

## Desert Mountain Energy Corp. (DME-V)

### A Return to AZ May Be in the Cards

Desert Mountain provided an update on recent advancements at both its New Mexico and Arizona assets. While the progress in New Mexico has been slow due to facility issues that should now be behind it, there appears to be a light at the end of the tunnel for DME in Arizona.

**Value in AZ may be brought back into the fold.** Ever since DME moved its helium processing facility from Arizona to New Mexico in summer 2023, it has been working in the background with regulatory agencies and lawmakers to allow helium production in Arizona. We understand legislation to that effect is close as there is bipartisan support a bill in that regard. Although a law supporting helium production is still months away, DME has been in discussions with Beam Earth and Hethos Ltd. For the potential to build a hydrogen powered plant similar in design to DME's original plant in order to process helium and hydrogen at the McCauley field. Recall that DME has drilled 8 wells at McCauley with helium concentrations of 3%-4%.

**1<sup>st</sup> helium sales from New Mexico expected this quarter.** DME has experienced numerous delays in getting its helium processing plant operational at its West Pecos field, but those issues should be behind the company now. The 1<sup>st</sup> sale of helium is expected in February with a truckload of helium sales coming every 18-21 days thereafter. DME is also actively negotiating a new natural gas contract for its West Pecos production, which would presumably allow for higher production of natural gas and helium.

**One-time revenue adjustment hits FQ4/24 results.** The company's FQ4/24 (Sept) results were behind our expectations due to a one-time adjustment requested by the new auditors involving a change from the previous owners to DME that resulted in negative net revenue for the quarter. DME ended FYE24 with \$1.3 million of working capital surplus, down from a \$12.6 million surplus a year prior as the \$3.9 million cost to relocate and start the plant was materially higher than expected. We expect minimal capex over the next couple of quarters now that the plant is operational. A potential sale of its solar assets in Arizona for US\$5-US\$7 million would shore up the balance sheet. FYE24 reserves showed a 14% increase in reserves to 15.4 bcf, but the reserves value was little changed due to a lower gas price assumption. DME's 2p NAV was down to \$0.08/sh due almost entirely to the reduction in working capital surplus.

**Conclusion & Recommendation:** We are encouraged to see progress in Arizona regarding He production as we contend that area holds much higher potential for DME. Although timing for getting back to operations in AZ is uncertain, it could be with minimal capital outlay for DME if Beam Earth can secure funding for a plant. Under that scenario, there is massive upside to our forecasts. For now, our estimates are based on the New Mexico operations. We have trimmed our price target to \$0.50, which tracks to a 7.5x EV/EBITDA multiple of our F2026 forecasts. We maintain our Spec Buy rating.

### Operational Update

**Spec Buy (unch)** **\$0.50 (was \$0.60)**

Recent/Closing Price	\$0.27
12-month Target Price	\$0.50
Potential Return	85%
52 Week Price Range	\$0.22 - \$0.47

#### Estimates

YE: Sept 30	FY24A	FY25E	FY26E
Nat Gas prod (mcf/d)	1.4	1.7	2.8
Helium prod (mcf/d)	0	11	24
Revenue (\$M)	\$0.9	\$4.9	\$12.0
EBITDA (\$M)	(\$3.6)	(\$0.5)	\$5.7
EPS (FD)	(\$0.05)	(\$0.02)	\$0.04

#### Valuation

YE: Sept 30	FY25E	FY26E
EV/EBITDA	-49.8x	4.2x
EV/MCFPD	\$2,397,867	\$1,010,700
P/E	neg	0.0x

#### Stock Data

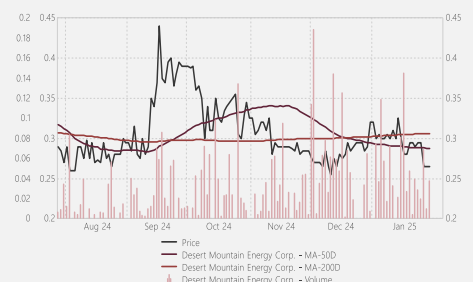
Shares Outstanding	
Basic	90.3
Fully Diluted	113.4
Market Cap (C\$M)	
Basic	\$24.4
Fully Diluted	\$30.6
FQ4/24 Net Debt/(Cash) (\$M)	\$(1.3)
Enterprise Value (\$M)	\$23.1

#### 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: \$0.50**

SHARE INFORMATION					VALUATION				
					F2024A	F2025E	F2026E		
Price				\$0.27	EV/EBITDA		-49.0x		4.2x
Shares O/S – basic (mm)				90.3	P/FFO (diluted)		-74.3x		4.2x
Shares O/S – float (mm)				60.8	P/E		neg		6.7x
Shares O/S – f.d. (mm)				113.4	EV/production (\$/mcf/d)		\$14,953		\$8,140
Market cap (\$mm)				\$24	Price/ PDP NAV		569%		
Enterprise value (\$mm)				\$23	Price/ 1P NAV		348%		
52-week range				\$0.22 - \$0.47	Price/ 2P NAV		350%		
<b>Total projected return</b>				<b>89%</b>					

COMMODITY PRICES					NETBACKS (\$/mcf)				
	F2023A	F2024A	F2025E	F2026E		F2023A	F2024A	F2025E	F2026E
WTI (US\$/bbl)	\$78.56	\$77.81	\$73.76	\$80.00	Revenue	\$18.31	\$1.70	\$7.86	\$11.28
HHub gas (US\$/mcf)	\$3.47	\$2.40	\$3.39	\$3.56	Royalties	(\$0.37)	\$0.00	(\$0.52)	(\$0.30)
Helium (US\$/mcf)	-	\$600	\$500	\$550	Operating & Trans	<u>(\$13.46)</u>	<u>(\$2.52)</u>	<u>(\$1.47)</u>	<u>(\$1.41)</u>
Fx (C\$/US\$)	\$0.74	\$0.73	\$0.73	\$0.75	Operating Netback	\$4.48	(\$0.82)	\$5.87	\$9.57
					G&A	(\$81.83)	(\$6.24)	(\$6.71)	(\$4.22)
					Interest	\$4.06	\$1.00	\$0.32	\$0.12
					Other	<u>\$5.37</u>	<u>(\$0.36)</u>	<u>\$0.00</u>	<u>\$0.00</u>
					<b>Cash Flow Netback</b>	<b>(\$67.92)</b>	<b>(\$6.42)</b>	<b>(\$0.52)</b>	<b>\$5.47</b>
					DD&A	-	(\$0.92)	(\$95.37)	(\$90.00)
					Stock based compensation	(\$32.08)	(\$2.00)	(\$1.92)	(\$1.12)
					Other non-cash	(\$97.53)	\$0.04	\$0.00	\$0.00
					Deferred tax	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>(\$0.18)</u>
					<b>Earnings Netback</b>	<b>(\$203.54)</b>	<b>(\$9.29)</b>	<b>(\$3.04)</b>	<b>\$3.43</b>

PRODUCTION					RESERVES (mmcf)			
	F2023A	F2024A	F2025E	F2026E		F2022A	F2023A	F2024A
NGL (bbl/d)	-	0	9	25	PDP	-	3,467	5,106
Natural Gas (mmcf/d)	0.2	1.4	1.7	2.8	Proved (1P)	-	12,214	14,117
					Proved + Probable (2P)	-	13,460	15,370
Nat Gas (mmcf/d)	0.2	1.4	1.7	2.8	PDP NAV (\$/Share)	-	\$0.17	\$0.05
Avg concentration	n/a	n/a	0.7%	0.8%	1P NAV (\$/Share)	-	\$0.21	\$0.08
<b>Helium (mcf/d)</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>24</b>	2P NAV (\$/Share)	-	\$0.21	\$0.08
He/MM Basic Shares	1.9	15.3	19.0	32.4				
Production Growth	-	782%	20%	67%				
Prod Growth Per Share	-	-	24%	71%				

FINANCIAL (\$mm)					F2024 QRTL FORECASTS				
	F2023A	F2024A	F2025E	F2026E		Q1A	Q2A	Q3A	Q4E
Revenue	1.0	0.9	4.9	12.0	NGL (bbl/d)	-	-	-	-
Royalties	(0.0)	0.0	(0.3)	(0.3)	Nat Gas (mmcf/d)	1.1	1.4	1.5	1.5
Operating	(0.8)	(1.3)	(0.9)	(1.5)	Helium (mcf/d)	-	-	-	-
G&A	<u>(4.7)</u>	<u>(3.1)</u>	<u>(4.2)</u>	<u>(4.5)</u>	Revenue (\$MM)	\$0.6	\$0.2	\$0.2	-\$0.1
<b>EBITDA</b>	<b>(4.4)</b>	<b>(3.6)</b>	<b>(0.5)</b>	<b>5.7</b>	EBITDA (\$MM)	-\$0.6	-\$1.2	-\$0.9	-\$0.8
Interest	0.2	0.5	0.2	0.1	FD EPS	-\$0.01	-\$0.01	-\$0.02	-\$0.01
DD&A	(0.3)	(0.5)	(0.4)	(0.8)					
Taxes	0.0	0.0	0.0	(0.2)					
Other	<u>(7.1)</u>	<u>(1.2)</u>	<u>(1.2)</u>	<u>(1.2)</u>					
<b>Net Income</b>	<b>(\$11.6)</b>	<b>(\$4.7)</b>	<b>(\$1.9)</b>	<b>\$3.7</b>					
FFO (mm)	(\$3.9)	(\$3.5)	(\$0.3)	\$5.8					
FFOPS (basic)	(\$0.05)	(\$0.04)	(\$0.00)	\$0.06					
<b>FFOPS (diluted)</b>	<b>(\$0.05)</b>	<b>(\$0.04)</b>	<b>(\$0.00)</b>	<b>\$0.06</b>					
<b>EPS Fully Diluted</b>	<b>(\$0.14)</b>	<b>(\$0.05)</b>	<b>(\$0.02)</b>	<b>\$0.04</b>					
Net Debt (Surplus)	(\$12.6)	(\$1.3)	\$1.7	(\$0.1)					
D/EBITDA - trailing	3.3x	0.4x	NA	NA					
D/EBITDA - forward	38.9x	NA							
Borrowing capacity	NA	NA							

CAPITAL PROGRAM					MANAGEMENT & BOARD	
	F2023A	F2024A	F2025E	F2026E		
Total Capex (mm)	\$17	\$8	\$3	\$4	Robert Rohlfing	CEO & Director
% of cash flow	-427%	-221%	-834%	68%	Don Mosher	President & Director
					Dr. James Cronoble	VP, Exploration & Director
					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

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 December 31, 2024	#Stocks	Distribution
BUY	68	78.2%
Speculative Buy	14	16.1%
Hold	0	0.0%
Sell	0	0.0%
Under Review	5	5.7%
Tender	0	0.0%
<b>Total</b>	<b>87</b>	<b>100%</b>

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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