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### Desert Mountain Energy – Analyst's Report by MicroCap.com

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November 1, 2018

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### Desert Mountain Energy (DME: TSXV 21 cents)

[www.desertmountainenergy.com](http://www.desertmountainenergy.com)

Shares Outstanding: 32 million

Last financing: June 2018 at 20 cents (3.2 million shares)

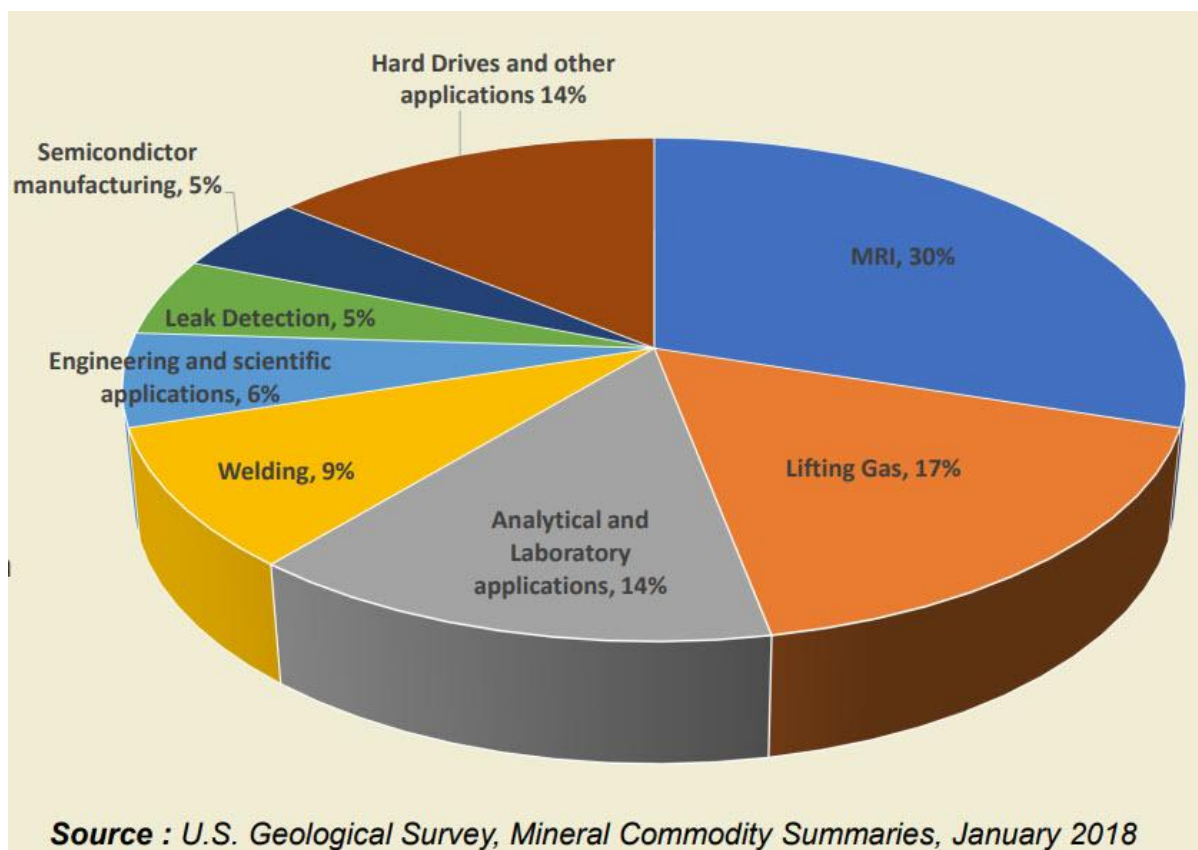
Current financing of approx. 5M shares expected to close in November at 20 cents

> this will fund winter helium drilling (expected to start in January)

Note that if you are an **accredited investor** and are interested in this financing, you can contact the company and ask if they have room left in the remaining financing (vs. buying in the open market). CEO contact information is: Irwin Olian [tigertail@desertmountainenergy.com](mailto:tigertail@desertmountainenergy.com)

*Liquidity on DME is very good from 18 to 22 cents. Until they close their financing at 20 cents, I see no reason to move outside this range (hopefully that is a correct assessment).*

**Helium** is used for a LOT more than most people are aware. And surprisingly, **the world faces a shortage that may only get significantly worse in 2019/2020**. Go through the DME corporate presentation and you will likely be shocked at how dependent the world is on helium. <http://www.desertmountainenergy.com/documents/DMEPresentation.pdf>



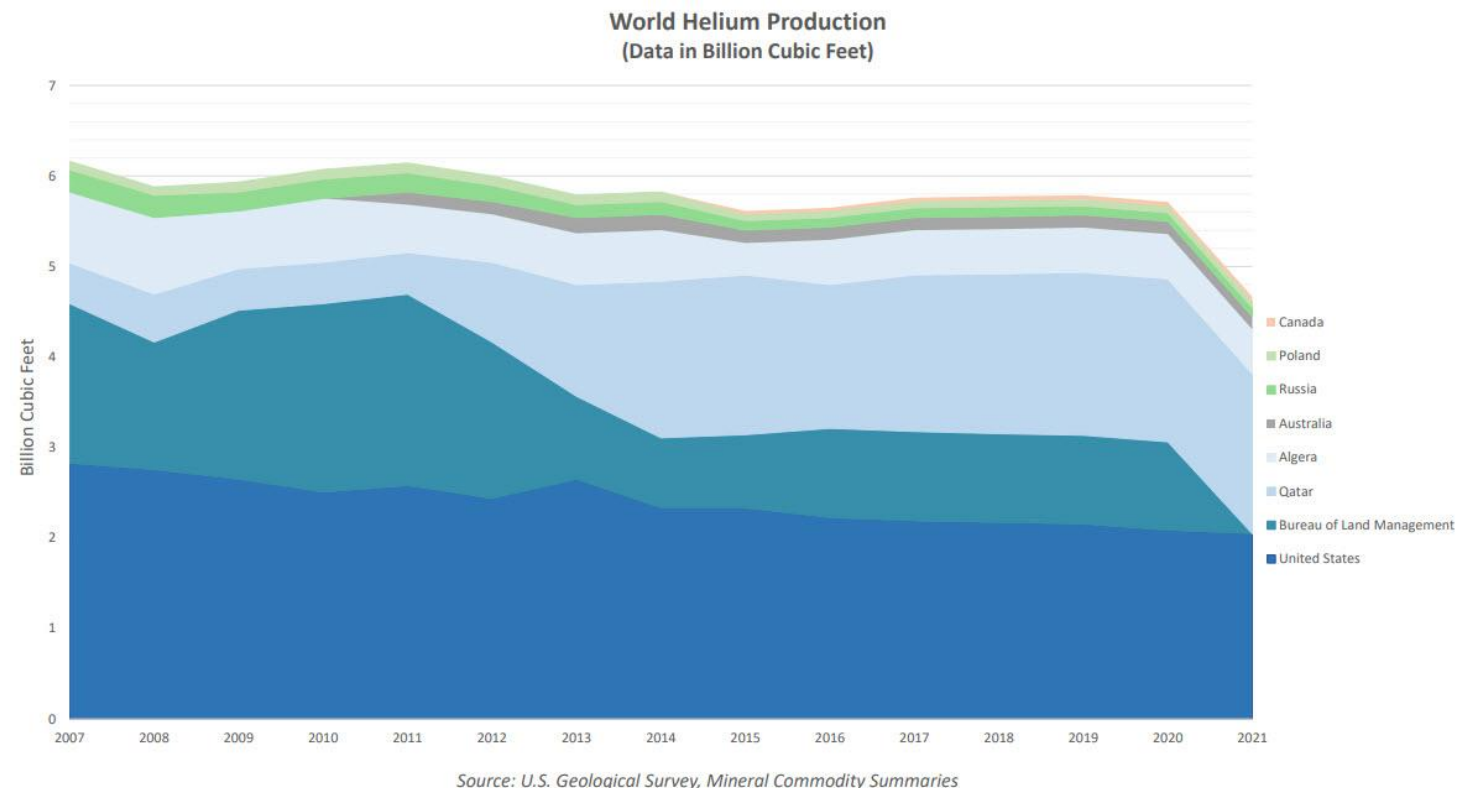
## SOME HELIUM INDUSTRY INSIGHT IS NECESSARY

### **[The latest Helium Price Auction Has Prices Up 135%]**

All commercial production of helium comes from natural gas. There are two basic types of commercial helium deposits: natural gas produced primarily for the hydrocarbon content, typically containing less than 3% helium (he); and gas with little or no hydrocarbons, produced solely for the helium, which typically makes up between 5% and 10% of the gas. Although natural gas in which helium is only a by-product contains a much lower percentage of helium, historically it has supplied the most helium.

Most geologists believe the majority of helium in natural gas derives from radioactive decay of uranium and thorium, either from radioactive black shales, or granitoid basement rock. Unusual geological conditions are considered necessary for commercial concentrations of helium in natural gas. Nonporous caprock such as halite (rock salt) or anhydrite is more effective in trapping helium.

A large volume of helium was stored underground in the Cliffside gas field (Amarillo, TX) in the decade following the Helium Act Amendments of 1960. In recent years, the reserve has been systematically selling its helium. **As of 2012 the United States National Helium Reserve still accounted for 30 percent of the world's helium – that reserve is expected to run out by 2019/20.**



### Sept 18<sup>th</sup> - Helium Prices

“Desert Mountain Energy noted that the recently concluded **fiscal 2019 crude helium auction** by the U.S. Bureau of Land Management (BLM) reflected surging prices in the world helium market. The auction took place in Amarillo, Tex., site of the National Helium Reserve, on Aug. 31, 2018. It was the fifth such auction by the BLM since passage of

the Helium Stewardship Act of 2013. The average price per thousand standard cubic feet of crude helium jumped to \$279.95 from \$119.31 in last year's fiscal 2018 auction, **reflecting an approximate 135-per-cent increase year over year.**"

[ **Note that the marginal wellhead cost of producing helium is extremely low**, like natural gas, something like \$3 per Mcf. Yet the revenue per cubic feet is "exponentially" higher than natural gas]

*"The fiscal 2019 crude helium auction is the last auction anticipated to be carried out by the BLM. Helium reserves in the National Helium Reserve are expected to decline to the minimum level of three billion standard cubic feet mandated by legislation, which will effectively put an end to the sales."*

According to Irwin Olian, chief executive officer of the company: "The helium shortage which exists today is well publicized throughout the industry, and we have been expecting increases in helium prices. The magnitude of this current jump is surprising, however, as it significantly exceeds increases that were anticipated. It appears to reflect the fact prices at prior auctions may have been somewhat suppressed artificially and that the discontinuance of BLM auctions is sending fears throughout the market of further sharp increases. We are moving forward with our development plans in Arizona's Holbrook basin as expeditiously as possible."

**This article is from 2015, but it is very relevant.** The scientist pinpointed a growing crisis with helium at the time of writing. He has been bang-on with helium prices continuing to rise significantly.

<https://www.peakscientific.com/articles/availability-of-helium/>

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As the technology industry cannot function without helium (He), one of the best locations to have a reliable long-term supply, is the United States. **Desert Mountain Energy controls 39,742 acres of key Helium prospects in northern Arizona** - with additional leases pending. This region has produced some of the highest He grades in world.

***They will wrap up ground work and geological mapping in Q4 with plans to drill the first well(s) in January 2019. They only need to hit on the first couple wells (maybe even the first will do it) to validate their entire business model and justify a dramatically higher valuation.***

Helium needs "salt traps" and this region of Arizona contains a salt basin 116 miles x 100 million. The helium originates from radioactive decay (as it does everywhere across the planet), but it migrates into space just as quickly as it is produced. It needs these salt basins to contain it – and they are rare.

Over the past couple years, DME has done VERY extensive work in this region using known science and worked with highly experienced geologists and drilling experts. They knew they needed salt caps, sandstone and anticlines which were capable of hosting natural gas / helium. They secured leases on six of the seven anticlines known in this region.

DME HAS A VERY SKILLED MANAGEMENT TEAM & ADVISORY BOARD

[http://www.desertmountainenergy.com/about\\_leadership.asp](http://www.desertmountainenergy.com/about_leadership.asp)

CEO **Irwin Olian** graduated from Princeton University with an A.B. in Economics and received his law degree from Harvard.

**Dr. Edward Schiller** is a former director of Dia Met Minerals and is best known for supervising the drilling which led to discovery of the first diamond-bearing kimberlite at Pointe Lake in 1991 (now part of the Ekati Mine).

And **Soren Christiansen** is a well-known driller from Calgary who has overseen onshore and offshore drilling projects around the world. From 1993 to 2006, he served as Team Leader and Drilling Manager for oil and gas giant Encana.

The rest of their team is exceptional, but the three above help highlight the degree of expertise. This is a “drilling” play and with Dr. Schiller and Soren Christiansen involved, you have world class drillers at the helm. It is impressive for such a small company.

Desert Mountain would be well positioned to provide a secure source of Helium to users in the high tech and aircraft industries in nearby California, the Western U.S. and worldwide. Many existing and potential sources of He are in high risk countries far from end users - Qatar, Algeria, Russia, and Tanzania.

#### CEO DISCUSSION – RE: SUPPLY & DEMAND IMBALANCE

Global Helium Summit 2018 was held in Houston October 2<sup>nd</sup> and representatives from 24 countries participated. Gas World (a global industrial gas information provider) published a review of the summit that clearly painted a picture of “notable concern”. At times they discussed how serious the supply situation was becoming, but then other speakers downplayed the concern.

One issue I brought up with Irwin (CEO of DME) was what happens to helium prices if we see the same thing occur when there was a natural gas shortage many years ago and prices ran over \$15 (vs < \$3 now). Drillers created a long-term supply-surplus situation that has depressed prices for several years.

Keep in mind that our primary speculation here is the next six to twelve months while the Desert Mountain helium project is being drilled out. There is no doubt 2019/20 is going to see some serious supply issues, so we can deal with this potential over-supply concern later (if it is even warranted). But regardless of this, I wanted to share the feedback from Irwin as he did a great job addressing this. [His response is shown in blue below.](#)

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*I would first suggest watching this 4-minute video from CBS in 2013 – it is even more relevant because they didn’t foresee the supply issue we’re now seeing in Texas. - [https://www.youtube.com/watch?v=hEKIHtR\\_quo](https://www.youtube.com/watch?v=hEKIHtR_quo)*

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[\[From Irwin, CEO of Desert Mountain Energy\]](#)

The fact is, there is a panic right now in the helium market with buyers very concerned about the availability of long-term supplies as well as short term supplies. There is a conscientious effort on the part of the major industry

distributors to “talk down” the crisis as they are all concerned about runaway prices. The article on the Helium World Summit is quite informative, but it reflects an attempt at “jaw-boning” to minimize the potential crisis in helium prices and availability.

This point of view was pushed quite hard at the Summit, as industry leaders want to promote an orderly market! One leading distributor commented off the record at the post-Summit wrap up reception “What a crock of bullshit!” Some very important points to know:

1. The big Russian Project, ten years in development, will only replace supplies formerly provided by the U.S. Bureau of Land Management, which has now terminated its annual sales. Further, the timeline for going into production is not at all clear. Based in Eastern Siberia with ungodly winter weather conditions, some people are speculating that it may not come on line with significant production until 5-7 years from now, not the more optimistic estimates being bantered.

2. China, Japan & Korea have essentially no domestic helium resources, and their high tech and new economies are surging (not to mention China’s massive growth potential in MRI’s which are just now penetrating the Chinese medical community); and the fact that China is expanding dramatically its nuclear power plants. Most of the potential Russian supply of helium will be gobbled up right in Asia by these economic behemoths although there will certainly be some sales in Europe. From the standpoint of geopolitical concerns, it is hard to imagine much if any Russian helium entering the U.S. It simply doesn’t make sense for U.S. buyers to rely on such an uncertain source of supply from a politically corrupt country not to mention potential enemy of the U.S.

3. A Tanzanian discovery discussed in the media this past year is replete with questions: geopolitical issues, quality issues related to potential hydrogen sulphide contamination, not to mention exploration, drilling and production risks which have not yet been addressed. After five years in operation, the company involved, to our knowledge, has not produced any drill results or gas analysis data - yet is touting very large resources purportedly in the ground.

Someone said their anticipated IPO in Australia has now been sidetracked. Aside from all that, Tanzanian helium will be subject to export duties and taxes, import duties in most countries and large transportation costs. Probably a 40% aggregate override above U.S. costs.

4. Demand for helium from high tech and new economy users continues to grow, with the demand side of the industry projected to increase 6-7% annually in the face of declining supply. In fact, demand appears to be suppressed by lack of supply as new uses for helium are put on hold pending more certainty as to availability. Helium constitutes 25% of the sun and its relationship with energy creation is not understood. In years to come as science progresses, helium may prove to be a huge factor in future energy creation (side note - there is serious talk of commercially bringing back Helium-3 from the moon for energy production).

5. Helium is where gold was in 2000: \$250-\$300 per ounce/ \$279 per Mcf. Then gold had a huge bull cycle which took it up to as high as \$1900 before topping out. One of the major helium distributors stated off the record that they could envision prices as high as \$2400 within 5 years. This is certainly not the message that the Helium World Summit people want to convey.

6. The U.S. has now listed helium as a “Strategic Commodity” and it is my personal belief that the BLM now regrets having depleted its helium reserves through sales in recent years. I expect the BLM to turn into an aggressive buyer quietly with a view toward maintaining and even possibly increasing its helium reserves. We have news coming shortly which has a bearing on this issue.

7. Helium has been produced in the U.S for one hundred years and resources in Texas, OK, Kansas are largely depleted. There is continued incidental production of helium in association with gas wells in these areas and no doubt there will be some increase in production as a response to higher prices. However, the elasticity of this supply is not great, and I do not believe you will see more than 5% of the world’s supply coming from incremental new U.S. helium.

8. There are a handful of public companies around that are looking for Helium. I do not want to mention any by name as the intent of this feedback is not to offend anyone within our industry. I will say that some “have their challenges”. [XXX1] has failed due to lack of leases and other issues. [XXX2] has essentially failed from a technical standpoint and [XXX3] is talking a large story. And you must be very careful with any companies talking about getting helium from natural gas when hydrogen sulphide is involved.

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**THESE ARTICLES PROVIDE SIGNIFICANT HELIUM INDUSTRY INSIGHT**

<https://www.forbes.com/sites/startswithabang/2017/05/26/the-world-is-wasting-our-irreplaceable-helium-and-nobody-cares/#2d1fc269132b>

<https://www.nationalgeographic.com/science/2018/08/news-helium-mri-superconducting-markets-reserve-technology/>

<http://theconversation.com/celebrating-the-150th-anniversary-of-heliums-discovery-why-we-need-it-more-than-ever-100722>

<https://www.insidescience.org/news/helium-150-years-after-its-discovery>

<https://www.the-scientist.com/daily-news/qatar-blockade-evinces-vulnerability-of-helium-supply-31273>

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**Desert Mountain Corporate Presentation**

<http://www.desertmountainenergy.com/documents/DMEPresentation.pdf>

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