

Action Summary – 17 January 2025

Analyst Theodore R. O'Neill is **solid financial footing going into the new year – Reiterate our Buy rating and \$2PT**

- **Solidifying its capital base with \$10MM.** On January 7, FOMI announced it had entered into an equity financing agreement with GHS Investments, LLC. Under the terms of the agreement, the company has the right, but not the obligation, to sell up to \$10.0 million worth of common stock over a 24-month period. We believe it allows the company to aggressively pursue O&G mineral rights and puts its financials on a solid foundation.
- **Expecting Q to be filed shortly.** The company is on a 4/30 Fiscal year and recently filed an NT 10-Q on December 17 for its most recent 10-Q. This was due to a recent change in the company's accounting structure. Once this is completed, however, the process should proceed more efficiently. FOMI is subject to O&G accounting that really needed an improved accounting team, which it has now.
- **A new administration in Washington could be a real plus.** With the new administration kicking off next week, we expect O&G stocks to benefit.
- **Shares appear to be priced significantly below absolute and comparative metrics.** The shares are selling at a discount to both our discounted price target model and its peers.

1/16 Closing price: \$0.07	Market cap: \$7 million	2026 Market cap/sales: 0.78x	2026 EV/Sales: 0.76
Shares outstanding: 99 million	Insider ownership: ~58%	Avg. trading volume: >10,000	Dividend/Yield: NA/NA

GAAP estimates (EPS in dollars – Revenue in \$000)

Period	EPS	Revenue	Op. Margin
2024A	<u>(\$0.03)</u>	<u>\$1.0</u>	<u>NME</u>
1Q25A	\$0.00	\$36	
2Q25E	(\$0.01)	\$100	
2Q25E	(\$0.00)	\$400	
4Q25E	<u>\$0.00</u>	<u>\$1,000</u>	
FY25E	<u>(\$0.01)</u>	<u>\$1,536</u>	<u>NME</u>
1Q26E	\$0.00	\$1,200	
2Q26E	\$0.00	\$1,600	
3Q26E	\$0.01	\$2,200	
4Q26E	<u>\$0.01</u>	<u>\$2,600</u>	
FY26E	<u>\$0.02</u>	<u>\$7,600</u>	<u>21.7%</u>

Note: Numbers may not add due to rounding. See our full model in the back of this report.

Cash balance (\$000)

• 2023A	• \$27
• 2024A	• \$4
• 2025E	• \$419
• 2026E	• \$2,647

Short term debt (\$000)

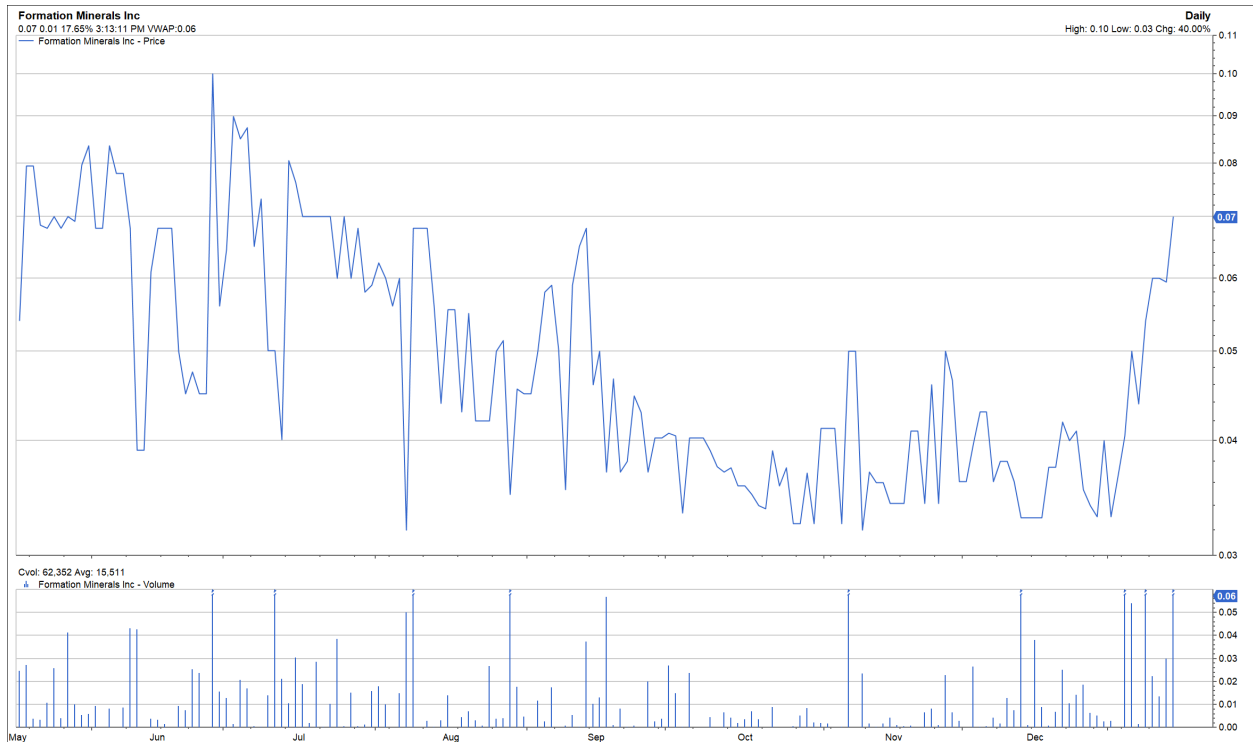
• 2023A	• \$995
• 2024A	• \$118
• 2025E	• \$135
• 2026E	• \$150

Risks/Valuation

- Risks include competition, brand development, lack of near-term earnings
- Our \$2.00 target is derived using a discounted future earnings model

Company description: Formed in early 2024, Formation Minerals Inc. is an emerging O&G mineral and royalty energy company based in Frisco, Texas. It is involved in acquisitions and development of lower-risk, oil and gas mineral as well as royalty interests, and holds a select non-operated working interest within the major oil and gas operations in the U.S.

Figure 1 – Formation Minerals - Trading snapshot since inception May 16, 2024



Source: FactSet

Investment Thesis

Formation Minerals, Inc. is an emerging O&G mineral and royalty energy company based in Texas. It is involved in acquisitions and development of lower-risk, oil and gas mineral as well as royalty interests, and holds a select non-operated working interest within the major oil and gas operations in the U.S. It acquires royalties, minerals, and overriding royalties across the major basins of the US, with current holdings in Colorado, Louisiana, Ohio, Oklahoma, Texas, West Virginia, and Wyoming.

Growth strategy. Its growth strategy leverages the vast knowledge of its experts in the sector to grow the company and utilize their unique knowledge and abilities along with the technical and scientific expertise of the world-class E&P companies operating the properties.

Rising prices and demand for oil and natural gas. We believe oil and natural gas prices will rise for the next few years, benefitting FOMI's current holdings by increasing revenue and output as drilling expands. In addition to increasing the value of its existing holdings, as prices rise, so will the market for those wishing to sell their existing rights. Indeed, these multiple macro factors are merging to create a favorable environment for the energy sector in general and FOMI in particular.

Natural gas. There is a massive demand for electricity to power data centers. Coal is dead (in the U.S. but not in Asia) and nuclear requires years of permitting. Exxon Mobil announced last week that it would build



natural gas power plants that would utilize its carbon capture technology to meet the demand for data centers. It also announced a significant investment in LNG. We believe that under the new administration, LNG terminals will be advanced again, and demand will come from overseas to replace demand for Russian natural gas. This is all positive for natural gas.

Oil. We believe the new administration will reduce or eliminate EV mandates and this will eliminate downward pressure on oil prices. We also believe it will loosen regulations that will the industry financially.

Shares appear to be priced significantly below absolute and comparative metrics. The shares are selling at a discount to both our discounted price target model and its peers.

Valuation Methodology

We believe FOMI is undervalued, and we support that belief with a series of valuation techniques. We use two different techniques, below. To determine our price target, we use a discounted future earnings model, and we validate that result with a comparison to peers, i.e.:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Valuation relative to peers (see Figure 3)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$2.00 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings discounted at 10%, which we believe is large enough to compensate for the risk. We assume approximately 30% EPS near-term growth for earnings which steps down to GDP after 5-7 years. Our valuation model is shown in Exhibit 2 below. Note, this model understates future new products and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$1.67, which we round to \$2.00. Although this target is substantially above where the stock is currently, were it to trade at that level, the implied 2026 Market cap to sales would be at or near the high end of the range.

Figure 2 – Formation Minerals – Price Target Calculation

Implied Value of Future Discounted Earnings: \$1.67		
Year 0 is 2025	Forecast GAAP EPS	Discounted EPS
0	(\$0.01)	(\$0.01)
1	\$0.02	\$0.02
2	\$0.05	\$0.04
3	\$0.08	\$0.06
4	\$0.12	\$0.08
5	\$0.15	\$0.09
Terminal Value		\$1.38

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

If we compare FOMI to the simple average of its peers, the shares sell at a 74% discount on sales measures. However, we expect significant growth in 2026, and if the group multiples hold at current levels, Figure 3 shows the shares would be trading at a significant discount. Were the shares to trade simply to the average of its peers, in the next 12 months, looking into 2026, (and we would argue that due to its growth potential, it should trade above average), it would trade to the higher end of the range, but would not have the highest multiple. Details on each of the peers can be found in Figure 4. The companies we used in Figure 4 are in similar lines of business although none of them are a perfect match.

Figure 3 – Formation Minerals – Discount to Peers

	2025 Market Cap / Sales	2025 EV / Sales
Average	2.99	2.90
FOMI (based on 2026 revenue)	0.78	0.76
Discount to peers	74%	74%

Source: Litchfield Hills Research LLC and FactSet

Guidance and Financial Forecasts

The company provides no guidance. Our forecast assumes that the company reaches sustainable B/E in 2026 and can do so at approximately \$2MM/quarter of revenue. We do not need to make more aggressive assumptions to justify our assertion that the shares are undervalued. In addition, if our forecast is correct, there is no near-term need for capital. We expect a capital raise in the future if the company needs it to support significantly greater growth than is in our forecasts.

Figure 4 – Formation Minerals – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2025 Consensus Multiples (except book)			
					PE	EV/Sales	Market Cap / Sales	EV / EBITDA
ORA-CA	Aura Minerals Inc	\$12.80	925	1,086	7.51	1.60	1.37	
KEL-CA	Kelt Exploration Ltd.	\$5.08	1,000	1,052	7.77	2.13	2.03	
ADT1-GB	Adriatic Metals Plc	\$2.60	808	878	4.55	2.46	2.39	
ALS-CA	Altius Minerals Corporation	\$19.75	914	1,029	NMF	NMF	NMF	37.49
OBM-AU	Ora Banda Mining Ltd.	\$0.48	902	904	8.90	3.27	3.27	
CJ-CA	Cardinal Energy Ltd.	\$4.73	756	815	10.82	2.14	1.99	
EU-CA	enCore Energy Corp.	\$3.35	620	596	32.49	5.89	6.13	17.23
EGY-US	VAALCO Energy, Inc.	\$4.74	498	489	12.19	1.24	1.24	
TTI-US	TETRA Technologies, Inc.	\$4.71	621	784	13.05	1.22	0.98	
OBE-CA	Obsidian Energy Ltd	\$5.82	443	718	3.05	1.19	0.75	
TAL-CA	PetroTal Corp.	\$0.50	458	369	4.72	0.90	1.11	
TNZ-CA	Tenaz Energy Corp	\$9.43	259	225	NMF	1.24	1.42	
MTA-CA	Metalla Royalty & Streaming Ltd.	\$2.71	249	251	NMF	NMF	NMF	
RBX-CA	Robex Resources, Inc.	\$1.65	210	267	NMF	2.73	2.15	
GROY-US	Gold Royalty Corp.	\$1.24	210	258	NMF	10.65	8.63	
ECOR-GB	Ecora Resources PLC	\$0.79	197	293	8.68	5.18	3.52	6.74
ELE-CA	Elemental Altus Royalties Corp	\$0.84	207	179	14.07	4.95	5.75	
EMX-CA	EMX Royalty Corp	\$1.70	189	201	NMF	10.39	9.78	
PHX-US	PHX Minerals Inc. Class A	\$4.01	150	174	16.67	4.07	3.51	
NICU-CA	Magna Mining Inc	\$1.02	158	171	NMF			
CTGO-US	Contango ORE, Inc.	\$10.85	133	167		4.56	3.62	
GML-ZA	Gemfields Group Limited	\$0.07	81	214	4.09	0.72	0.29	1.96
PHAR-GB	Pharos Energy PLC	\$0.33	139	124		0.94	1.04	
RBY-CA	Rubellite Energy Corp.	\$1.51	140	118	2.84	0.64	0.76	
PEN-AU	Peninsula Energy Limited	\$0.86	137	(27)			5.28	
ATLX-US	Atlas Lithium Corporation	\$6.98	108	94	4.76	0.66	0.76	
LCX-CA	Lycos Energy Inc	\$1.74	93	107	3.83	1.07	0.93	
OPAL-US	OPAL Fuels Inc. Class A	\$3.15	90	962	4.96	2.32	1.31	6.31
BCB-AU	Bowen Coking Coal Ltd	\$0.00	54	104	7.34	0.38	0.19	
FEAM-US	5E Advanced Materials, Inc.	\$0.54	37	104		NMF	9.59	
CHAR-GB	Chariot Limited	\$0.02	26	21				
TI-CA	Titan Mining Corp.	\$0.20	27	56	3.27			
TAO-CA	TAG Oil Ltd	\$0.12	27	20		35.00	2.83	3.86
	AVERAGE				10.03	2.90	2.99	13.95
FOMI-US	Formation Minerals Inc	\$0.06	6	6	NA	0.76	0.78	2.87
	FOMI Discount to peers:				NA	-74%	-74%	-79%

Source: FactSet and Litchfield Hills Research LLC

Figure 5 – Formation Minerals – Income Statement (\$ 000)

April ending year	2023A Year	2024A Year	2025E				2025E Year	2026E				2026E Year
			Q1A	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
Revenue	\$4	\$1	\$36	\$100	\$400	\$1,000	\$1,536	\$1,200	\$1,600	\$2,200	\$2,600	\$7,600
<i>Growth</i>								3321%	1600%	550%	260%	495%
Operating expenses:												
Consulting fees	0	0	56	56	56	56	224	56	56	56	56	224
Depletion expense	0	0	18	18	18	18	73	18	18	18	18	73
General and administrative	617	1,147	289	300	350	500	1,439	600	900	1,000	1,200	3,700
Professional fees	0	0	366	366	366	366	1,463	400	450	500	600	1,950
Project expenditures	0	0	0	0	0	0	0	0	0	0	0	0
R&D	162	10	0	0	0	0	0	0	0	0	0	0
Total Operating Expenses	779	1,157	729	740	790	940	3,199	1,074	1,424	1,574	1,874	5,947
Operating expense margins	NMF	NMF	NMF	740%	198%	94%	208%	90%	89%	72%	72%	78%
Operating Income	(775)	(1,156)	(693)	(640)	(390)	60	(1,663)	126	176	626	726	1,653
Operating Margin	NMF	NMF	NMF	NMF	-97.5%	6.0%	-108.2%	10.5%	11.0%	28.4%	27.9%	21.7%
Total Other Items	9	(522)	982	10	10	10	1,012	10	10	10	10	40
Pre-Tax Income	(766)	(1,678)	289	(630)	(380)	70	(651)	136	186	636	736	1,693
Taxes (benefit)	0	0	0	0	0	0	0	0	0	0	0	0
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income (loss)	(\$766)	(\$1,678)	\$289	(\$630)	(\$380)	\$70	(\$651)	\$136	\$186	\$636	\$736	\$1,693
Net Margin								11.3%	11.6%	28.9%	28.3%	22.3%
EPS	(\$0.01)	(\$0.03)	\$0.00	(\$0.01)	(\$0.00)	\$0.00	(\$0.01)	\$0.00	\$0.00	\$0.01	\$0.01	\$0.02
Share count	87,645	56,349	84,036	84,046	84,056	84,066	84,051	84,076	84,086	84,096	84,106	84,091

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Formation Minerals – Balance Sheet (\$ 000)

April ending year	2026E	2025E	2024A	2023A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$2,647	\$419	\$4	\$27
Accounts receivable	120	100	64	0
Prepayments and other receivables	120	100	86	13
Inventories	0	0	0	0
Prepaid and other	0	0	0	0
Total Current Assets	2,887	619	154	40
Oil and natural gas properties - net	600	500	395	0
Other non-current	0	0	0	0
Total Assets	\$3,487	\$1,119	\$549	\$40
Current Liabilities				
Accounts payable and accrued	\$3,000	\$2,000	\$1,007	\$106
Notes and loans	150	135	118	995
Other current	2,000	1,500	1,414	0
Total current liabilities	5,150	3,635	2,539	1,101
Right-of-use liability	0	0	0	0
Other non-current	0	0	0	0
Total Liabilities	5,150	3,635	2,539	1,101
Stockholders' Equity				
Preferred stock				
Total stockholders equity	(1,663)	(2,516)	(1,990)	(1,062)
Total Liabilities and equity	\$3,487	\$1,119	\$549	\$40

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Formation Minerals – Cash Flow (\$ 000)

	2026E	2025E	2024A
Net Income	\$1,693	(\$651)	(\$1,678)
Accounts receivable	(20)	(36)	(64)
Prepayments and other receivables	(20)	(14)	(73)
Inventories	0	0	0
Prepaid and other	0	0	0
Oil and natural gas properties - net	(100)	(105)	(395)
Other non-current	0	0	0
Accounts payable and accrued	1,000	994	901
Notes and loans	15	2	(81)
Due to related party	0	14	(796)
Other current	500	86	1,414
Right-of-use liability	0	0	0
Other non-current	0	0	0
Preferred stock	(0)	0	0
Commons stock	(340)	831	(372)
Additional paid in capital	(500)	(706)	13,673
Accumulated other comp. loss and other	0	0	9
Dividend and/or tax adj.			
Total Cash Flow	\$2,228	\$415	\$16,736

Source: Litchfield Hills Research LLC

Disclosures:

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