

Action Summary – 22 July 2025

Analyst Theodore R. O'Neill - Update for F3Q25 results – **Reiterate our Buy rating and \$1PT.**

- **The company met our EPS loss estimates for 3Q25, however, revenue was below our and management's expectations.** Formation Minerals reported F3Q25 revenue and EPS of \$65K and a loss of \$0.01, respectively. We were looking for revenue and EPS of \$200K and a loss of \$0.01. There is no consensus. On the operating income line, results were better than expected, as management was able to control expenses to somewhat offset lower sales. On that line, the company reported a loss of \$368K versus our estimate of a loss of \$590K. While there was no nominal variance to our EPS estimate, net income was lower by \$560K entirely due to the non-cash initial valuation of derivative liability and Series C dividends.
- **Revision to estimates.** For F2025 and F2026, we are lowering our revenue and EPS estimates. For 2025, our new revenue and EPS estimates are \$289K and a loss of \$0.03, respectively, down from \$723K and a loss of \$0.02, respectively. For 2026, our revenue and EPS are now \$3.5MM and \$0.01, down from revenue of \$6.3MM and unchanged from our EPS estimate of \$0.01.
- **Shares appear to be priced below absolute and comparative metrics.** The shares are selling at a discount to both our discounted price target model and its peers.

7/21 Closing price: \$0.02	Market cap: \$2 million	2026 Market cap/sales: 0.64x	2026 EV/Sales: 0.59x
Shares outstanding: 99 million	Insider ownership: ~53%	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	
2Q25A	(\$0.01)	\$87	
3Q25A	(\$0.01)	\$65	
4Q25E	<u>(\$0.00)</u>	<u>\$100</u>	
FY25E	<u>(\$0.03)</u>	<u>\$289</u>	<u>NME</u>
1Q26E	(\$0.00)	\$400	
2Q26E	\$0.00	\$800	
3Q26E	\$0.00	\$1,000	
4Q26E	<u>\$0.00</u>	<u>\$1,250</u>	
FY26E	<u>\$0.01</u>	<u>\$3,450</u>	<u>26.0%</u>

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

Cash balance (\$000)

• 2023A	• \$27
• 2024A	• \$4
• 2025E	• \$87
• 2026E	• \$2,025

Short term debt (\$000)

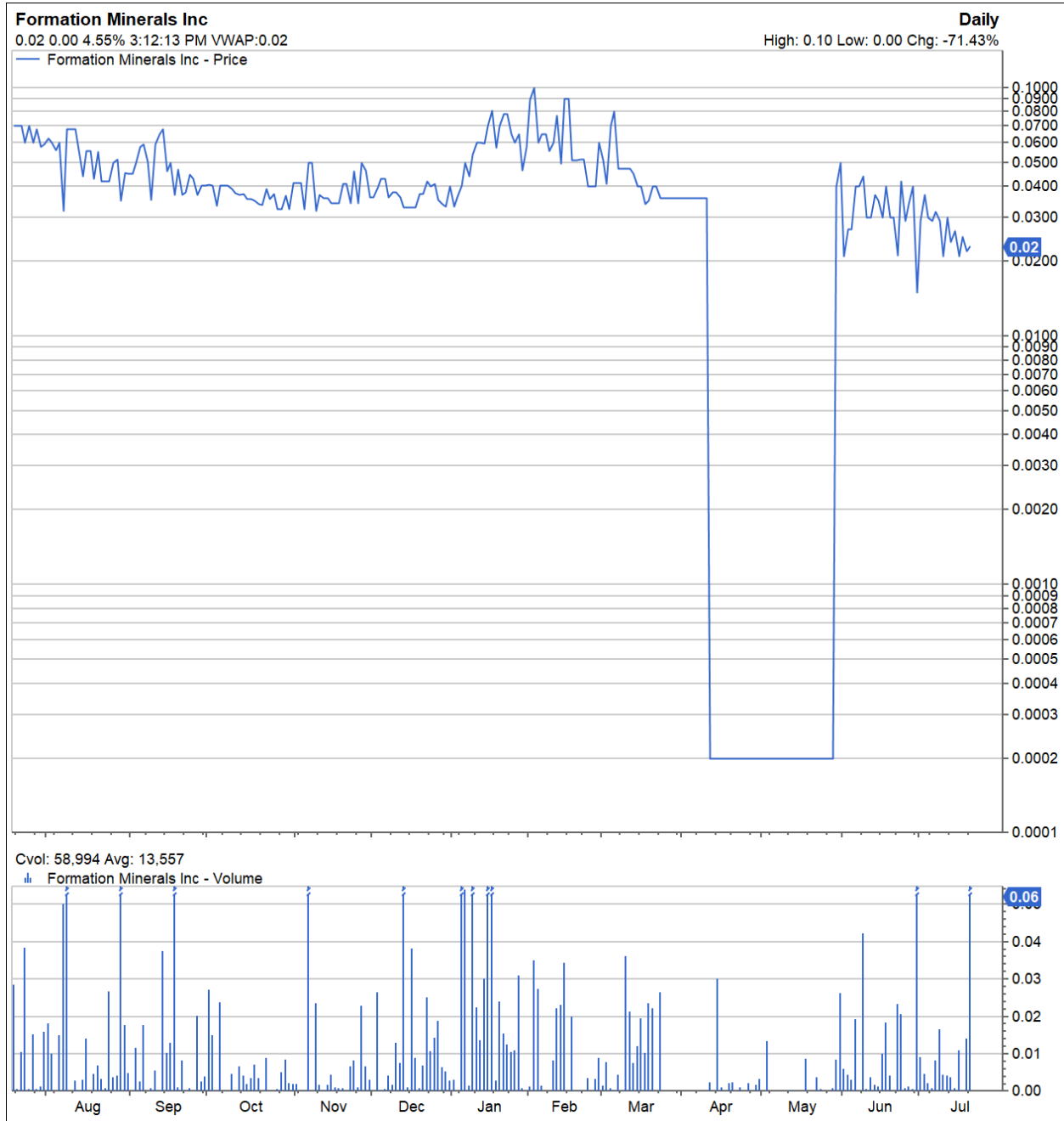
• 2023A	• \$995
• 2024A	• \$118
• 2025E	• \$300
• 2026E	• \$150

Risks/Valuation

- Risks include competition, brand development, and lack of near-term earnings.
- Our \$1.00 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 – One-year trading snapshot



Source: FactSet

Quarterly results

The company met our EPS loss estimates for 3Q25, however, revenue was below our and management's expectations. Formation Minerals reported F3Q25 revenue and EPS of \$65K and a loss of \$0.01, respectively. We were looking for revenue and EPS of \$200K and a loss of \$0.01 (see Figure 2). There is no consensus. The apparent lack of variance is due to rounding. Net income was \$560K below our estimates and that variance was entirely due to the non-cash initial valuation of derivative liability and Series C dividends, partially offset by lower expenses. On the operating income line, results were better than expected, as management was able to control expenses to somewhat offset lower sales. On that line, the company reported a loss of \$368K versus our estimate of a loss of \$590K.

Figure 2 – Formation Minerals – Variance Analysis

Income Statement	FY25 Q3E	FY25 Q3A	Better / (Worse) Than Estimates
Revenue	\$200	\$65	(\$135)
Operating expenses:			
Consulting fees	56	25	31
Depletion expense	18	15	4
Depreciation expense		0	0
General and administrative	350	208	142
Professional fees	366	186	180
Project expenditures	0	0	0
Stock comp & Other	0	0	0
Total Expenses	790	433	357
Earnings (loss) from Operations	(590)	(368)	222
Total Other income/(expense)	10	(772)	(782)
Earnings before taxes	(580)	(1,140)	(560)
Tax expense/(benefit)	0	0	
Net income	(\$580)	(\$1,140)	(\$560)
EPS	(\$0.01)	(\$0.01)	(\$0.01)
Share count	99,866	99,113	753

Source: Litchfield Hills Research and Company filings

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 3)

2) Valuation relative to peers (see Figure 4)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$1.00 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 3 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 \$1.33, which we round to \$1.00. 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 3 – Formation Minerals – Price Target Calculation

Implied Value of Future Discounted Earnings: \$1.33		
Year 0 is 2025	Forecast GAAP EPS	Discounted EPS
0	(\$0.03)	(\$0.03)
1	\$0.01	\$0.01
2	\$0.04	\$0.03
3	\$0.06	\$0.05
4	\$0.10	\$0.07
5	\$0.12	\$0.08
Terminal Value		\$1.12

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 77% discount on an EV/Sales measure. However, we expect significant growth in 2026. Figure 4 shows the shares are trading at a significant discount to peers. Were the shares to trade simply to the average of their peers, in the next 12 months, they would reach \$0.23/share. At our \$1 price target, the valuation would be at the high end of the range, but it would not be the most expensive as a multiple of sales. Details on each of the peers can be found in Figure 5. The companies we used in Figure 5 are in similar lines of business, although none of them are a perfect match.

Figure 4 – Formation Minerals – Discount to Peers

	2026 Market Cap / Sales	2026 EV / Sales
Average	2.36	2.57
FOMI (based on 2026 revenue)	0.64	0.59
Discount to peers	73%	77%

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 \$1MM/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.

Formation Minerals Inc. OTCQB-FOMI - Buy-US\$1.00 PT

Figure 5 – Formation Minerals – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2026 Consensus Multiples			
					PE	EV /Sales	Market Cap / Sales	EV / EBITDA
ORA-CA	Aura Minerals Inc	\$24.08	1,990	2,056	5.49	2.20	2.12	38.08
KEL-CA	Kelt Exploration Ltd.	\$5.72	1,139	1,220	10.41	1.98	1.84	
ADT1-GB	Adriatic Metals Plc	\$3.82	1,332	1,385	9.09	3.90	3.76	
ALS-CA	Altius Minerals Corporation	\$19.95	924	1,018	NMF	NMF	NMF	
OBM-AU	Ora Banda Mining Ltd.	\$0.43	811	846	7.24	1.80	1.73	
CJ-CA	Cardinal Energy Ltd.	\$5.15	829	907	17.96	2.02	1.84	5.26
EU-CA	enCore Energy Corp.	\$3.00	558	556	NMF	5.34	5.37	
EGY-US	VAALCO Energy, Inc.	\$3.55	369	414	11.54	0.93	0.83	
TTI-US	TETRA Technologies, Inc.	\$3.33	443	618	10.81	0.98	0.71	
OBE-CA	Obsidian Energy Ltd	\$5.52	382	669	6.45	1.50	0.84	
TAL-CA	PetroTal Corp.	\$0.51	467	437	4.24	1.07	1.15	
TNZ-CA	Tenaz Energy Corp	\$13.88	382	358	12.12	1.08	1.16	
MTA-CA	Metalla Royalty & Streaming Ltd.	\$3.80	351	355	NMF	NMF	NMF	14.81
RBX-CA	Robex Resources, Inc.	\$2.43	471	397	5.64	0.87	1.03	
GROY-US	Gold Royalty Corp.	\$2.37	404	452	NMF	NMF	NMF	
ECOR-GB	Ecora Resources PLC	\$0.89	222	310	10.15	5.62	3.98	
ELE-CA	Elemental Altus Royalties Corp	\$1.47	362	357	21.42	10.46	10.60	
EMX-CA	EMX Royalty Corp	\$2.92	316	329	39.15	11.85	11.38	
NICU-CA	Magna Mining Inc	\$1.28	252	260	6.26	1.68	1.63	
CTGO-US	Contango ORE, Inc.	\$19.77	248	258				
GML-ZA	Gemfields Group Limited	\$0.08	130	229	2.32	0.62	0.33	
PHAR-GB	Pharos Energy PLC	\$0.28	117	102		0.73	0.85	
RBX-CA	Rubellite Energy Corp.	\$1.41	132	223	5.94	1.14	0.67	
ATLX-US	Atlas Lithium Corporation	\$4.47	80	71				
LCX-CA	Lycos Energy Inc	\$0.90	48	58	9.97	0.73	0.59	
OPAL-US	OPAL Fuels Inc. Class A	\$2.52	73	745	6.38	1.75	1.03	
BCB-AU	Bowen Coking Coal Ltd	\$0.05	5	52	0.01	0.22	0.02	
FEAM-US	5E Advanced Materials, Inc.	\$3.58	72	34		NMF	NMF	
CHAR-GB	Chariot Limited	\$0.02	32	20				
TI-CA	Titan Mining Corp.	\$0.82	111	135				
TAO-CA	TAG Oil Ltd	\$0.08	18	16	2.50	0.72	0.81	
	AVERAGE				<u>9.77</u>	<u>2.57</u>	<u>2.36</u>	<u>19.38</u>
FOMI-US	Formation Minerals Inc	\$0.02	2	2	NA	0.59	0.64	4.10
	FOMI Discount to peers:				NA	-77%	-73%	-79%

Source: FactSet and Litchfield Hills Research LLC

Figure 6 – Formation Minerals – Income Statement (\$ 000)

April ending year	2023A Year	2024A Year	2025E				2025E Year	2026E				2026E Year
			Q1A	Q2A	Q3A	Q4E		Q1E	Q2E	Q3E	Q4E	
Revenue	\$4	\$1	\$36	\$87	\$65	\$100	\$289	\$400	\$800	\$1,000	\$1,250	\$3,450
<i>Growth</i>								1107%	917%	1534%	1250%	1195%
Operating expenses:												
Consulting fees	0	0	56	24	25	25	130	26	26	26	26	104
Depletion expense	0	0	18	35	15	18	86	18	18	18	18	73
General and administrative	617	1,147	289	342	208	200	1,038	225	300	325	400	1,250
Professional fees	0	0	366	375	186	190	1,117	200	225	300	400	1,125
Project expenditures	0	0	0	0	0	0	0	0	0	0	0	0
Stock comp & Other	162	10	0	306	0	0	306	0	0	0	0	0
Total Operating Expenses	779	1,157	729	1,083	433	433	2,678	469	569	669	844	2,552
Operating expense margins	NMF	NMF	NMF	1241%	665%	433%	928%	117%	71%	67%	68%	74%
Operating Income	(775)	(1,156)	(693)	(996)	(368)	(333)	(2,390)	(69)	231	331	406	898
Operating Margin	NMF	NMF	NMF	NMF	-564.8%	-333.3%	-828.0%	-17.3%	28.8%	33.1%	32.5%	26.0%
Total Other Items	9	(522)	982	(338)	(772)	0	(128)	10	10	10	10	40
Pre-Tax Income	(766)	(1,678)	289	(1,334)	(1,140)	(333)	(2,518)	(59)	241	341	416	938
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	(\$1,334)	(\$1,140)	(\$333)	(\$2,518)	(\$59)	\$241	\$341	\$416	\$938
Net Margin								-14.8%	30.1%	34.1%	33.3%	27.2%
EPS	(\$0.01)	(\$0.03)	\$0.00	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.03)	(\$0.00)	\$0.00	\$0.00	\$0.00	\$0.01
Share count	87,645	56,349	84,036	99,856	99,113	99,123	95,532	99,133	99,143	99,153	99,163	99,148

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Formation Minerals – Balance Sheet (\$ 000)

April ending year	2026E	2025E	2024A	2023A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$2,025	\$87	\$4	\$27
Accounts receivable	120	100	64	0
Prepayments and other receivables	120	30	86	13
Inventories	0	0	0	0
Prepaid and other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Assets	2,265	217	154	40
Oil and natural gas properties - net	600	200	395	0
Other non-current	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$2,865</u>	<u>\$417</u>	<u>\$549</u>	<u>\$40</u>
Current Liabilities				
Accounts payable and accrued	\$3,000	\$2,800	\$1,007	\$106
Notes and loans	150	300	118	995
Other current	<u>2,000</u>	<u>1,400</u>	<u>1,414</u>	<u>0</u>
Total current liabilities	5,150	4,500	2,539	1,101
Right-of-use liability	0	0	0	0
Other non-current	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	5,150	4,500	2,539	1,101
Stockholders' Equity				
Preferred stock				
Total stockholders equity	<u>(2,285)</u>	<u>(4,083)</u>	<u>(1,990)</u>	<u>(1,062)</u>
Total Liabilities and equity	<u>\$2,865</u>	<u>\$417</u>	<u>\$549</u>	<u>\$40</u>

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – Formation Minerals – Cash Flow (\$ 000)

	2026E	2025E	2024A
Net Income	\$938	(\$2,518)	(\$1,678)
Accounts receivable	(20)	(36)	(64)
Prepayments and other receivables	(90)	56	(73)
Inventories	0	0	0
Prepaid and other	0	0	0
Oil and natural gas properties - net	(400)	195	(395)
Other non-current	0	0	0
Accounts payable and accrued	200	1,794	901
Notes and loans	(110)	127	(81)
Due to related party	(40)	54	(796)
Other current	600	(14)	1,414
Right-of-use liability	0	0	0
Other non-current	0	0	0
Preferred stock	(0)	0	0
Commons stock	(440)	931	(372)
Additional paid in capital	1,300	(506)	13,673
Accumulated other comp. loss and other	0	0	9
Dividend and/or tax adj.			
Total Cash Flow	<u>\$1,938</u>	<u>\$83</u>	<u>\$16,736</u>

Source: Litchfield Hills Research LLC

Disclosures:

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Formation Minerals Inc. OTCQB-FOMI - Buy-

US\$1.00 PT

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