

Enerplus Corporation

Third Quarter 2020 Results Conference Call

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CONFERENCE CALL PARTICIPANTS

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Greg Pardy

RBC Capital Markets — Analyst

Patrick O'Rourke

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enerplus Corporation Q3 2020 Results Conference Call.

At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require assistance, please press star, zero for the Operator. This call is being recorded on Friday, November 6, 2020.

I'd now like to turn the conference over to Drew Mair. Please go ahead.

Drew Mair — Investor Relations, Enerplus Corporation

Thank you, Operator, and good morning, everyone. Thank you for joining the call.

Before we get started, please take note of the advisories located at the end of today's news release. Our financials have been prepared in accordance with the U.S. GAAP. All discussion of production volumes today are on a gross company working interest basis, and all financial figures are in Canadian dollars unless otherwise specified.

I'm here this morning with Ian Dundas, our President and Chief Executive Officer; Jodi Jenson Labrie, Senior VP and Chief Financial Officer; Wade Hutchings, Senior VP and Chief Operating Officer; Shaina Morihira, VP, Finance; and Garth Doll, VP, Marketing. Following our discussion, we will open up the call for questions.

With that, I will turn it over to Ian.

Ian Dundas — Chief Executive Officer, Enerplus Corporation

Thank you, Drew, and thanks to all of you for joining us today. I'll begin by covering a few of the highlights from our third-quarter results, and then spend some time talking about our outlook for the rest of the year, as well as some preliminary thoughts as we prepare for 2021.

Before I begin, I would like to just take a moment to thank our staff and our strategic partners, both in the field and at the corporate level, for all of their support and dedication during this very complicated time. Despite the environment that we all find ourselves in, Enerplus continues to execute its business plan in a safe and environmentally responsible manner. I thank you all.

While it was a relatively quiet quarter in terms of capital activity, our teams are continuing to respond to the environment through enhancing our operational efficiencies, driving down per-unit cost, and maximizing margins. Additionally, our solid execution this year has helped drive production outperformance in the Bakken, with our current forecast well above our previous guidance.

The strong performance translated into several key highlights in the third quarter, including generating \$48 million in free cash flow with visibility to continuing free cash flow in the fourth quarter, increasing the midpoint of our annual production guidance by 1500 BOE per day, reducing our capital spending outlook to \$295 million from \$300 million previously, and reducing our cash cost guidance by combined \$0.45 per BOE, further supporting our margins.

Looking at the upcoming fourth quarter, we expect our liquids production to average between 47,000 to 49,000 barrels per day, declines in the third quarter due to the limited capital activity this year in response to the oil price weakness.

Turning to 2021, the same principles that have historically guided our strategy remain foundational today, namely maintaining balance sheet strength, return base capital allocation, and a focus on shareholder returns. Based upon our current commodity price view, our preliminary outlook for next year sees us stabilizing production with line of sight to generating free cash flow.

Specifically, we would expect to execute a maintenance capital plan which would keep our production largely flat to the midpoint of our expected fourth quarter 2020 volumes of approximately 86,000 BOE per day, including 48,000 barrels per day of liquids. Importantly, our capital plans to sustain our base production are supported by robust economic returns at current prices. The capital spending associated with this plan is approximately \$300 million and includes drilling capital that would set us up for a similar maintenance capital estimate in 2022. This capital plan is expected to be fully funded, including the dividend at around \$40 WTI.

Obviously at higher prices, we see incremental free cash flow, which we will prioritize to further strengthen our balance sheet and return cash to our shareholders. We do not see a price signal to grow production currently. We would need to see WTI prices somewhere in the high 40s to 50s before we would consider some level of growth. That said, we are constructive on the outlook for oil prices. The implications for supply, given the lack of investment, is important to bear in mind.

Today, demand is driving uncertainty, but the market will come back into balance. We believe it is just a question of timing. In a higher price environment, we anticipate meaningful free cash flow generation. In \$50 West Texas environment, we would have significant optionality to further enhance the balance sheet, increase cash returns to shareholders, and pursue additional growth opportunities.

As you look across the landscape, a new paradigm has taken hold where unsustainable strategies of pursuing excessive and uneconomic production growth are no longer being supported. It is our belief that this change will endure and that we are dealing with a truly new dynamic. There's no question that a growing business is better than one that is treading water or shrinking, but sustainable growth is an outcome of full cycle economic returns and needs to be managed thoughtfully to support longer-term business sustainability.

This means that at even higher commodity prices, we expect the sector to grow at more moderate rates, prioritizing the generation of free cash flow and more financial resilience. We will provide more formalized guidance for 2021 later this year or early next year, but in summary, we remain well-positioned to navigate volatility, and we believe that we offer high quality, low-risk exposure to potential price recovery and reasonable returns in the current market.

Now I'll turn the call over to Jodi who will update you on some financial highlights. Jodi?

Jodi Jenson Labrie — Chief Financial Officer, Enerplus Corporation

Thanks, Ian.

Starting with cash generation, our adjusted fund flow for the third quarter was \$83 million, which fully funded our capital spending requirements and generated \$48 million of free cash flow. Our

earnings in the quarter were impacted by non-cash impairments, property plant and equipment, totaling \$257 million. The property, plant and equipment impairment was driven by the decline in the trailing 12-month average prices for oil and natural gas as defined under U.S. Generally Accepted Accounting Principles.

Enerplus continues to have significant liquidity, consisting of \$85 million of cash on hand and US\$600 million of undrawn capacity on our bank credit facility at the end of September. Our net debt to adjusted fund flow ratio continues to be 1.0 times at September 30, which has not changed from June 30.

Moving on to our oil realizations in the Bakken, our differential averaged US\$5.37 per barrel below WTI in the third quarter, about a dollar per barrel wider compared to the prior quarter, largely due to the uncertainty following a district court's order in early July for the Dakota Access Pipeline to cease operations. In early August, the Appeals Court granted the pipeline owners' request for a stay over the district court's order. As a result, there is no outstanding court order in place requiring the pipeline to shut down at this time and the legal process is ongoing within both the district court as well as the Appeals court.

We continue to forecast a realized Bakken differential of US\$5 per barrel below WTI for 2020. Now turning to the Marcellus. Regional natural gas prices were particularly weak during the third quarter, especially in September and October, and continuing into the early part of November. This is a result of nearly full regional storage combined with low demand during the shoulder season.

As a result, our realized Marcellus sales price differential widened to average US\$0.72 per Mcf below NYMEX during the quarter. We have seen price related production curtailments in the Marcellus due to continuing price weakness and expect some level of curtailments to continue here in the fourth quarter until cash prices strengthen.

Given the wide third-quarter Marcellus basis and current ongoing weakness, we are adjusting our full-year 2020 guidance for Marcellus price differentials to US\$0.60 per Mcf below NYMEX from US\$0.45 per Mcf previously. We do, however, remain constructive on natural gas prices heading into winter and our Marcellus position provides a valuable and underappreciated option on the strong outlook for natural gas prices next year. Assuming a normal winter season, we expect to see a differential to NYMEX in the minus US\$0.40 per Mcf range for 2021.

Moving on to our expenses. As Ian noted, we've seen cash costs continue to trend down across the board and have lowered our 2020 guidance for operating costs, transportation, and G&A by a total of \$0.45 per BOE, further supporting our resiliency in this low-price environment.

We have added to our commodity hedging position in 2021 and currently have 10,000 barrels per day of WTI three-way collars at approximately US\$32 by US\$41 by US\$51 per barrel for the first half of next year. We have also swapped 40 million cubic feet per day of natural gas for the summer 2021 gas season, which is April through October at just under US\$3 per Mcf.

With that, I will turn it over to Wade.

Wade Hutchings — Chief Operating Officer, Enerplus Corporation

Thanks, Jodi, and good morning, everyone.

We had limited capital activity during the third quarter with no operated drilling or completions in North Dakota. However, the teams did an excellent job, safely restoring our previously curtailed volumes and protecting the integrity of our production through work-over activities. Having restored curtailed production early in the quarter, our third quarter liquids volumes were up 9 percent from the second quarter. In terms of rest of year activity, from an operator perspective, we are completing 4 DUCs in the fourth quarter in North Dakota. In addition to this, we expect a slight uptick in non-operated activity in both North Dakota and the Marcellus.

As we have previously highlighted, we've seen a step change in our well cost performance this year in North Dakota. Our latest view at the total well cost this year have averaged US\$6.4 million, which is a very meaningful US\$1.2 million structural reduction to our 2019 average. These capital cost reductions have been driven by solid planning and execution, which when coupled with technology application, has driven a continuing trend of improved drilling and completion cycle times. The improvements we've delivered on our well costs have helped support our reduced capital spending guidance this year, now at \$295 million.

Turning briefly to 2021, our preliminary operating plan will once again be largely focused on the Bakken, where we expect to enter the year with a 29 gross, 23 net well DUC inventory. Our maintenance capital outlook would see us completing DUCs and reinitiating drilling during the year to provide an inventory of wells to complete in 2022. We will remain mindful of commodity prices and have the flexibility to adjust our capital plans next year as needed.

Lastly, I will wrap up with a few ESG comments. Safety performance year-to-date has been exceptional. In fact, the last 15 months have seen our best safety performance ever as a company. I

would like to thank our employees and partners for their focus and efforts to operate safely amidst the uncertainty of 2020.

As noted in our recent ESG report, we anticipate 2020 corporate GHG emissions intensity to be 20 percent to 25 percent lower year-over-year. This has been driven by a step-change in our North Dakota flaring intensity, resulting from both improved operational planning and lower basins completions activity. The report also highlights our efforts to reduce use of fresh water in our stimulation activities and we project to finish the year using a bit more than 20 percent produced water per stimulation in North Dakota ahead of our published target. Our ESG strategy continues to deepen and has become an integrated element of our operations planning.

I'll leave it there and we'll turn the call over to the Operator and open it up for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star, followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star, followed by two. If you're using a speakerphone, please lift your handset before pressing any keys.

One moment for your first question. There seems to be no questions at this time.

Drew Mair — Investor Relations, Enerplus Corporation

Okay. Well, thanks, Operator...

Operator

Oh, it does look like a few have popped in now. Your first question comes from Jarrod Edelen with South Dakota Investment Office. Please go ahead.

Jarrod Edelen — Analyst, South Dakota Investment Office

Hey, guys. Thanks for the call today and the questions. Could you just touch on briefly, Ian, you mentioned the dynamic of companies existing in a new paradigm, and you're focused on a flat production next year, but what price signal would you need to have in order to have a declining production? When you're talking about completing wells into a very weak commodity price of \$40 today with a wide differential, what's the strategic rationale for continuing to keep production flat and what would you need to do to change that?

Ian Dundas — Chief Executive Officer, Enerplus Corporation

Morning, Jarrod. Thank you for the question. It's great. For us it's economics and it's affordability. I mean, that really drives decision-making. At the current forward market, partially supported by our hedge book, we see robust go-forward economics from our DUC inventory and highly affordable. I guess the good news from a market perspective, it also sets up a free cash flow dynamic as well. I think that's pretty easy in our opinion.

How low would things go where those conditions would change? If you're much under \$40, the free cash flow isn't there. Does that matter very much? Probably not so much at the margins because

you still have economics at this point in the program. I think as you start getting into the mid \$30s, you start questioning whether you're just being wasteful perhaps. I think as you start falling through a meaningfully below \$40, mid \$30s, I think you start to really think about it again.

Jarroed Edelen — Analyst, South Dakota Investment Office

Great. Thank you. Thanks so much. Best of luck.

Ian Dundas — Chief Executive Officer, Enerplus Corporation

Yes. Thank you. Cheers.

Operator

Your next question comes from Greg Pardy with RBC Capital Markets. Please go ahead.

Greg Pardy — Analyst, RBD Capital Markets

Yes, thanks. Good morning. We couldn't let you guys go that easily. A couple of questions. I guess the first one is, I know nothing that's fully baked at this point, but in the context of a \$300 million capital program for next year, how much of that would likely go to the Marcellus, and maybe can you talk a bit about just how much you need to spend there? I mean, I know a lot is mostly non-op. I get it, but just curious as to what the spending might be on gas.

Ian Dundas — Chief Executive Officer, Enerplus Corporation

Yes. I'll turn that over to the Wade to give you a little bit of colour. It is all non-operated with a couple of partners dominating it, one in particular. Wade, do you want to give Greg a little bit of colour on what we see there?

Wade Hutchings — Chief Operating Officer, Enerplus Corporation

Yes. Happy to. Good morning, Greg. Of course, this is all preliminary at the moment, but this year, we've had roughly 15 percent of the capital pointed at the Marcellus. In 2021, we wouldn't see that materially change. Might be up just a little bit.

To your broader question, when we look at what it takes to sustain production at a flat level, we typically look at a similar pace of activity that we've seen even this year, but if you look at somewhere in the order of \$40-ish million of capital, net capital on our part, that typically drives enough activity to keep our net production roughly flat.

Greg Pardy — Analyst, RBD Capital Markets

Okay. That's CA\$40 million?

Wade Hutchings — Chief Operating Officer, Enerplus Corporation

Correct.

Greg Pardy — Analyst, RBD Capital Markets

Okay. Terrific. Thank you for that. The second is another broader question, but just with everything occurring, it's not unusual for you to get a question yet around the landscape for acquisitions

and just what all of that looks like. Just any thoughts there? Again, the focus, I guess, would really be the Bakken.

Ian Dundas — Chief Executive Officer, Enerplus Corporation

Yes, not a lot happened directly in the Bakken. There has been quite a change in some of the participants in the Bakken, the series of restructurings that have occurred there publicly and privately. If you step back, we're starting to see certainly a lot of conversations, M&A broadly. I think that's a necessity.

I think it's going to continue. I think it's going to continue throughout the U.S. and I think it's going to continue into Canada, that fight for scale and for, I guess, for relevancy. They're powerful forces. I guess from Enerplus' perspective, we see the benefits in well-considered, well-executed transactions and pretty simple principles though, I think are critical to keeping focus, maintaining a strong balance sheet, real and logical operating in corporate synergies, maintaining a shareholder's centric perspective with sensible and accretive outcomes for all shareholders.

I think if you put all that together and you end up with a resulting business that's more sustainable with strong governance, I think those kinds of things are going to be supported. There's been a bit of a question about building scale for the sake of scale. That generally hasn't been a successful strategy, even though we do see benefit in the right kind of scale. Would I anticipate things opening up in North Dakota? I would. The volatility has been pretty profound, which makes it harder for things to come to fruition, a bit of the uncertainty around DAPL is throwing a new dynamic into the market out

there, but I think the pace of activity is going to continue and I think it's just going to be a trend that we're going to talk about for a long time.

Greg Pardy — Analyst, RBD Capital Markets

Thanks very much.

Ian Dundas — Chief Executive Officer, Enerplus Corporation

Thanks, Greg.

Operator

Your next question comes from Patrick O'Rourke with ATB Capital Markets. Please go ahead.

Patrick O'Rourke — Analyst, ATB Capital Markets

Oh, hey, guys. Good morning. I know you just touched on the uncertainty around DAPL. I was wondering if you could give us an update where that process stands, what the timeframes are. I know you're not fully exposed to the pipeline, but maybe if you can quantify again for us what the risks could be and what the upside could be in 2021 there with respect to differentials in the Bakken.

Ian Dundas — Chief Executive Director, Enerplus Corporation

Thanks, Patrick, appreciate the question. I think, Jodi, do you want to start this?

Jodi Jenson Labrie — Chief Financial Officer, Enerplus Corporation

Yes, sure. Good morning. As you mentioned, we're not directly involved in the DAPL process or the legal process so we can't really comment on steps and timelines and that sort of thing. What it means for us is, if DAPL continues to operate, we can see differentials in the basin in that \$3-ish range. We see supply declining and so there's going to be the ability to use pipe to clear the basin. If DAPL does end up getting shut down, we have quantified that. In the context of a full-year shutdown, that would equate to about \$0.80 on a per BOE corporate netback, that it would cost us and differentials could be in that \$6 to \$8 range for the Bakken production.

Patrick O'Rourke — Analyst, ATB Capital Markets

Okay. Thank you.

Operator

Ladies and gentlemen, as a reminder, should you have any questions, please press star, one. There are no further questions at this time. Please proceed.

Drew Mair — Chief Executive Officer, Enerplus Corporation

Okay. Well, thank you to everyone that joined the call today. Appreciate your interest, and have a great day and a great weekend. Thanks.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a great day.