



Initiating Coverage

BUY (Risk\* - Speculative)

CQM-V: C\$1.25

12-Month Target Price: C\$2.50

April 7, 2010

# Canadian Quantum Energy

## Initiating Coverage

We are initiating coverage of Canadian Quantum with a BUY rating (Speculative Risk) and a \$2.50 target price. For those investors with a limited time frame we would focus our attention on the first four pages of this report.

Our BUY rating is predicated on the following points:

### Highlights:

- Relatively large land base in active areas of the Quebec Utica shale play
- Significant resource potential confirmed by a third party engineering study
- Access to wells drilled by both Talisman and Questerre given a small working interest in three joint permits
- Low cost daily operations given technical staff is contracted on an as needed basis
- Proximity to key end user markets
- Competitive fiscal regime
- Attractive valuations

### Risks:

- Limited financial flexibility with \$0.5 million currently in cash and no bank line
- Large capital commitment to partake in drilling over its land base
- Limited vertical well success with no horizontal wells as of yet
- Small capitalization partner on its key Nicolet permit
- Limited human capital with only one full time employee, however this does keep costs low
- Lack of market liquidity given insiders own >55% of the shares outstanding
- Long time frame to full development, investors need to be patient

### Investment Conclusion

Canadian Quantum offers investors access to a higher risk way to gain exposure to the up and coming Utica shale play in Quebec. We believe there is significant upside to the current share price whether valued using peer comps or a full scale development approach. Management is willing to crystallize value for shareholders in the short to medium term given the highly capital intense nature of this play on a long term basis. With numerous catalyst events expected after spring break-up and through the second half of 2010 the excitement over the Utica shale is just heating up. We are initiating coverage with a **BUY** rating, Speculative Risk ranking, and **C\$2.50** target price.

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## WHAT YOU REALLY GET

Canadian Quantum is a junior energy company with assets in the St. Lawrence Lowlands of Quebec. Recent activity has been focused on the Utica shale although the Lorraine and Trenton Black River also exist in the area. With a market capitalization of ~\$30 million and a Venture listing, CQM is a higher risk way to gain exposure to the play, although the upside potential is compelling.

CQM has interests in four permits in the region with 80% of the company's Utica acreage located on the Nicolet permit with a 50% split working interest with Junex (Not Rated). Outside of this key permit CQM holds smaller working interests and is partnered with Talisman (Not Rated) and Questerre Energy (BUY rated, \$8.00 target price). This is key for the company as it gives them access to the most active driller and most experienced shale player in the region (Talisman).

A NI 51-101 compliant resource study was recently conducted covering the Nicolet permit by Netherland, Sewell & Associates (NS&A). The report concluded 8.7 tcf of original gas is in place on the permit of which 10% could be recovered. Net to CQM this equates to 436 bcf of recoverable reserves on this permit alone.

On a valuation basis, shares trade at a steep discount to other Quebec shale players. Our \$2.50 target price is confirmed using a three pronged approach: 1) a roll up approach using a per well NPV analysis on the full development of the Nicolet permit, 2) a similar roll up approach on its Gentilly acreage and 3) an implied value comparison to industry peer Questerre Energy.

Given the early nature of this play we have been very conservative in our assumptions and risk factors which include assuming only 35% of CQM's land has commercial potential, that the long term well will IP at 2 mmcf/d and produce 2 bcf of reserves, and then applied a subjective 25% risk factor. Given this, with continued success in the play it is clear there is ample upside to our target price.

CQM has a simple capital structure with common stock and options outstanding. Of the 27.5 million (FD) shares outstanding the President (Douglas Brett) owns ~26%, while Madeline Brett owns ~29% driving insider ownership over 55%.

### You Need a Long Term Perspective

In our opinion conventional E&P investors may struggle to understand the long time frame involved in developing the Quebec shale. This play is still in its infancy although we believe 2010 could be a major year in proving the commerciality of this resource. Significant additional horizontal drilling will have to be undertaken to prove this play can produce on a long term basis; one well has been completed with multiple more planned for 2010. Given the large capital outlays that will be required to develop CQM's acreage we would not be surprised to see a corporate takeover in the short to medium term.

## CATALYSTS – LOTS OF NEWS FLOW EXPECTED THROUGH 2010

### Canadian Quantum Specific

- June – July 2010: have a 3.75% WI and 0.75% GORR in the recently drilled horizontal Gentilly well (TLM operated); expect this well to be completed post spring break-up
- Summer 2010: CQM and Junex to shoot ~150 kilometres of 2-D seismic at Nicolet
- Late 2010 - Early 2011: based on seismic interpretation will begin a horizontal drilling program

### General Utica Activity

- February 2010: Questerre releases a 6 mmcf/d test rate from the first 1,000 meter horizontal well drilled into the play – very positive first step for all Utica players
- June – July 2010: as mentioned above TLM to complete and test the recently drilled Gentilly horizontal well (CQM 3.75% WI & 0.75% GORR)
- June – July 2010: It is anticipated TLM and Intragas will complete and test the recently drilled Leclercville well
- H2/10: we expect TLM to drill an additional four horizontal wells with Questerre, which may include CQM
- H2/10: Junex has announced it will drill and core two wells on its Lyster permit
- Q2/10: Forest expected to shoot seismic in Q2, with a horizontal program planned on its North Richelieu property later in the year

## FINANCIAL CAPACITY

Canadian Quantum currently has ~ 500k in cash and has a history of completing small equity issues to sustain progress on its Quebec play. Given this we expect Canadian Quantum will have to issue equity to fund its currently planned Utica program on the Nicolet permit for 2010 and early 2011.

## VALUATION – LOTS OF UPSIDE POTENTIAL, ALTHOUGH NOT RISK FREE

Placing a value on an oil and gas asset that has limited well history is no simple task. Especially considering the key to this play will be horizontal multi-frac wells, of which none have been drilled on the Nicolet permit to date. However, perseverance is required and we have taken the following steps to generate our \$2.50 target price.

Our full valuation incorporates a three-pronged approach consisting of:

**Step 1: Value the Nicolet permit on a full scale development plan**

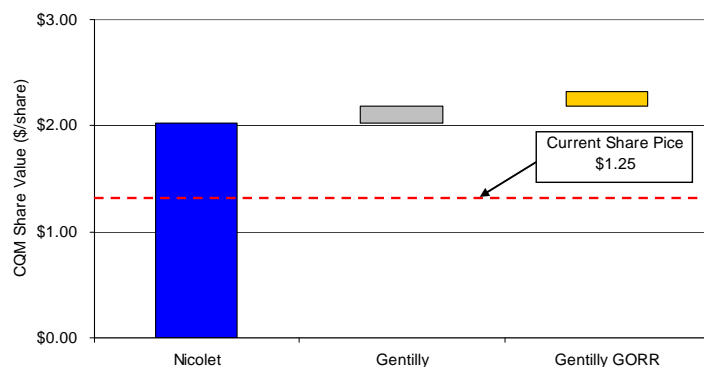
**Step 2: Value the Gentilly permit on a full scale development plan (given there is a NS&A resource report from QEC covering this acreage)**

**Step 3: Compare CQM to other pure play Quebec companies**

The following 4 pages will conclude the Nicolet permit is worth \$2.70/share and the Gentilly permit is worth \$0.38/share on a fully developed basis net to CQM, by our estimates. With no third party resource estimates on CQM's Parisville or Leclercville permits exclusively and the shallower depths/lower pressures of the Utica in these areas, we have ascribed no value to these permits at this time. When compared to its closest peer pure play; shares of CQM would be worth anywhere between \$3.15 and \$5.25/share leaving plenty of upside to our valuation. Our \$2.50 target price is calculated using a weighted average approach: 75% to the full development roll up, and 25% to the peer comparison. The math goes:  $75\% * \$2.30 + 25\% * 3.30$ . Note these values are risked.

It should be noted we have not adjusted our valuation for the potential share dilution that would be required to fund the development of CQM's land base. At a minimum we believe CQM would have to find/raise between \$5 and \$7 million to fund the seismic survey and initial horizontal activity pending seismic interpretation. At current prices this would equate to ~5 million shares on a current base of ~27 million fully diluted.

### ***Exhibit 1: Roll-Up Valuation Summary - Huge Upside Potential***



Source: Company Reports, DSC.

## Step 1: Nicolet Full Scale Development

To value the Nicolet permit we have taken the following steps.

### 1.) Land Base:

- CQM has a 50% working interest in 59,090 gross acres of land
- To be conservative we are assuming only 35% of this land is prospective for full scale commercial development

### 2.) Reserves and Recovery Factor:

- We use the Netherland, Sewell and Associates (NS&A) resource study as our base for OGIP and recoverable reserves
- The NS&A report assigns a 10% recovery factor on their best estimate
- As can be seen in Exhibit 3, NS&A has assigned 8.7 tcf of OGIP, 873 bcf of recoverable gross reserves, and 436 bcf of net recoverable CQM reserves to the Nicolet permit

### Exhibit 2: NS&A Report and Net Recoverable to Canadian Quantum

Prospective OGIP Volume	OGIP (Bcf/section)			Total OGIP (Bcf)		
	Low	Best	High	Low	Best	High
Bcf	78	97	118	6,954	8,666	10,523
mmboe	13	16	20	1,159	1,444	1,754

Prospective Recoverable Resource Potential	Gross (100%)			Canadian Quantum		
	Low	Best	High	Low	Best	High
Bcf	294	873	2,614	147	436	1,307
mmboe	49	146	436	25	73	218

Source: Company Reports, DSC.

### 3.) Reserves Per Section of Land:

- Our analysis assumes 9.4 bcf/section of recoverable reserves net to CQM
- This is calculated by taking the net recoverable reserves to CQM (436 bcf) and dividing by their net sections of land (~46)

### 4.) Number of Wells and Well Spacing:

- To calculate the number of wells and well spacing that will be required to fully develop this permit we take the implied reserves per section and divide by our estimated recoverable reserves per well (2 bcf)
- The math goes 9.4 bcf/section divided by 2 bcf recoverable per well which equates to 4.7 wells per section
- Applying this to our estimate of CQM's prospective 16 net sections generates 76 net wells, or 152 gross wells

## 5.) Per Well NPV Economics

- We calculate a per well NPV of \$1.54 million using a conservative 2 mmcf/d well with 2 bcf of reserves (details can be seen in the Appendix with a summary in Exhibit 3)

### ***Exhibit 3: Dundee's Per Well NPV Economic Summary***

<b>Utica Horizontal</b>	
Well Costs (\$m)	\$4,500
Measured Well Depth (meters)	2,300
IP Rates (mcf/d)	2,000
Reserves (mmcf)	2,000
1st Year Decline Rate (%)	70%
Weighted Avg. Gas Price (\$C/mcf)	\$6.00
Premium to Market (C\$/mcf)	\$0.60
Royalty Rate (%) - <3,000 mcf/d	10%
>3,000 mcf/d	12.5%
Operating Costs (\$C/mcf)	\$1.10
<b>Per Well NPV (\$mm)</b>	<b>\$1.54</b>
Breakeven Gas Price (\$C/mcf)	\$4.50
IRR (%)	20%
Payback Period (years)	3.5

Source: Company Reports, DSC.

## 6.) Rolling it all up generates a value of 2.70/share for the Nicolet permit alone

- Our roll up value of the Nicolet is calculated by taking the per well NPV of \$1.5 mln \* 4.7 wells per section \* 16 net sections = \$4.27. We then discount the program by 10% over the eight years we estimate it would take to drill the play which equates to a per share value of \$2.70 in today's dollars.

## Step 2: Gentilly Full Scale Development

Given Questerre/Talisman received an NS&A report which encompassed CQM's Gentilly asset we have completed a similar analysis to that of the Nicolet on Gentilly. With a 3.75% working interest the impact to CQM shareholders is obviously less material. It should also be noted CQM holds a 0.75% GORR on this acreage which we value below.

### 1.) Land Base:

- CQM has a 3.75% working interest in 35,600 gross acres of land
- To be conservative we are assuming only 35% of this land is prospective for full scale commercial development which equates to 19.6 gross sections

### 2.) Reserves and Recovery Factor:

- We use the NS&A resource study for TLM/QEC as our base for OGIP and recoverable reserves on a per section basis
- Applying the full NS&A resource estimate to the total sections of land evaluated generates a per section recoverable resource of 15.8 bcf/section using a 10% recovery factor

### **3.) Number of Wells and Well Spacing:**

- To calculate the number of wells and well spacing that will be required to fully develop this permit we take the implied reserves per section and divide by our estimated recoverable reserves per well (2 bcf)
- The math goes 15.8 bcf/section divided by 2 bcf recoverable per well which equates to 7.9 wells per section
- Applying this to our risked land assessment of 19.6 net sections generates 155 gross wells

### **4.) Per Well NPV Economics**

- We calculate a per well NPV of \$1.54 million using the same type well as on the Nicolet permit

### **5.) Rolling it all up generates a Gentilly permit value to CQM of \$0.21/share**

- Our roll up value of the Nicolet is calculated by taking the per well NPV of \$1.5 mln \* 7.9 wells per section \* 0.7 net sections = \$0.32. We then discount the program by 10% over the eight years we estimate it will take to drill the play which equates to a per share value of \$0.21 in today's dollars.

### **6.) GORR analysis**

- Given CQM has a 0.75% GORR on this acreage we take one additional step by calculating the GORR against our estimation of Talisman production on a full scale development less transportation costs and discounted at 10%.

**The GORR generates a per share value net to CQM of \$0.17.**

### **Step 3: Peer Comparison**

Given Canadian Quantum has a pure play peer in Questerre we thought we would compare valuations on a few different metrics. Before we do, we think it is prudent to highlight some clear differences between the two companies.

Compared to CQM, Questerre has:

- A larger market capitalization (~\$1 bln vs ~\$33 mln)
- A well funded balance sheet (~\$160 mln in cash vs ~\$0.5 mln in cash)
- Both successful vertical wells and a horizontal well
- A large and contiguous land base
- A large and experienced partner on its key permits (Talisman)
- Greater market liquidity
- Staff and with this a technical capability

For the above reasons it seems reasonable that shares of Questerre would trade at a premium to CQM, however the current valuation gap seems unjustifiably large.

Our analysis focuses on three metrics: 1) total net land, 2) total net land evaluated by NS&A, and 3) the third party net recoverable resource estimate. We compare these metrics on an enterprise value basis with the results shown in Exhibit 4.

#### Exhibit 4: Peer Comparison Summary

Company	Enterprise Value (\$mm)	Total Land (net acres) (m)	Land NS&A Evaluated (net acres) (m)	NS&A Recoverable Resource (bcf)	EV/ Total Land (\$/Land)	EV/NS&A Evaluated Land (\$/Land)	EV/NS&A Recoverable Resource (\$/mcf)
QEC	\$846	336	177	4,360	\$2,515	\$4,780	\$0.19
CQM	\$34	37	30	436	\$915	\$1,149	\$0.08

Source: Company Reports, DSC.

It is clear shares of CQM are trading at a steep discount to Questerre, likely for some of the above reasons. That being said, we believe the discount is extreme at this point. If one was to apply the QEC valuation to CQM the valuation gap is made perfectly clear and can be seen in Exhibit 5. As a reminder shares are currently trading at \$1.25.

#### Exhibit 5: Implied Canadian Quantum Valuations

CQM Implied Value to QEC Multiples	
Metric	(\$/share)
EV/Total Land	\$3.44
EV/NS&A Evaluated Land	\$5.20
EV/NSA Recoverable Resource	\$3.12

Source: Company Reports, DSC.

#### Valuation Conclusion – Lots of Upside Potential

We believe our valuation approach proves there is significant upside from current share price levels. Our \$2.50 target price may seem conservative given where CQM's peers are trading but we remind investors there has yet to be a horizontal multi-frac well drilled on CQM's land base. Our 25% subjective risk rating and 35% land prospectivity factor would likely be revised given further Utica drilling success leading to upside to our current target price.

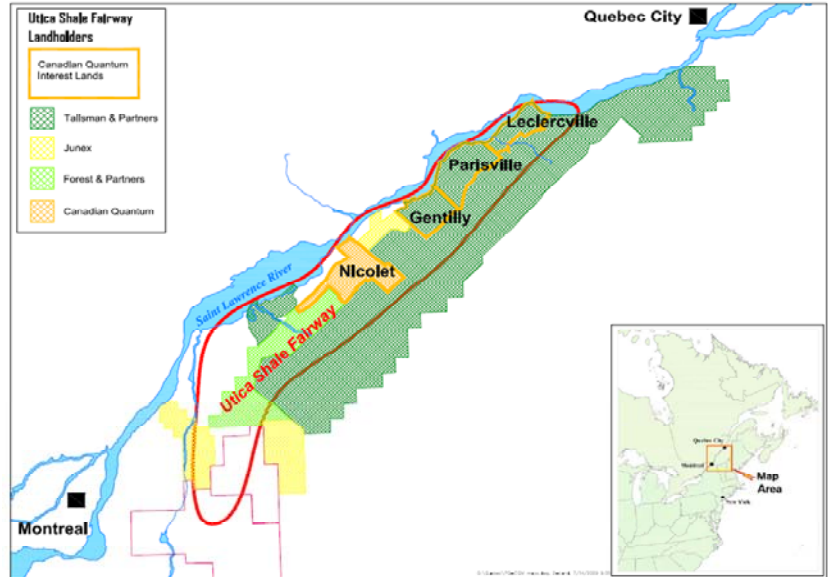
#### Risks to Our Valuation

- The gas NS&A has ascribed to this acreage is not actually present in the volumes originally expected
- Whether horizontal multi-frac wells can actually get the gas out of the ground in an economic manner
- Long term gas prices have a major impact
- Finding the capital necessary to fully develop the play

## CORE AREA OVERVIEW

Below we provide a summary of Canadian Quantum's asset base throughout the St.Lawrence Lowlands.

### Exhibit 6: Canadian Quantum Asset Map



Source: Company Presentation

Canadian Quantum has access to ~ 174,000 gross (37,000 net) acres within the Utica shale core fairway spread between four permits (Nicolet, Gentilly, Parisville, and Leclercville). The majority of the company's acreage is in the Nicolet permit, with 87% of this acreage lying between the Yamaska Growth Fault and the Logan's Line (Deeper & over-pressured), where past activity indicates the highest probability of success. Canadian Quantum has entered into joint ventures with larger producers to capitalize on the potential of the resource in an efficient manner while at the same time minimizing its risk profile. We outline the details of the four permits and the corresponding joint ventures below with a summary in Exhibit 7.

### Exhibit 7: Canadian Quantum Quebec Permits

Permit	Acres	Working Interest (%)	GORR (%)	Net Acres	Partners
Nicolet (To Base Utica)	59,090	50%		29,545	Junex
Nicolet (Below Base Utica)	59,090	100%		59,090	
Gentilly	35,600	3.75%	0.75%	1,315	TLM/QEC
Parisville	50,100	3.75%	0.75%	1,879	TLM/QEC
Leclercville	29,000	15%		4,350	TLM/QEC

Source: Company Presentation, DSC.

**1.) Nicolet Permit (Canadian Quantum/Junex)** – Canadian Quantum and Junex entered into a farm-out agreement consisting of 59,090 gross (29,545 net) acres, whereby Junex earned a 50% working interest in the Utica and Lorraine shale intervals by drilling and subsequently coring two exploration wells (St.Gregoire #2 and St.Gregoire #3). It should be noted CQM retains the right to operate the play with a rolling one year

alternating option. The St.Gregoire #2 well was drilled into the deeper acreage south of the Yamaska growth fault encountering over-pressured zones. It is worth noting that the St.Edouard #1a horizontal well was drilled into a similar area of greater structural influence and over-pressuring. Canadian Quantum and Junex plan on shooting seismic and based on this seismic will initiate a horizontal drilling program likely in early 2011.

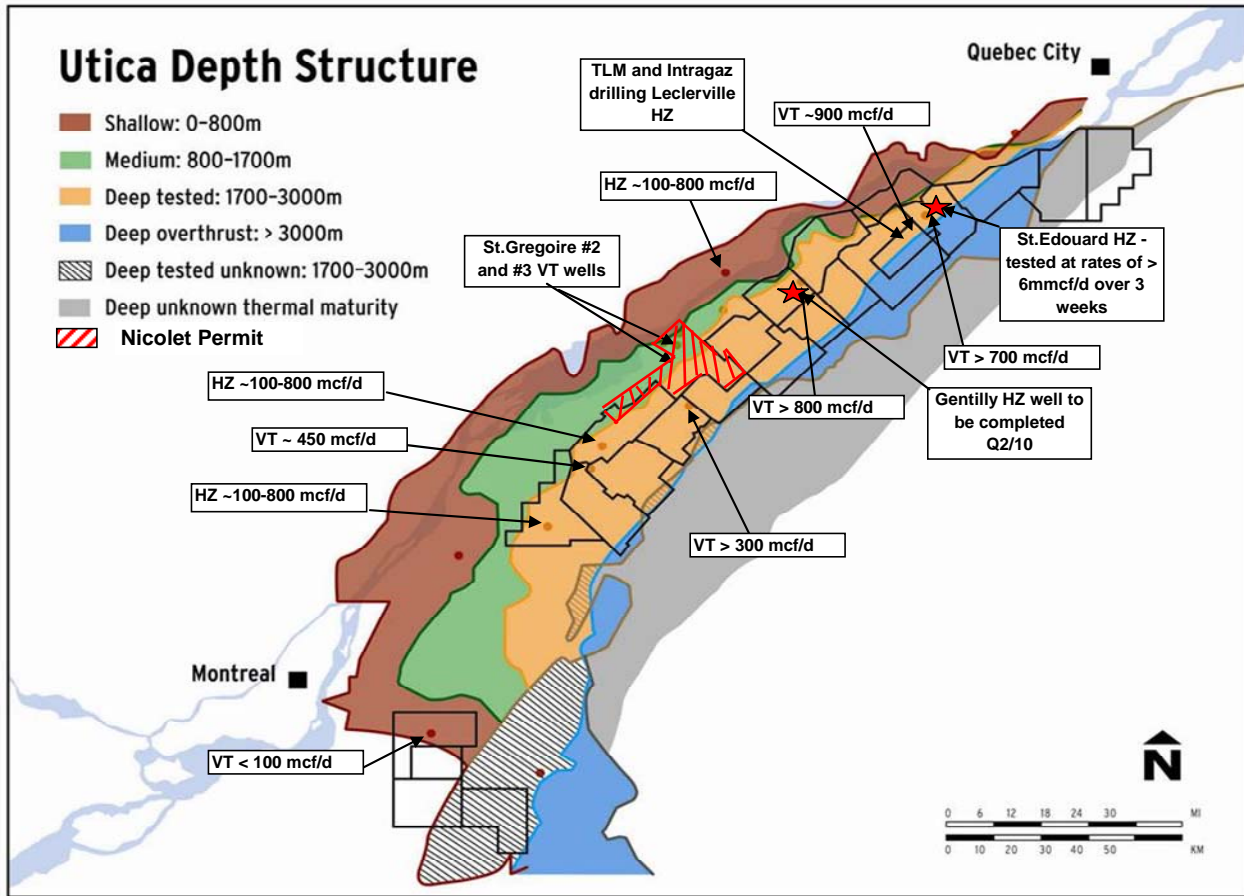
**2.) Gentilly Permit (Canadian Quantum/Talisman/Questerre) -** Canadian Quantum has partnered with Talisman and Questerre in the area with access to 35,600 gross (1,315 net) acres of prospective Utica land along with a 0.75% Gross Over-Riding Royalty (GORR) on Talisman production (75% WI). With the first horizontal well (Gentilly #2 HZ) drilled on the permit and awaiting completion post spring break-up, it provides CQM with a near term catalyst and application of the first horizontal 1,000 meter multi-frac well on its land base.

**3.) Parisville and Leclercville Permits (Canadian Quantum/Talisman/Questerre) –** These two permits combined provide Canadian Quantum access to over 79,000 gross (6,230 net) acres of prospective Utica lands. The majority of the lands in these permits are north of the Yamaska growth fault, whereby the Utica formation is present at shallower depths and at lower pressures. Given these traits, we are limiting our attention on these permits for now and focusing our valuation efforts on the Nicolet and Gentilly permits.

### **What's Happened in the Utica to date...**

The first ever 1,000 meter horizontal length well at St.Edouard has provided encouraging results as to the potential commerciality of the Utica play going forward. We are anticipating results from the second and third 1,000 meter length, horizontal multi-frac wells in Q2/Q3. These wells will provide additional data points to go along with the ~19 previous vertical/horizontal Utica wells drilled to date. It is worth noting the larger vertical well rates and aforementioned St.Edouard horizontal well have been located in the northeast trend of the deeper over-pressured part of the play between the Yamaska Growth Fault and Logan's Line. Forest Oil (Not Rated) has announced plans to potentially drill a longer length (1,000 meter) horizontal well in the second half of the year on its deeper North Richelieu acreage, which is in closer proximity to CQM's Nicolet acreage. Exhibit 8 illustrates the recent Utica activity and corresponding test rates throughout the play.

**Exhibit 8: Utica IP Test Results over the Past Two Years**



Source: Questerre Energy, DSC.

**CONCLUSION**

Canadian Quantum offers investors a highly leveraged way to gain access to the Utica shale in Quebec. With significant news flow expected post spring break-up and through the rest of the year we believe the Utica is at the cusp of becoming one of the hottest plays in North America. With attractive valuations, a significant land base, third party resource confirmation, and numerous catalysts we believe now is the time to invest in Canadian Quantum (ensure you understand the risks however). We are initiating coverage with a BUY rating, Speculative Risk ranking, and \$2.50 target price.

For additional information regarding our economic analysis which was outlined in our Valuation section, please refer to the Appendix of the report.

## APPENDIX

### Economic Sensitivity and Cash Flow/Production Estimates for the Nicolet

To provide further details and a sensitivity analysis to our per well economic analysis we present the following exhibits.

Exhibit 9 is a summary, based on different IP rates and reserves, of the well spacing, total number of wells, and value net to CQM for the full development of the Nicolet permit. To be clear this analysis assumes only 35% of the permit is commercial, that 90% of the wells are successful, there is no discounting of the wells given they will be drilled over the coming 4-12 years, and we have not applied our 25% subjective risk factor. It is clear there is significant upside to our economic valuation if well results are better than we expect, time will tell.

#### Exhibit 9: Dundee's Nicolet per well NPV summary

Initial Production (mmcf/d)	Bcf/well (Bcf)	Well Spacing/section (acres)	# of wells/section # of wells	NPV/well (\$m)	Program Value NPV (\$m)	CQM Value (\$m)	CQM Share Value (\$/share)
1.0	1.0	68	9.4	-\$1,338	-\$408,358	-\$204,179	-\$7.41
1.5	1.5	102	6.3	\$103	\$20,957	\$10,479	\$0.38
2.0	2.0	136	4.7	\$1,543	\$235,462	\$117,731	\$4.27
2.5	2.5	169	3.8	\$2,984	\$364,287	\$182,143	\$6.61
3.0	3.0	203	3.1	\$4,425	\$450,170	\$225,085	\$8.17
3.5	3.5	237	2.7	\$5,828	\$508,202	\$254,101	\$9.22
4.0	4.0	271	2.4	\$7,263	\$554,167	\$277,083	\$10.06
4.5	4.5	305	2.1	\$8,698	\$589,918	\$294,959	\$10.71
5.0	5.0	339	1.9	\$10,090	\$615,894	\$307,947	\$11.18
5.5	5.5	373	1.7	\$11,521	\$639,311	\$319,655	\$11.60
6.0	6.0	407	1.6	\$12,909	\$656,638	\$328,319	\$11.92

Source: Company Reports, DSC.

Focusing on the well level we provide Exhibits 10 and 11 which provide sensitivities to our per well NPV analysis. Exhibit 10 focuses on IP rates and reserves while Exhibit 11 focuses on IP rates (assuming 2 bcf of reserves) and natural gas prices. What can be seen is that minimum IP rates of 1.5 mmcf/d are required at long term gas prices of \$6.00/mcf. It is also clear the play is highly sensitive to gas prices over the long term but in the short term we believe IP and test rates will be the key drivers for the Utica players.

#### Exhibit 10: IP vs. Reserves

Reserves (mmcf)	IP Rate mcf/d	IP Rate mcf/d						
		1,000	2,000	3,000	4,000	5,000	6,000	7,000
1,000		(\$1,338)	(\$457)	(\$185)	(\$442)	(\$379)	(\$860)	(\$300)
2,000		(\$1,256)	\$1,543	\$2,835	\$3,262	\$3,357	\$3,689	\$3,269
3,000		(\$1,256)	\$1,709	\$4,425	\$5,817	\$6,643	\$6,908	\$6,875
4,000		(\$1,256)	\$1,709	\$4,673	\$7,263	\$8,741	\$9,729	\$10,365
5,000		(\$1,256)	\$1,709	\$4,673	\$7,594	\$10,090	\$11,652	\$12,733
6,000		(\$1,256)	\$1,709	\$4,673	\$7,594	\$10,503	\$12,909	\$14,445
7,000		(\$1,256)	\$1,709	\$4,673	\$7,594	\$10,503	\$13,405	\$15,724
8,000		(\$1,256)	\$1,709	\$4,673	\$7,594	\$10,503	\$13,405	\$16,303
9,000		(\$1,256)	\$1,709	\$4,673	\$7,594	\$10,503	\$13,405	\$16,303
10,000		(\$1,256)	\$1,709	\$4,673	\$7,594	\$10,503	\$13,405	\$16,303

Source: Company Reports, DSC.

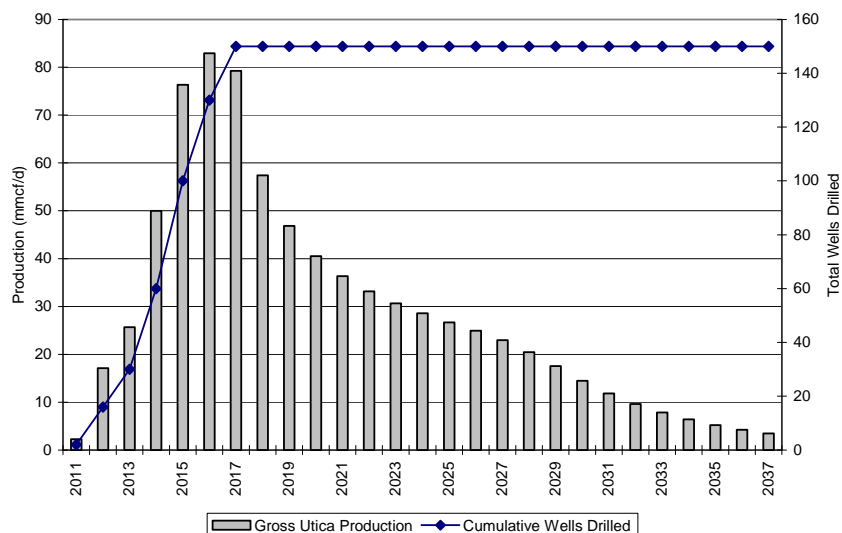
**Exhibit 11: IP rate vs. Natural gas prices**

Natural Gas Prices (\$/mcf)	IP Rate mcf/d						
	1,000	2,000	3,000	4,000	5,000	6,000	7,000
\$4.00	(\$2,687)	(\$1,241)	(\$576)	(\$359)	(\$315)	(\$149)	(\$372)
\$4.50	(\$2,412)	(\$706)	\$80	\$337	\$391	\$589	\$328
\$5.00	(\$2,136)	(\$170)	\$736	\$1,034	\$1,097	\$1,327	\$1,029
\$5.50	(\$1,861)	\$365	\$1,392	\$1,730	\$1,803	\$2,065	\$1,729
\$6.00	(\$1,586)	\$901	\$2,048	\$2,427	\$2,510	\$2,803	\$2,429
\$6.50	(\$1,311)	\$1,436	\$2,704	\$3,123	\$3,216	\$3,541	\$3,129
\$7.00	(\$1,035)	\$1,972	\$3,360	\$3,820	\$3,922	\$4,279	\$3,830
\$7.50	(\$760)	\$2,507	\$4,016	\$4,516	\$4,628	\$5,017	\$4,530
\$8.00	(\$485)	\$3,043	\$4,672	\$5,212	\$5,334	\$5,756	\$5,230
\$8.50	(\$210)	\$3,578	\$5,328	\$5,909	\$6,040	\$6,494	\$5,930

Source: Company Reports, DSC.

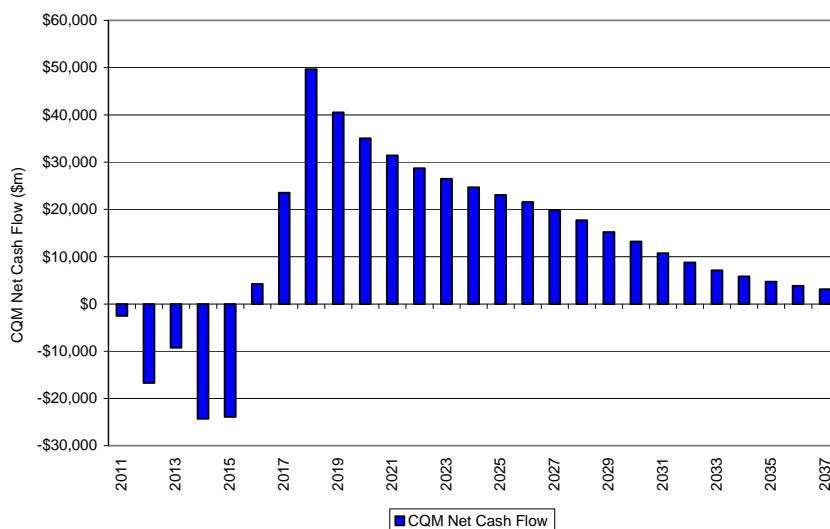
We have modeled out the potential production and cash flow scenarios attributed to the Utica production at CQM's Nicolet permit. To calculate these metrics, we devised a full scale Utica development model which incorporated our production type curve, timing of drilling, number of wells, costs and cash flow assumptions over the full life of the program. Our estimates indicate the peak production from this permit will reach over 80 mmcf/d on the prospective lands; with full development to occur over ~8 years (total life ~25 years). Exhibit 12 and 13 illustrate our estimates of Utica production and associated cash flow over the lifetime of the Nicolet Utica permit.

**Exhibit 12: Nicolet Utica Production Potential and Accumulated Wells**



Source: Company Reports, DSC.

**Exhibit 13: Net Cash Flow from Utica at \$6.00 Nymex plus \$0.60/mcf premium**



Source: Company Reports, DSC.

## RISKS

Canadian Quantum is prone to similar risks as those faced by the majority of Canadian oil and gas producers on a day to day basis with respect to things such as: Commodity price risk, exchange rate risk, seasonality, operating and service cost fluctuation, loss of key employee's and the general macroeconomic factors that affect North America and abroad. However Canadian Quantum has unique risks associated with its Quebec operations due to the early stage of development and the significant capital requirements associated with the commercialization of the play. Below we outline some of the key risks specific to Canadian Quantum and the Utica shale development:

**Economic Risk** – The limited drilling activity that has occurred to date, coupled with minimal test rate information represents the greatest risk to the company, in our opinion. We believe the steps that have been taken have mitigated this risk to an extent, but caution the decline characteristics that are still being determined play a vital role in assessing the commerciality of the play.

**Infrastructure and Service Risk** – Given the limited amount of oil and gas activity that has taken place in Quebec; significant infrastructure and service industry development must take place in order to realize the full development of the play. Although initial steps are being taken to get a better understanding of the issue, we have made many assumptions regarding these factors including operating costs, other service costs and securing access to drilling rigs.

**Development of Quebec Regulatory and Fiscal Policy Risk** – Although there is an established royalty structure in place, risk pertaining to both the tax laws and environmental regulation are still being devised which ultimately could affect the potential development of the play.

**Capital Risk** – In assessing the full development of the program we have made capital requirement assumptions on behalf of Canadian Quantum and its partners. There can be no assurance that these capital needs can be met through either debt or equity markets on favourable terms.

## **MANAGEMENT OVERVIEW**

### **Douglas Brett – President / CEO / Director**

Mr Brett, a 25 year veteran of the oil and gas industry has a B Sc. Petroleum Engineering degree from the University of Oklahoma . After cutting his teeth with a major oil and gas company out of Denver, Mr Brett settled in South-western Ontario and was active as both a successful operator and drilling contractor for a number of years. Mr Brett currently resides in Calgary and has been involved in a variety of geologic basins over the past few years. He has worked in several countries and managed annual capital budgets in excess of \$100 million taking projects from conception to production.

### **Michael Koenig – CFO / Director**

Mr. Koenig is a partner with Davis Martindale Chartered Accountants, London Ontario. Michael's practice specializes in a wide spectrum of client business, tax and accounting services. He achieved his CGA designation in 1984 and became a Certified Financial Planner in 2000.

### **Eric Leslie – Director**

Mr. Leslie began working in the oil & gas industry in 1978 in a variety of roles for both major and small independent oil and gas companies. By 1991 he founded Merchant Equities Capital Corp a private company that provided venture capital financing, financial workouts and restructuring consulting management services primarily to early stage companies & then co-founded Merchant Equities Investments Inc which led a variety of transactions including reverse takeovers, initial prospectus offerings, takeover bids, facilitation in taking 20+ companies public on various stock exchanges in Canada and the sale of assets and vend-ins to Capital Pool Corporations. For the past 5 years Mr. Leslie has served as a senior officer and director of a number of private and public oil & gas exploration companies.

### **Neil Munro – Director**

Neil Munro has more than 25 years experience in the oil and gas industry, including international business development, contract negotiations and international project management. He is the CEO of Seven Energy (Canada) Inc. a company that was formed as the E&P arm of Weatherford International. Seven Energy concluded a management buy-out of Weatherford in October 2007 and is currently a private international operating company. Prior to Seven Energy, Neil was a Business Unit Manager for Weatherford, in Canada. Neil has also been a Founder of a private E&P company, involved in projects in the United States and Latin America. Previous to his position with Weatherford, Neil was Vice President and General Manager of Northland Energy Services; whom pioneered the utilization of Under-Balanced Drilling in Canada, Argentina, Venezuela and Europe. Neil also coordinated the establishment of the first independent UBD Engineering Company in Canada and directed the establishment of Northlands international business units in Europe and Latin America. Mr. Munro holds a Post-Graduate degree in Mathematics.

## **Disclosures & Disclaimers**

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Note 1: All historical data including financial and operating data on the issuer(s) mentioned in this report come from publicly available documents including statutory filings of these issuer(s). Data may also be sourced from Bloomberg, Baseline, Thomson ONE.

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Valuation methodologies used in determining the 12-month target price(s) for the issuer(s) mentioned in this report are contained in current and/or prior research. Target Price N/A: a target price is not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

BUY: total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. NEUTRAL: total returns expected to be in line with the overall market. SELL: total returns expected to be materially lower than the overall market. TENDER: the analyst recommends tendering shares to a formal tender offer.

\*Risk Ratings: risk assessment is defined as Medium, High, Speculative or Venture. Medium: securities with reasonable liquidity and volatility similar to the market. High: securities with poor liquidity or high volatility. Speculative: where the company's business or financial risk is high and is difficult to value. Venture: an early stage company where the business or financial risk is high, and there are limited financial metrics upon which to base a reasonable valuation.

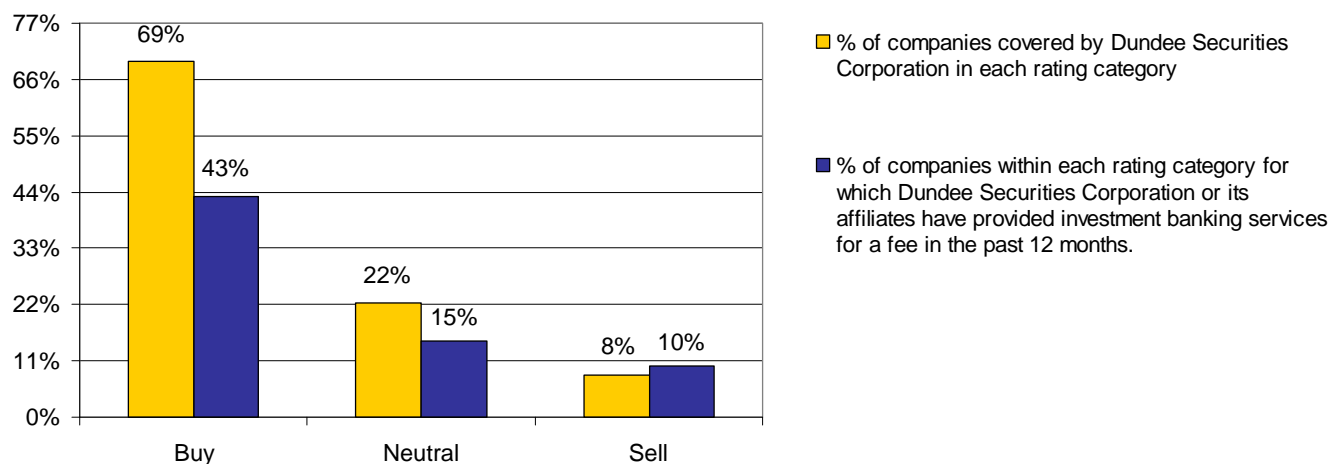
Medium and High Risk Ratings Methodology: Medium and High risk ratings are derived using a predetermined methodology based on liquidity and volatility. Analysts will have the discretion to raise the risk rating if it is determined a higher risk rating is warranted. Securities with poor liquidity or high volatility are considered to be High risk. Liquidity and volatility are measured using the following methodology: a) Price Test: All securities with a price  $\leq$  \$3.00 per share are considered high risk for the purpose of this test. b) Liquidity Test: This is a two-tiered calculation that looks at the market capitalization and trading volumes of a company. Smaller capitalization stocks ( $<$ \$300MM) are assumed to have less liquidity, and are, therefore, more subject to price volatility. In order to avoid discriminating against smaller cap equities that have higher trading volumes, the risk rating will consider 12 month average trading volumes and if a company has traded  $>$ 70% of its total shares outstanding it will be considered a liquid stock for the purpose of this test. c) Volatility Test: In this two step process, a stock's volatility and beta are compared against the diversified equity benchmark. Canadian equities are compared against the TSX while U.S. equities are compared against the S&P 500. Generally, if the volatility of a stock is 20% greater than its benchmark and the beta of the stock is higher than its sector beta, then the security will be considered a high risk security. Otherwise, the security will be deemed to be a medium risk security. Periodically, the equity risk ratings will be compared to downside risk metrics such as Value at Risk and Semi-Variance and appropriate adjustments may be made. All models used for assessing risk incorporate some element of subjectivity. Risk in relation to forecasted price volatility is only one method of assessing the risk of a security and actual risk ratings could differ.

SECURITY ABBREVIATIONS: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

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### Dundee Securities Equity Research Ratings



As at December 31, 2009

Source: Dundee Securities Corp.