17
G&A	-	-	($39.23)	($6.05)
Interest	-	-	$0.00	$0.00
Other	-	-	($4.74)	($5.76)
Cash Flow Netback	-	-	**$81.64**	**$120.36**
DD&A	-	-	($71.13)	($50.00)
Stock based compensation	-	-	($25.39)	($2.91)
Other non-cash	-	-	$0.83	$0.00
Deferred tax	-	-	$0.00	($5.76)
Earnings Netback	-	-	**$47.17**	**$103.70**

RESERVES (mmcf)	F2021A	F2022A	F2023E
PDP	-	-	-
Proved (1P)	-	-	-
Proved + Probable (2P)	-	-	-
PDP NAV ($/Share)	-	-	-
1P NAV ($/Share)	-	-	-
2P NAV ($/Share)	-	-	-

F2023 QRTLY FORECASTS	Q1A	Q2A	Q3E	Q4E
NGL (bbl/d)	-	-	-	-
Nat Gas (mmcf/d)	-	-	-	1.0
Helium (mcf/d)	-	-	12	150
Revenue ($MM)	$0.2	$0.4	$1.5	$14.3
EBITDA ($MM)	-$0.9	-$1.0	$0.3	$10.8
FD EPS	-$0.03	-$0.02	$0.00	$0.10

MANAGEMENT & BOARD	
Robert Rohlfing	CEO & Director
Don Mosher	President & Director
Dr. James Cronoble	VP, Exploration & Director
Jessica Davey	VP, Land & Director
Marta Wasko	VP, Geology
James Hayes	VP, Engineering
Valorie Farley	CFO
Dr. Kelli Ward	Director
Jenaya Rohlfing	Director
Weldon Stout	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 and developing helium may require a combination of debt and equity capital. Our models incorporate fluctuations in net debt and while we may forecast additional equity, there is no certainty that the company can raise equity capital or that any future 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.

- **Country Risk** – A change in government may lead to policies or laws that are detrimental to the industry or company, which may impact results. As the United States and Canada are democratically elected governments where the rule of law presides, this risk is muted.

- **Weather and Seasonal Factors** – Extreme weather conditions may impact operations that may then 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 resource or reserve revision perspective. Past performance may not be indicative of future execution.

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As of May 31, 2023	#Stocks	Distribution
BUY	70	76.1%
Speculative Buy	16	17.4%
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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