

# Quick Note

<b>GASTEM</b>	<b>GMR-TSXV \$0.31</b>	<b>February 24, 2009</b>
<b>JUNEX</b>	<b>JNX-TSXV \$1.10</b>	
<b>QUESTERRE ENERGY</b>	<b>QEC-TSX \$1.03</b>	

<b>Rating:</b>	<b>BUY</b>	<b>ENERGY</b>
<b>Target Price:</b>	<b>N/A</b>	<b>Vic Vallance, CFA - Analyst</b>
<b>Market Capitalization:</b>	<b>GMR - \$18.7M</b>	416.955.4777 x225
	<b>JNX - \$66.1M</b>	vvallance@frasermackenzie.com
	<b>QEC - \$203M</b>	<b>Kimberly Johnston - Associate</b>
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## Test Rates Below Expectations, But That is Not The Whole Story ....

### Event – Forest Oil Reports Utica Shales Test Results

- Forest Oil announced after the market close yesterday and in conjunction with the release of its year-end results, initial testing results from the first three horizontal Utica Shale gas wells drilled and fracture stimulated in the St. Lawrence Lowlands in the province of Quebec.
- The wells were successfully cased and fracture stimulated in four stages with rates ranging from 100 – 800 mcf/d. In a separate press release, Questerre indicated that flow rates from these wells were in excess of the original vertical wells, with initial rates of up to 4 mmcf/d. As frac load flowback was incomplete due to the lack of available coiled tubing units, Forest expects it will continue to test these wells following the end of winter.
- While Forest commented that the rates were not as high as anticipated, the company believes these tests have now allowed it to identify the section of the Utica shale it intends to target in future test wells. Each well test was conducted in a different section of the Utica Shale, with the objective of acquiring productivity data to allow for optimized completions in the future. Forest also commented it proved that it has been able to successfully drill horizontal wells and pump multi-stage slickwater frac jobs without major operational issues.

### Our Comments – More Work Needed to Evaluate The Potential

- As Forest highlighted, the flow rates were less than anticipated and less than we believe the market was anticipating, particularly in light of the original vertical fracture stimulated St. Francois du Lac well (up to 1 mmcf/d) on the Yamaska permit and Talisman's vertically fracture stimulated Utica section in the Gentilly well (800 mcf/d). In our view, the market was likely anticipating rates as much as 2mmcf/d or more for the four-stage multi-frac horizontal wells. We also believe initial production rates below 1 mmcf/d for a multi-stage horizontal well with today's gas pricing would be uneconomic. However, with today's gas pricing precious few natural gas developments in our view are economic.
- It is important to note that these test results are not necessary representative of final test rates as the frac load (fluids and proppant injected into the well when fracture stimulated) was not fully recovered. With further cleanup a better representation of flow rates should be obtained. Whether those rates will be higher, lower or the same remains to be seen. However, at this point the test results in our view are inconclusive in determining if these shale formations are commercial.

- It is also important to recognize that all the wells were successfully fracture stimulated. The Utica shale section appears to be amenable to fracture stimulation technology. A key exercise will be to drill, frac and test the better sections within the Utica and to fine tune the composition of the frac fluid and proppant to maximize production rates and the recovery of gas in place.
- These are still early days in the assessment of the commercial potential of gas from the Utica shales in Quebec. The play is still very much at the early stage of evolution. More wells have to be drilled, more data points collected and a lot of “trial and error” testing has to be undertaken to determine what approaches and techniques work best to exploit the gas potential. In this regard, Talisman continues to drill and test wells in the area. We understand that Canbriam Energy, a new company that recently acquired lands south of the Yamaska permit, intends to drill up to three wells this summer and Junex has plans to drill two wells this summer on the Nicolet permit, which is within the fairway.

## **Conclusion and Recommendation**

- Since the test results from Forest did not meet market expectations we anticipate the shares will sell off. However we believe the selloff will be mitigated by the fact the shares in all three companies have come under pressure recently due to the overall market selloff, weakness in natural gas prices and speculation that with the delays in issuing the results the news might be disappointing. Nevertheless, even though we view the news as a “bit of a step back” the play is far from dead as significantly more work to evaluate the Utica shales is planned by Forest, Talisman and others. Remember that gas has flowed in good volumes from the vertically drilled fracture stimulated wells and the Utica shales have shown to be good candidates for fracture stimulation techniques.

**We continue to rate Gastem, Junex and Questerre as BUYS with speculative risk profiles. More information and insights from Forest’s test results are expected during the company’s conference call today at 2pm EST (706-634-0924 or 1-800-399-6298).**

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