

Enerplus

Making the Change to Growth & Income

For the past 24 years, Enerplus Resources Fund has been in the business of turning cash flow into income for its investors. But changing federal tax regulations, combined with the dynamics of the oil and gas industry and the need to remain competitive, have Enerplus rebalancing the scales and adding growth to its strategy going forward, says president and CEO Gordon Kerr.

“We’ve been transitioning our business over the last two years. It’s taken us from focusing solely on income to adding in a focus on growth,” says Kerr. Enerplus currently has a mix of strong revenue generating properties that will support its plans. However, to make the transition, it has taken on significant positions in three early stage resource plays, as well as ramping up plans to improve recovery from its existing crude oil waterflood assets in western Canada. Kerr says buy-in to the resource play focus is driven by the large quantities of hydrocarbons in place, along with technical advances in horizontal drilling and multi-stage fracturing that make them economical to access.

In 2009, Enerplus bought a non-operated position in the giant Marcellus shale gas play in the northeastern U.S. Since then it has added more land, giving it an average 24 per cent working interest in over 560,000 gross acres in the play. The lands have a best estimate of 2.4 trillion cubic feet of contingent resources to Enerplus, triple their current proven and probable gas reserves. Production from the play is expected to average 100 million cubic feet per day within four years.

“We have a joint venture with an experienced producer on the initial acreage,” says Kerr. “They have experience in the Barnett shale play in Texas and we’re learning from them.”

Enerplus has also increased its land base in the red hot Bakken tight oil play, and now has over 180,000 net acres of undeveloped land — mostly in Saskatchewan and North Dakota — in addition to almost 9,000 barrels of oil equivalent per day of production coming from its Sleeping Giant development in Montana.

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Enerplus is expecting production in the Bakken to increase by 40 per cent this year.

It also increased its acreage in the Deep Basin tight gas play in western Canada, with 34,000 undeveloped acres targeting the Montney shale play and the stacked Mannville play. “We have a good position with the skill sets and infrastructure already in place in western Canada,” says Kerr. “The potential for deliverability of a lot of gas with the new technologies makes this play very attractive.”

This year, Enerplus is investing \$100 million on mature, crude oil waterflood properties in the WCSB. Kerr says it is also looking at piloting a number of enhanced oil recovery schemes — such as polymer floods — to increase oil recovery from these assets.

While positioning itself in early stage resource plays is expected to provide growth in reserves and production, Kerr says it still plans to provide income back to shareholders.

“All things being equal, meaning commodity prices, we plan to keep dividends at current levels,” he explains. “But as

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our growth plans unfold and cash flows increase, we expect to disproportionately allocate more of our cash flow to growth. We’ve been very clear to the markets on the direction we want to go to allow investors to make the right decisions for them. So far, we’ve had a good reception to what we’re doing.” Enerplus plans to convert to a corporation on or about Jan. 1, 2011. □