

Desert Mountain Energy Corp. (DME-V)

The Time Has Arrived

It has been a year since Desert Mountain closed the acquisition of the West Pecos field in New Mexico and the company is now in a position to begin producing helium. The plant that was moved from Arizona and has undergone many modifications to properly process the raw gas at West Pecos and is currently separating the helium from the gas stream. DME expects this start-up process to carry-on for 60-90 days. The goal is to reach a gaseous helium purity of 99.9995% and to sell to local end-users.

Throughput of raw gas at the plant was started at 960 mcf/d. Assuming a 0.5% He content from the producing wells, DME should be producing approximately 5 mcf/d of helium. With a focus on adding wells in areas of the field with higher helium contents, we believe it is not too far of a stretch to expect the He percentage to rise to 0.8% or so of the raw gas stream. Additionally, with the volumes expected to increase over the course of 2024, we model a raw gas rate cresting 2.5 mmcf/d later this year or early into 2025. At that time, the company's helium production could reach 20-25 mcf/d. With the natural gas contract that was inherited with the acquisition now concluded, DME is able to sell its natural gas under much more favorable terms. In conjunction with the rising raw gas volumes will be an increase in natural gas production, likely to between 2.0-2.5 mmcf/d with natural gas liquids also being separated from the raw gas stream. All of this combined should allow the company to reach the \$5 million of annualized EBITDA in early 2025.

The helium market continues to be fluid as the recent proclamation that Helium Shortage 2.0 is over was met this week with a ban on Russian helium into the EU. While the fallout of this latest restriction on Russia, which produces approximately 12%-13% of global helium, is still to be determined, it seems that NA prices have plateaued and possibly receded a bit. Ergo, we have reduced our realized price assumption for DME to US\$700/mcf (down US\$50/mcf).

Conclusion & Recommendation: We have made revisions to our forecasts to better reflect the timing and volumes of various revenue streams (i.e.: nat gas, ngl, helium,) and now model revenue of \$2.3 million in F2024 and \$12.7 million in F2025. EBITDA should turn positive in FQ4/24 (July-Sept) and deliver \$5.6 million in F2025. We have trimmed our price target to \$0.65, which tracks to a 4.5x EV/EBITDA multiple of our H2/F25 forecasts. We maintain our Spec Buy rating.

Operational Update

Spec Buy (unch) **\$0.65 (was \$0.70)**

| | |
|-----------------------|-----------------|
| Recent/Closing Price | \$0.31 |
| 12-month Target Price | \$0.65 |
| Potential Return | 110% |
| 52 Week Price Range | \$0.22 - \$1.17 |

Estimates

| YE: Sept 30 | FY23A | FY24E | FY25E |
|-----------------------|----------|----------|--------|
| Nat Gas prod (mmcf/d) | 0.2 | 1.5 | 2.4 |
| Helium prod (mcf/d) | 0 | 2 | 19 |
| Revenue (\$M) | \$1.0 | \$2.3 | \$12.7 |
| EBITDA (\$M) | (\$4.4) | (\$2.8) | \$5.6 |
| EPS (FD) | (\$0.14) | (\$0.03) | \$0.04 |

Valuation

| YE: Sept 30 | FY24E | FY25E |
|-------------|----------|-------------|
| EV/EBITDA | -9.0x | 4.4x |
| EV/MCFPD | \$16,286 | \$1,294,856 |
| P/E | neg | 7.3x |

Stock Data

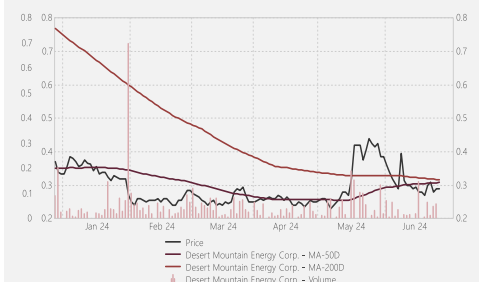
| | |
|------------------------------|---------|
| Shares Outstanding | |
| Basic | 90.3 |
| Fully Diluted | 109.0 |
| Market Cap (C\$M) | |
| Basic | \$28.0 |
| Fully Diluted | \$33.8 |
| FQ1/24 Net Debt/(Cash) (\$M) | \$(8.9) |
| Enterprise Value (\$M) | \$19.1 |

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: \$0.65

| SHARE INFORMATION | | | | | VALUATION | | | | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|--------------------------|----------------------------|-------------------|-----------------|-------------------|
| | | | | | F2023A | F2024E | F2025E | | |
| Price | | | | \$0.31 | EV/EBITDA | | -9.0x | | 4.4x |
| Shares O/S – basic (mm) | | | | 90.3 | P/FFO (diluted) | | -12.7x | | 5.0x |
| Shares O/S – float (mm) | | | | 60.8 | P/E | | neg | | 7.3x |
| Shares O/S – f.d. (mm) | | | | 109.0 | EV/production (\$/mcf/d) | | \$16,286 | | \$1,294,856 |
| Market cap (\$mm) | | | | \$28 | Price/ PDP NAV | | 186% | | |
| Enterprise value (\$mm) | | | | \$19 | Price/ 1P NAV | | 147% | | |
| 52-week range | | | | \$0.22 - \$1.17 | Price/ 2P NAV | | 146% | | |
| Total projected return | | | | 110% | | | | | |
| COMMODITY PRICES | | | | | NETBACKS (\$/mcf) | | | | |
| | F2022A | F2023A | F2024E | F2025E | | F2022A | F2023A | F2024E | F2025E |
| WTI (US\$/bbl) | \$93.08 | \$78.56 | \$80.57 | \$88.00 | Revenue | - | \$18.31 | \$4.13 | \$1,848.57 |
| HHub gas (US\$/mcf) | \$6.23 | \$3.47 | \$2.53 | \$3.62 | Royalties | - | (\$0.37) | (\$0.29) | (\$211.95) |
| Helium (US\$/mcf) | - | - | \$700 | \$700 | Operating & Trans | - | <u>(\$13.46)</u> | <u>(\$1.09)</u> | <u>(\$161.73)</u> |
| Fx (C\$/US\$) | \$0.78 | \$0.74 | \$0.74 | \$0.75 | Operating Netback | - | \$4.48 | \$2.75 | \$1,474.89 |
| | | | | | G&A | - | (\$81.83) | (\$7.67) | (\$667.73) |
| PRODUCTION | | | | | | | | | |
| | F2022A | F2023A | F2024E | F2025E | Interest | - | \$4.06 | \$0.75 | \$29.03 |
| NGL (bbl/d) | | - | 9 | 60 | Other | - | <u>\$5.37</u> | <u>\$0.25</u> | <u>(\$31.10)</u> |
| Natural Gas (mmcf/d) | | 0.2 | 1.5 | 2.4 | Cash Flow Netback | - | (\$67.92) | (\$3.92) | \$805.09 |
| | | | | | DD&A | - | #DIV/0! | (\$580.46) | (\$40.00) |
| Raw Gas (mmcf/d) | | 0.0 | 0.4 | 2.9 | Stock based compensation | - | (\$32.08) | (\$1.00) | (\$174.19) |
| Avg concentration | | n/a | 0.5% | 0.7% | Other non-cash | - | (\$97.53) | \$0.15 | \$0.00 |
| Helium (mcf/d) | - | 0 | 2 | 19 | Deferred tax | - | <u>\$0.00</u> | <u>\$0.12</u> | <u>(\$31.10)</u> |
| He/MM Basic Shares | - | 0.0 | 0.0 | 0.2 | Earnings Netback | - | (\$203.54) | (\$5.36) | \$559.80 |
| Production Growth | - | - | - | 901% | RESERVES (mmcf) | | | | |
| Prod Growth Per Share | - | - | - | 901% | | F2022A | F2023A | | |
| FINANCIAL (\$mm) | | | | | | | | | |
| | F2022A | F2023A | F2024E | F2025E | PDP | | - | | 3,467 |
| Revenue | 0.2 | 1.0 | 2.3 | 12.7 | Proved (1P) | | - | | 12,214 |
| Royalties | 0.0 | (0.0) | (0.2) | (1.5) | Proved + Probable (2P) | | - | | 13,460 |
| Operating | (0.2) | (0.8) | (0.6) | (1.1) | PDP NAV (\$/Share) | | - | | \$0.17 |
| G&A | <u>(3.2)</u> | <u>(4.7)</u> | <u>(4.3)</u> | <u>(4.6)</u> | 1P NAV (\$/Share) | | - | | \$0.21 |
| EBITDA | (3.1) | (4.4) | (2.8) | 5.6 | 2P NAV (\$/Share) | | - | | \$0.21 |
| Interest | 0.0 | 0.2 | 0.4 | 0.2 | F2024 QRTL FORECASTS | | | | |
| DD&A | (0.2) | (0.3) | (0.4) | (0.3) | | Q1A | Q2A | Q3E | Q4E |
| Taxes | 0.0 | 0.0 | 0.1 | (0.4) | NGL (bbl/d) | - | - | 5 | 30 |
| Other | <u>(4.3)</u> | <u>(7.1)</u> | <u>(0.4)</u> | <u>(1.2)</u> | Nat Gas (mmcf/d) | 1.1 | 1.4 | 1.5 | 1.9 |
| Net Income | (\$7.5) | (\$11.6) | (\$3.0) | \$3.9 | Helium (mcf/d) | - | - | - | 8 |
| FFO (mm) | (\$3.1) | (\$3.9) | (\$2.2) | \$5.5 | Revenue (\$MM) | \$0.5 | \$0.0 | \$0.3 | \$1.4 |
| FFOPS (basic) | (\$0.04) | (\$0.05) | (\$0.02) | \$0.06 | EBITDA (\$MM) | -\$0.7 | -\$1.2 | -\$1.0 | \$0.1 |
| FFOPS (diluted) | (\$0.04) | (\$0.05) | (\$0.02) | \$0.06 | FD EPS | -\$0.01 | -\$0.01 | -\$0.01 | \$0.00 |
| EPS Fully Diluted | (\$0.10) | (\$0.14) | (\$0.03) | \$0.04 | MANAGEMENT & BOARD | | | | |
| Net Debt (Surplus) | (\$11.0) | (\$12.6) | (\$3.0) | (\$3.5) | Robert Rohlfing | CEO & Director | | | |
| D/EBITDA - trailing | 3.5x | 3.3x | 1.4x | NA | Don Mosher | President & Director | | | |
| D/EBITDA - forward | 5.0x | NA | NA | | Dr. James Cronoble | VP, Exploration & Director | | | |
| Borrowing capacity | NA | NA | NA | | Marta Wasko | VP, Geology | | | |
| | | | | | James Hayes | VP, Engineering | | | |
| | | | | | Valorie Farley | CFO | | | |
| | | | | | Dr. Kelli Ward | Director | | | |
| | | | | | Jenaya Rohlfing | Director | | | |
| | | | | | Michael O'Shea | Director | | | |
| | | | | | Weldon Stout | Director | | | |
| CAPITAL PROGRAM | | | | | | | | | |
| | F2022A | F2023A | F2024E | F2025E | | | | | |
| Total Capex (mm) | \$18 | \$17 | \$7 | \$5 | | | | | |
| % of cash flow | -561% | -427% | -338% | 90% | | | | | |

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 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, 2024 | #Stocks | Distribution |
|--------------------|---------|--------------|
| BUY | 58 | 60.4% |
| Speculative Buy | 16 | 16.7% |
| Hold | 0 | 0.0% |
| Sell | 0 | 0.0% |
| Under Review | 21 | 21.9% |
| Tender | 1 | 1.0% |
| Total | 96 | 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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