

Energy

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Rock Energy (RE \$0.60 | Target: \$0.80 <down from \$2.00> | Recommendation: Hold)

Rock Energy will report on Thursday or Friday. It should have averaged about 3,700 boe/d in the fourth quarter, consisting of 1,950 bbls/d of heavy oil and 10.5 mmcf/d of natural gas. Cash flow should be in the \$5.7 million range or about \$0.22/share. Full year production should have averaged 3,375 boe/d generating \$41.0 million or \$1.58/share in cash flow. Year-end debt should be \$30 million. Things go downhill from there for Rock Energy. We forecast only \$7.0 million in cash flow in 2009 which means that debt becomes a problem and the company can't reinvest enough capital to maintain production. Rock looks like it needs some combination of higher oil and gas prices, really good finding and development costs, and a narrow heavy oil differential just to break even.

Canadian Spirit Resources (SPI \$0.61 | Target: \$1.50 | Recommendation: Buy)

On Friday we had the privilege of visiting Hudson's Hope B.C. as the guest of Canadian Spirit. They are sitting on enormous natural gas resources and are working hard to turn those into reserves and production. Shell Canada has farmed in on CSRI and taken over operation of the Gething program. When we visited the pilot project a small gas plant was under construction, a water disposal line was being laid, and the companies were getting ready to do a 'hot tap' into the Spectra Energy (formerly Westcoast Energy) pipeline which runs right through the property. South of the Peace River, Canada Energy Partners already has several wells tied-in and on production.

CSRI has also farmed out its deep rights to a private company called Canbriam Energy. They drilled two vertical Montney tests on what is known as the 'east block' and didn't get much encouragement, but just north of CSRI's pilot, Talisman Energy has drilled a 5 mmcf/d vertical Montney test and was in the process of fracing the first horizontal well drilled into the Montney in this area (they call it Altares). Talisman has already indicated that it plans to spend \$7.5 million in this area over the next 10 years.

Apart from the price of natural gas, Canadian Spirit is in very good shape with no debt, maybe \$12 million in cash in the bank, and all its drilling commitments farmed out to either Shell or Canbriam. Some upcoming milestones include a landsale on March 25th, tie-in of the Gething wells and first production by month-end, Shell's election to pool its own land with CSRI's acreage which could come in the second quarter, results of Talisman's horizontal well and Canbriam operated Montney tests on CSRI's 'west block'.

Because of the sheer size of the potential natural gas reserves in the Gething and the Montney, combined with its excellent financial condition, Canadian Spirit is much more interesting than most other Western Canadian junior gas producers.

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Buy	We expect the stock to generate a total return of greater than 15% over the next 12 months.	35%
Speculative Buy	We expect the stock to generate a total return of greater than 15% over the next 12 months. However, there are significant unquantifiable risks that may result in material loss.	25%
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