



CALGARY-BASED JUNIOR HEADS TO NOVA SCOTIA TO DEVELOP CBM PLAY BY LYNDA HARRISON

At 5:18 a.m. on May 9, 1992, an explosion ripped through the eight-month-old Westray coal mine near Stellarton, Nova Scotia, killing 26 workers and shattering the windows of homes a mile above the blast.

The mine never re-opened. A public inquiry blamed corporate negligence and criminal charges were laid, but later dropped. A nearby memorial park reminds visitors of the human costs of the tragedy.

Eight gas explosions have occurred in that mine seam since 1914. Now, the same deadly gas that caused the Westray explosion, and those same coal seams that contain it, could prove lucrative for a Calgary-based junior.

Stealth Ventures Ltd. has a 100% interest in a coalbed methane (CBM) play in the Stellarton sub-basin of Pictou County and is farming-in to earn 75% of the acreage in nearby Cumberland Basin.

Drilling for coalbed methane does not hold the dangers mining coal does. "It's an apple and an orange," says Derek Krivak, vice-president of operations. All things considered, he believes Stealth has two of the best CBM plays going.

The company has a permit on about 24,000 acres at Stellarton, where individual coal seam thicknesses range from one to 14 metres, gas content is between 100 and 330 standard cubic feet (scf) per ton and seams are generally 400 to 1 200 metres below surface.

Its 157,000-acre Cumberland play has seams of about 25 metres in thickness and gas content of up to 510 scf per ton. According to Stealth, the properties have been estimated to contain a gross resource of up to 2.5 tcf of gas in place.

In comparison, the Horseshoe Canyon CBM play of Alberta (until July of this year the only commercial CBM play in Canada) has gas content of 20-50 scf per ton, a resource of 15-20 tcf of gas in place and seam thicknesses of one to 12 metres, according to Defiant Energy Corporation, now Advantage Energy Income Fund.

The Upper Mannville in Alberta, where joint venture partners Trident Exploration Corp., Nexen Inc. and Red Willow Production Company were the first to declare their CBM project a commercial success in July, has gas content of 175-330 scf, 150-170 tcf of gas in place and seams of one to 12 metres in thickness.

CBM is also present in British Columbia, but no commercial plays exist.

Krivak is vague about the water content on Stealth's Nova Scotia properties, willing to say only that water-to-gas ratios have been "extremely good."

The company is in the process of preparing a resource report in compliance with Canada's reserves disclosure rule National Instrument 51-101 and won't be pinned down on specific numbers until the report confirms them, explains Mark Roth, chief financial officer. That report is due mid-winter.

The company has only had the Stellarton property since June 2005, and so far it has done an engineering overview of both basins and is busy compiling existing data into a three-dimensional model for them.

Stealth's Nova Scotia holdings are two of the best-studied basins in Canada for CBM because of their mining history, says Krivak. Companies have spent millions of dollars acquiring data to understand the plays, he says. "We're further ahead than a lot of companies are, just because we have all this data that's out there. Coreing's been done, gas content work has been done, coal mapping has been done and coal-rankings has been done."

And getting the gas to market is no problem, as the Maritimes & Northeast Pipeline is a mere 13 kilometres from where Stealth plans to drill its first pilot well.

CBM TECHNOLOGY. Stealth is testing fracturing and stimulation technologies on pre-existing wellbores that have been suspended and, based on those results, will drill two pilot

wells — one in each basin — starting in early 2006, going after small-scale commercial production.

The company plans to spend about \$10 million in Nova Scotia next year. "From a small E&P company's point of view this is a very aggressive program," Krivak says.

As for what technologies Stealth might be using to get the gas out of the ground, the company "loves" coiled tubing, he adds.

First, though, it will consider the seams' thickness, their contents, the coals, permeability, what type of fracturing fluid to use, pressures, rates and whether to selectively choose targets to frac in the zone or to frac the total pay area, he says.

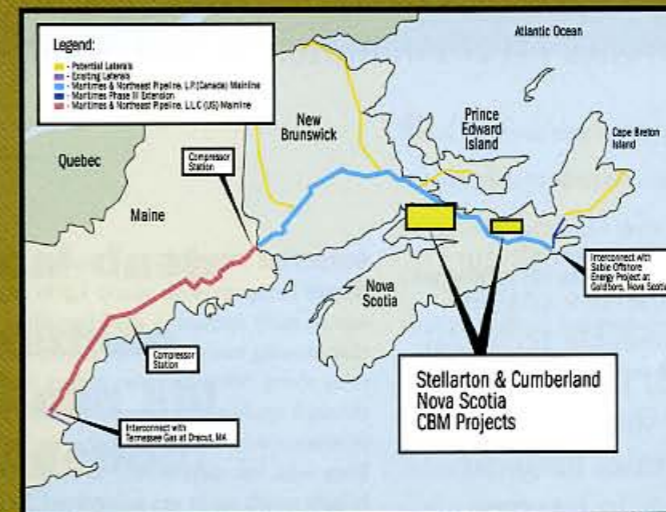
"We think coiled tubing has a real bright future for unconventional gas and on a development basis I think coiled tubing would have applications in our play, both on the drilling and stimulation sides," he says. "We've seen some real good promise in some of the stimulation technologies used for a shale-gas play in the Barnett [field in northern Texas]. We like the thought process behind it and we think we can at least look at applying some of those practices on our basin."

The Barnett is one of the hottest gas plays in the United States and is the most recent of three unconventional gas resources (after tight gas and CBM) explorers have begun to chase. Horizontal drilling and multilateral technology are also intriguing Stealth.

The biggest question about horizontal drilling right now is the balance between payback and operational costs, says Krivak. "That's probably where coiled tubing will start to play a key role. It just adds to efficiency and we like the prospects of it."

Horizontal wells are much more expensive than vertical ones. According to Ross Smith Energy Group, a Calgary-based independent research firm, a horizontal well in the Mannville, for instance, can cost \$2.5 million whereas a vertical well is only \$500,000.

In addition to its CBM interests, Stealth has a 40% interest in a horizontal oil well at Elcott, Saskatchewan. "It allows us to have literally no burn rate against our capital rates so the



MINING DATA

Stealth's holdings in N.S. include the 157,000-acre Cumberland play and the 24,000-acre Stellarton play. The company says its holdings are two of the best-studied basins in Canada for CBM because of their mining history.

money we raise in the open market is to go into the ground in Nova Scotia," says Krivak. "That covers all our overhead. And the company is always looking at opportunities."

Krivak is in the process of moving his young family to Nova Scotia from Calgary to oversee operations

there. Like the resource he is pursuing, Krivak's path to his position has been unconventional. While earning a bachelor of science degree in biochemistry from the University of Winnipeg with every intention of becoming a physician, he found himself working on drilling rigs to make money.

After gaining drilling experience as a motorman for Precision Drilling Corporation, he was offered a job as lab manager for the Gas Technology Institute, later becoming project manager for the unconventional gas research group with the Alberta Research Council. Stealth hired the 25-year-old this past April.

He says the industry is starving for good people who are knowledgeable about unconventional gas, and while there are others more qualified than he, when he was looking at opportunities, the more he dug into Stealth's position and plays, the more he liked the company.

Stealth is also pursuing shale gas prospects in Canada and Krivak divulged that those prospects could very well dwarf the company's CBM resources, but all that is top-secret for now.

Secrecy. What else would you expect from a company called Stealth? **ntm**

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