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Desert Mountain Energy Corp. (DME-V)

McCauley Project Put on Hold; Plant Headed for New Mexico

Investors will be surprised to learn that Desert Mountain announced it plans to move its McCauley Processing Facility to its newly acquired West Pecos Abo gas field in New Mexico, thereby putting the McCauley helium project on hold. This is a major shift in near term focus and the resulting forecast revisions are massive.

So, why is DME making this change? It is due to operation challenges that stem from permitting delays from the Arizona regulatory authorities that would result in significant uncertainty of operational runtime at McCauley. A delay in getting batteries for the solar array means DME would need to run its plant with CNG, which bring air quality restrictions into play. In addition, well classification limits DME's ability to enhance raw gas production from the wells. We expect DME to re-start its McCauley project when the approvals and permits are received from Arizona authorities, but the timing of that is uncertain.

Moving the plant to the 76,500 acre West Pecos Abo gas field means DME can start to generate revenue in the near term from the existing natural gas production and also from helium and condensate that are stripped from the raw gas stream. Initially, DME expects the helium concentration to be 0.5% from a raw gas stream that will include 1.5 mmcf/d of methane and ~ 50 bbl/d of condensate once the plant and field compression are added. Thus, helium volumes are likely to start at about 7-8 mcf/d. Natural gas is sold under an existing contract for US$3.68/mcf (subject to a 25% compression fee). Increasing the He % is very possible once DME swabs some of the wells that appear to have higher concentrations of helium.

We have removed contribution from the McCauley project in our forecasts, which means DME will have very minimal production in F2023 and a much reduced amount of helium production in F2024 (see Exhibit 1). Our EBITDA forecast for F2024 falls from $86.5 million to $16.1 million, although we expect the company to continue to have a net surplus over the forecast period as capex will be lower as no helium wells are to be drilled in AZ for now.

Conclusion & Recommendation: DME is making a major shift in its near-term plans that result in a large downward revision to our forecasts. That said, the McCauley project still has the same potential (i.e.: 150-250 mcf/d of helium production) that we expect the company to revisit once appropriate permits are received. For now, we have lowered our price target to $0.75, which tracks to an unchanged 3.5x EV/EBITDA multiple of our F2024 forecasts. With the potential to resurrect the McCauley project, we maintain our Spec Buy rating.

McCauley Plant Move

Spec Buy (unch) — **$0.75 (was $3.85)**

Recent/Closing Price	$0.35
12-month Target Price	$0.75
Potential Return	114%
52 Week Price Range	$0.33 - $3.35

Estimates

YE: Sept 30	FY22A	FY23E	FY24E
Nat Gas prod (mmcf/d)	0.0	0.1	1.9
Helium prod (mcf/d)	0	0	43
Revenue ($M)	$0.2	$1.7	$22.7
EBITDA ($M)	($3.1)	($2.7)	$16.1
EPS (FD)	($0.10)	($0.06)	$0.13

Valuation

YE: Sept 30	FY23E	FY24E
EV/EBITDA	neg	1.4x
EV/MCFPD	$310,349	$9,924
P/E	-5.4x	2.6x

Stock Data

Shares Outstanding	
Basic	90.3
Fully Diluted	111.8
Market Cap (C$M)	
Basic	$31.6
Fully Diluted	$39.1
FQ2/23 Net Debt/(Cash) ($M)	$(20.8)
Enterprise Value ($M)	$10.8

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

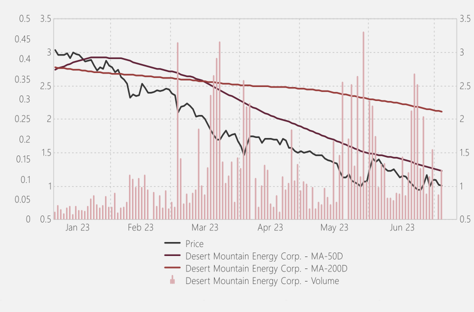

Exhibit 1: Forecast Revisions

	F2023E			F2024E		
	Previous	New	% chg	Previous	New	% chg
Helium (mcf/d)	41	0	-99%	300	43	-86%
Natural gas (mmcf/d)	0.3	0.1	-83%	1.5	1.9	25%
NGL (bbl/d)	0	4	nmf	13	49	275%
Revenue	16.3	1.7	-89%	110.8	22.7	-79%
EBITDA	9.2	(2.6)	nmf	86.5	16.1	-81%
FFO	8.7	(2.6)	nmf	82.7	15.4	-81%
Net income	5.0	(5.4)	nmf	71.2	12.0	-83%
Capital expenditures	32.1	22.6	-30%	42.0	13.0	-69%
Net debt / (Surplus)	(9.1)	(7.3)	nmf	(49.8)	(9.8)	nmf
Diluted FFOPS	**$0.10**	**($0.03)**	**nmf**	**$0.92**	**$0.17**	**-81%**
Diluted EPS	**$0.06**	**($0.06)**	**nmf**	**$0.79**	**$0.13**	**-83%**

Source: Company reports, Beacon Securities

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Operating & Financial Summary

DESERT MOUNTAIN ENERGY

Recommendation: SPEC BUY **Target price: $0.75**

SHARE INFORMATION	
Price	$0.35
Shares O/S – basic (mm)	90.3
Shares O/S – float (mm)	60.8
Shares O/S – f.d. (mm)	111.8
Market cap ($mm)	$32
Enterprise value ($mm)	$11
52-week range	$0.33 - $3.35
Total projected return	**114%**

COMMODITY PRICES	F2021A	F2022A	F2023E	F2024E
WTI (US$/bbl)	$59.43	$93.08	$78.00	$88.74
HHub gas (US$/mcf)	$3.20	$6.23	$3.56	$4.37
Helium (US$/mcf)	-	-	$750	$750
Fx (C$/US$)	$0.79	$0.78	$0.74	$0.76

PRODUCTION	F2021A	F2022A	F2023E	F2024E
NGL (bbl/d)			2.5	49
Natural Gas (mmcf/d)			0.1	1.9
Raw Gas (mmcf/d)			0.1	3.2
Avg concentration			0.5%	1.3%
Helium (mcf/d)	**-**	**-**	**0**	**43**
He/MM Basic Shares	-	-	0.0	0.5
Production Growth	-	-	-	16922%
Prod Growth Per Share	-	-	-	15791%

FINANCIAL ($mm)	F2021A	F2022A	F2023E	F2024E
Revenue	0.0	0.2	1.7	22.7
Royalties	0.0	0.0	(0.0)	(1.4)
Operating	0.0	(0.2)	(0.3)	(1.2)
G&A	(1.2)	(3.2)	(3.9)	(4.2)
EBITDA	**(1.2)**	**(3.1)**	**(2.7)**	**16.1**
Interest	0.0	0.0	0.0	0.0
DD&A	(0.0)	(0.2)	(0.2)	(0.8)
Taxes	0.0	0.0	0.0	(1.3)
Other	(5.7)	(4.3)	(2.7)	(2.0)
Net Income	**($6.9)**	**($7.5)**	**($5.4)**	**$11.9**
FFO (mm)	($1.2)	($3.1)	($2.6)	$15.4
FFOPS (basic)	($0.02)	($0.04)	($0.03)	$0.17
FFOPS (diluted)	**($0.02)**	**($0.04)**	**($0.03)**	**$0.17**
EPS Fully Diluted	**($0.11)**	**($0.10)**	**($0.06)**	**$0.13**
Net Debt (Surplus)	$0.0	($11.0)	($7.3)	($9.7)
D/EBITDA - trailing	NA	3.5x	2.7x	NA
D/EBITDA - forward	0.0x	NA	NA	
Borrowing capacity	NA	NA		

CAPITAL PROGRAM	F2021A	F2022A	F2023E	F2024E
Total Capex (mm)	$4	$16	$23	$13
% of cash flow	n.a.	-507%	-856%	84%

VALUATION		F2023E	F2024E
EV/EBITDA		neg	1.4x
P/FFO (diluted)		-11.2x	2.1x
P/E		neg	2.6x
EV/production ($/mcf/d)		$310,349	$9,924
Price/ PDP NAV	-	-	-
Price/ 1P NAV	-	-	-
Price/ 2P NAV	-	-	-

NETBACKS ($/mcfe)	F2021A	F2022A	F2023E	F2024E
Revenue	-	-	$58.20	$28.09
Royalties	-	-	($1.74)	($1.68)
Operating & Trans	-	-	($11.25)	($1.45)
Operating Netback	-	-	$45.22	$24.97
G&A	-	-	($137.86)	($5.13)
Interest	-	-	$0.00	$0.00
Other	-	-	$0.27	($0.82)
Cash Flow Netback	-	-	**($92.36)**	**$19.02**
DD&A	-	-	($1,863.76)	($50.00)
Stock based compensation	-	-	($94.85)	($2.47)
Other non-cash	-	-	$3.10	$0.00
Deferred tax	-	-	$0.00	($0.82)
Earnings Netback	-	-	**($190.10)**	**$14.76**

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)	-	-	-	10.0
Nat Gas (mmcf/d)	-	-	-	0.3
Helium (mcf/d)	-	-	0	1
Revenue ($MM)	$0.2	$0.4	$0.4	$0.7
EBITDA ($MM)	-$0.9	-$1.0	-$0.5	-$0.3
FD EPS	-$0.03	-$0.02	-$0.01	-$0.01

MANAGEMENT & BOARD	
Robert Rohlfing	CEO & Director
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
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 June 30, 2023	#Stocks	Distribution
BUY	72	76.6%
Speculative Buy	16	17.0%
Hold	1	1.1%
Sell	0	0.0%
Under Review	4	4.3%
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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