

## Gas find may spur drilling in Quebec

**NORVAL SCOTT**  
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CALGARY — Quebec stands on the verge of becoming a major natural gas producer, as a U.S. energy company has reported significant discoveries of shale gas that could transform the region into North America's next hot new exploration zone.

Forest Oil Corp [FST-N], a Denver-based oil and gas company, has said that its Utica shale prospects in the St. Lawrence Lowlands, between Montreal and Quebec City, could hold as much as four trillion cubic feet of natural gas reserves.

While exploration is in an early stage, Forest plans to roll out an extensive drilling program in the region starting in 2010 if extra drilling and testing proves the gas can be commercially recovered.

"I think you are going to see some extreme upside out of this play," chief operating officer John Ridens told investors in New York on Tuesday.

### Forest Oil Corp.



While Quebec doesn't produce oil or gas at present, the province has long been suspected to hold reserves in formations of shale rock along the St. Lawrence River.

Historically, the technical difficulty of extracting gas from such geological formations, combined with lower gas prices, meant such resources didn't attract much interest from energy firms.

Only around \$100-million has been spent on exploration in the province in the past decade, according to Quebec's Department of Energy.

More recently, unconventional sources like shale gas have become more economically viable because of higher prices and new horizontal drilling techniques.

This decade, areas like the Barnett Shale — the U.S.'s largest onshore gas field, and which Forest Oil says is similar geologically to its Utica lease — have seen frenzied development as firms develop the vast resources therein.

Forest's stock hit its highest point since 1991 on the announcement Tuesday, while shares in the companies' junior partners in the Utica basin — Gastem Inc [GMR-X], Questerre Energy [QEC-T] and Junex Inc. [JNX-X] — also soared.

Forest's acreage in Quebec comprises three separate sections, two of which are located south of Lavaltrie, and one east of Trois-Rivières. It's not yet clear where the company will drill.

Michael Cleland, chief executive officer of the Canadian Gas Association, said people are "surprised" by the amount of resources that are being found in shale.

"The striking thing about [Utica] is the estimate of the resource, which is pretty sizable when compared to Canada's existing gas reserves."

Mr. Cleland also noted that the location of the discovery provided "very interesting possibilities," as not only is Utica next to existing pipeline infrastructure, but it would also be ideally suited for supplying gas to major cities in Eastern Canada, as well as the huge northeastern U.S. market.

The Utica basin has "tremendous potential" to produce significant volumes of gas as long as the technical challenges can be met, said Jean-Yves Lavoie, CEO of Junex, a small Montreal-based gas firm that's in partnership with Forest in part of the basin.

Aside from its Forest partnership, Junex holds exploration rights on more than six million acres of land in Quebec.

While the firm has been in talks with potential partners over farming out stakes in that acreage, it's in "no hurry" to reach any deal, Mr. Lavoie said.

As well as juniors like Junex, Calgary-based independent Talisman Energy Inc. [TLM-T] also holds substantial acreage in Quebec, and the firm has said that it plans to begin exploration in the region this year.

While it is "still early days in the play ... the resource potential [for Talisman] is huge," said Tristone Capital analyst Chris Theal in a research note.

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