CEO CFO

ANDERSON ENERGY LTD.

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Anderson Energy Ltd. Is Focused On Their Edmonton Sands Big-Play In Central Alberta Where They Have Over 1800 Vertical Wells To Drill And Over 400 Horizontal Wells To Drill

Oil and Gas
Oil and Gas Producers
(AXL-TSX)

Anderson Energy Ltd.

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Brian H. Dau
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BIO:
Brian Dau is the President and CEO of Anderson Energy Ltd.., a company listed on the Toronto Stock Exchange (AXL:TSX). Anderson Energy is a resource based natural gas manufacturing company with a vertical development drilling inventory of 1,800 locations, largely in the Edmonton Sands formation, and an emerging horizontal multistage frac drilling opportunity inventory of 436 locations in the Whitemud gas and Cardium oil formations.

Mr. Dau has been in his present position since the Company was formed in 2002. Prior to that, he was President and COO at Anderson Exploration Ltd., where he worked from 1987 to 2001. In 2001, Anderson Exploration Ltd. was sold to Devon Energy Corporation. At the time of the sale, Anderson Exploration Ltd. was producing 200,000 BOED with a total enterprise value of Cdn. $7.3 billion. Mr. Dau worked as COO of Devon Canada Corporation for a short time after the sale of Anderson Exploration Ltd. He has a BSc in Chemical Engineering from the University of Calgary. He is a professional engineer registered in the province of Alberta and a member of the Association of Professional Engineers, Geologists, and Geophysicists of Alberta.

Company Profile:
Anderson Energy Ltd. (AXL-TSX) is focused in Central Alberta. Most of its producing assets are a 90 minute drive north of the city of Calgary, where its head office is located. The Company has identified over 1,800 development locations to drill over the next several years, focused on the Edmonton Sands. Anderson has also identified high impact horizontal multistage frac opportunities with a potential inventory of 436 locations in the Whitemud gas and Cardium oil formations. Anderson has recently established a $75 million capital program for 2010, and over the next 14 months, expects to operate the drilling of over 200 Edmonton Sands wells, 4 horizontal multistage frac wells in the Whitemud and Cardium zones and five wells pursuing deeper horizons. The Company has provided production guidance of 8,000 to 8,500 BOED for 2010.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Dau, how has Anderson Energy changed and evolved under your leadership?
Mr. Dau: What we have been really focussed on is the Edmonton Sands play in central Alberta. The company made its Edmonton Sands discovery in 2004; it was a brand-new play in western Canada. The company is principally focused on this play in central Alberta. We have over 1800 vertical wells to drill and over 400 horizontal wells to drill in one zone in the Edmonton Sands play, and that is what we are working on.

CEOCFO: In January you had a new farm-in transaction; what is happening there?
Mr. Dau: In January 2009, we did a large farm-in on Conoco-Philips Canada. We farmed-in on 380 sections Edmonton Sands prospective land, a section being a square mile of land in central Alberta. Of the 380 sections, we think that 293 are prospective for Edmonton Sands four well per section development. Our farm-in commitment is to drill two hundred wells by December 31, 2010. In the first phase of the commitment we will earn 120 sections of land. We have an option phase on the rest of the land, which commences January 1st of 2011 and runs for sixteen months. Everything we are drilling is about 3000 foot depth. All of the wells are the same well design and lends itself to natural gas manufacturing kind of operation. The wells being drilled target 18 different Edmonton Sands.

CEOCFO: Why do you like this area?

Mr. Dau: The Edmonton Sands is what we call a deep basin sand trap. Deep basin sand traps are highly under-pressure reservoirs with no water in the system. They tend to be found late in the life of a producing basin and are found by accident because in the drilling process the drilling column pushes all of the hydrocarbons away from the wellbore. This is because the drilling column is over balanced compared to the under-pressured reservoirs. This play was discovered by accident by Gulf Canada in 1999, and they completed the first Edmonton Sands zone and did some limited development at the time. Then Conoco bought out Gulf and activity slowed down in the play on the Conoco lands. Anderson and Encana came into the play in a big way in 2004 and started developing this play, where we completed up to 18 Edmonton Sands in a well bore using coiled tubing fracture technology, and developed the Edmonton Sands on a drilling density of four to eight wells per square mile. Independent consultants prepared an estimate for us that the initial gas in place, in this sweet spot of the Edmonton Sands in central Alberta is approximately 4.3 trillion cubic feet, with only 0.3 trillion cubic feet has been produced to date. So it is really an early stage play in a very maturely drilled part of Alberta and it has been missed by a lot of people for a lot of years and that is what we find attractive. Of course, like all deep basin sand traps there is no water produced with any wells. Our focus is locating permeable sand reservoirs as all of the reservoirs are gas charged, there is no water in the system.

CEOCFO: Anderson has also have identified some new high-impact opportunities, would you give us the details?

Mr. Dau: We have two high-impact opportunities; the first one is the new hot play in western Canada, that being the Cardium light oil play. Operators have been drilling horizontal wells with multi-stage frac technology. We have 51,000 acres in this play. We have selected 36 locations to drill in the Cardium and we will start drilling some of them in 2010. All locations that we have selected are offsetting other operators in the play. Our lands offset Berens and Bonterra in the Pembina area and NAL Resources in Garrington. The other high-impact play is something new to the industry; the zone called the Whitemud, which is one of the 18 Edmonton Sand zones, and this zone is not being adequately produced or drained with vertical wells. It is quite thick, wide and continuous laterally. The zone runs for many miles and yet the Whitemud has been an under-achiever from an Edmonton Sands vertical well development perspective. The average permeability is one to five millidarcies as opposed to ten to fifty millidarcies in a typical Edmonton Sand. The Whitemud has approximately 2.5 BCF of initial gas in place per section, and Anderson has over 200 sections of prospective land with an initial gas in place target of 0.5 TCF of gas. Should this play be successful it could potentially add thirty million barrels of reserves. We are going to drill our first Whitemud wells here in the 1st Quarter of 2010. The Whitemud zone is about 2,000 foot vertical depth, and our horizontal well will traverse 3,300 feet of reservoir horizontal section and then we will complete the well with a multi-stage frac. We estimate we could drill a well for about $1.5 million each and expect an initial production rate of one to one-and-a-half million cubic feet a day. It is a big target which could have a big impact on the company in terms of future production and reserves.

CEOCFO: What is it about you and the Anderson team that have allowed you to identify the potential where others have not noticed it or pursued it?

Mr. Dau: We ran a very large company before this, Anderson Exploration, which we sold to Devon in 2001. At that time, it was at 200,000 BOED enterprise. I started working for Anderson in 1987 when we were at ten thousand barrels a day then when we sold Anderson Exploration we were at 200,000 barrels a day in 2001. We have today more or less the same management team that was with Anderson Energy. We are a very technically focused management team, looking at all the data to generate and identify new opportunities. We do a lot of drilling obviously; we also do a lot of acquisitions. We are principally focused in western Canada.

CEOCFO: What are some of the incentives that the government is helping you with these days?

Mr. Dau: The Alberta government has put in some new incentives that have real benefits for the shallow gas industry. There are two basic incentives that help us, and first one is a 5% royalty on Crown (Alberta government land) in the first year of production for the wells that we drill. The second incentive is they give us a drilling incentive credit or cash to drill wells. Our average well is about 3000-foot depth and they will give us $200,000 cash to drill these wells. Our drilling and completion costs are about $ 230,000. These incentive programs really benefit us and they benefit most of the shallow gas operators in western Canada.

CEOCFO: Have drilling costs gone down this year?

Mr. Dau: Yes. Our Edmonton Sands drilling completion costs last year was about $313,000 per well. We estimate this year that our drilling completing cost will be about $230,000 a well. Given the size of our program, and the work we did this year we were able to re-bid our program for much lower costs. As well we have other cost saving initiatives that we can employ through larger economics of scale. Therefore, we were able to bring the cost down substantially. For example, we purchased all of our production casing in advance of the program. We made all of those kinds of changes to give us dramatic reduction in drilling and completion costs.

CEOCFO: What is the financial picture like for Anderson Energy?

Mr. Dau: The company stated in its last report, which was September 30th that we had $70 million in net debt, our total bank lines are $100 million, with the underutilized portion of $30 million. We did a large equity issue last May to help finance our drilling program this winter. With a combination of cash flow, government drilling incentives and bank loans we are financing our winter drilling programs. Most of our operation is in the winter months because it is cheaper. We work on frozen grounds, as opposed to working in the summer months, although we can access our operations in the summer months.

CEOCFO: Are you constructing some new gas plants?

Mr. Dau: With the Conoco farm-in deal, the lands are mostly contiguous, which is very important for shallow gas to build and construct and own your own infrastructure. Therefore, we are looking at building two new gas plants. We are building new compressor stations and installing all the main gathering lines for the drilling in the next couple of years this winter. We are using a lot of large diameter plastic pipe which is cheaper than steel pipe. We are also connecting our newly drilled wells to the two new gas plants and to three of our existing gas plants and three other gas plants built by other operators. What that allows us to do is bring our average operating expense down. This would have averaged about $9.00 a barrel last year in the Edmonton Sands, but this year it will be under $5.00 a barrel for the production from the newly drilled wells. Most of the new production is planned to be onstream by the 2nd Quarter of 2010.

CEOCFO: What are the challenges ahead?

Mr. Dau: Well obviously, the natural gas business is very challenging right now. Pricing was poor, in 2009, but it is a bit better now and we expect to do better in 2010. However, it is still not the pricing we saw in prior years. We believe what we can make money in a lower pricing environment. We think that the long-term natural gas price is determined by the economics of the US shale gas projects, and we believe that our Edmonton Sands project is competitive with those projects. We believe we can achieve about a 41% rate of return with our Edmonton Sands farm-in project, which is quite comparable with the US shale gas plays.

Anderson Energy is a great play on natural gas because we are totally focused on natural gas. The stock is undervalued because it is so natural gas focused. We see tremendous upside in the Conoco farm-in deal in terms of reserve growth in production. We also have significant option value in the Whitemud horizontal program and the Cardium horizontal program, which could more than double our existing reserves. That is why investors should look at this company.

- Brian H. Dau

CEOCFO: Why should potential investors pay attention to Anderson Energy?

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