CALGARY HERALD

Stealth Ventures steps up shale gas production; Plans to drill 100 new wells in 2008

Calgary Herald
Saturday, May 31, 2008
Page: D4
Section: Calgary Business
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Source: Calgary Herald

Junior shale gas players are preparing for a new round of growth and consolidation

as the once experimental production technique goes mainstream.

Stealth Ventures Ltd. is the latest in a slate of unconventional gas players that wants recognition for its undervalued potential, according to the company's chief financial officer.

Mark Roth says Stealth has one critical advantage over other companies that have identified new shale deposits in Quebec and British Columbia: "We are a producing shale gas operation," he said.

In March, the company touted what is described as the first commercial shale gas development in Alberta at Wildmere, where it's producing a little more than one million cubic feet per day.

Stealth plans to drill 100 additional wells this year to bring production past seven million cubic feet per day this year, rising to 18 billion cubic feet per day by 2011.

"Up until eight months ago we were a blue sky, pure exploration play," Roth continued. "That's really turned the corner."

The timing couldn't be better. Interest in shale gas exploded in recent weeks after Denver-based Forest Oil said the St. Lawrence Lowlands of Quebec could hold trillions of cubic feet of natural gas resources.

The news sent shares of its local partner, Calgary-based Questerre Energy, soaring. The Calgary junior, which began the month of April trading around 34 cents, closed Monday at $4.29 on the Toronto Stock Exchange.

But the excitement hasn't been limited to Eastern Canada.

Last week, British Columbia took in a record $440 million from the sale of oil and gas rights partly spurred by the Horn River region of the province where big companies such as Nexen and EnCana, along with American independents Apache Corp. and EOG Resources, have been touting big shale discoveries.

A Wood Mackenzie report said the area could hold as much as 50 trillion cubic feet of gas resources, more than Canada's entire proven reserves.

Last week Talisman CEO John Manzoni said the company is committing almost half a billion dollars to its unconventional gas plays across North America.

"It's a potentially exciting new source of growth," he told an investor's conference in New York.

But Derek Krivak, Stealth's chief operating officer, said the sudden popularity of shale is an "overnight success years in the making." Many smaller companies have been touting the potential of shale gas for almost a decade, he added.

"Back in 1999 and 2000 when I first got into it, I'd say half of the offices we went into kicked us out and said 'good luck with the science project, it'll never come to fruition.'

"I think the early time players like the EOGs, Nexens, Apaches and EnCanas have been looking at long-term strategic placements, so it's kind of interesting to see juniors looking at resource- type plays. Typically, that's something for the big guys."

Steve Calderwood, an analyst with Raymond James in Calgary, said there are still a lot of caveats regarding shale gas development, especially for smaller juniors.

"The first thing people need to realize is that only one to two per cent of that resource is recoverable. Many of these projects are far afoot in terms of when they'll get developed," he cautioned.

"You need higher gas prices, but the resource base is huge."

Calderwood agreed many smaller players will be swallowed up before they even get to the production stage, creating a new class of takeover targets.

"The companies that are going to sink capital and infrastructure into these plays are going to be bigger companies. So it makes perfect sense that they would be looking for acquisitions."

Stealth's shares fell two cents on the Venture Exchange Monday, to close at 71 cents. The shares have traded as high as $1.41 and as low as 47 cents in the past 52 weeks.