# Enerplus Corporation

## Q2 2020 Results

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## PRESENTATION

**Operator**

Good morning, ladies and gentlemen, and welcome to the Enerplus Q2 2020 Results Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Friday, August 7, 2020.

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

**Drew Mair** — Manager, 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 US GAAP. All discussions 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 it up for questions.

And with that, I’ll turn it over to Ian.

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

Thank you, Drew, and thanks to all of you for joining us today.

This has obviously been a year unlike any other we have experienced, but I'm proud of how our organization has stepped up in the face of this challenging time. The last six months have put a spotlight on risk management and the importance of maintaining flexibility, strong execution, and a solid financial foundation. This crisis will accelerate the bifurcation in our industry between those companies that are well positioned with flexibility demanded through this period without destroying shareholder value and those that do not. We see Enerplus being in the first camp. The strength of our balance sheet, our liquidity position, our commodity hedges, and our disciplined operational execution continues to support a strong, sustainable business going forward.

Coming through the first half of 2020, we moved quickly and took decisive steps to protect our financial strength and preserve shareholder value in the face of sharply falling oil prices. We hit the brakes to suspend our drilling and completion operations in North Dakota at the start of the second quarter. It made no sense to us to continue this activity with oil prices falling so precipitously and no certainty as to when they would recover. As we entered May, with the weakness in the oil market, our teams began curtailing volumes rather than risk negative margins. We ended up curtailing approximately 25% of our corporate liquids volumes and as the market continued to improve in June we began restoring curtailed volumes.

That brings us to today. With curtailments behind us and more stability in the oil price, we have reinstated our 2020 guidance. We plan to produce 88,000 to 90,000 BOEs per day in 2020 with 49,000 to

50,000 barrels per day of liquids. We've also maintained our capital budget at $300 million. Although much of the remaining activity in the second half of the year relates to non-operated drilling and completions in the Marcellus and North Dakota, we are also planning to complete four additional operated DUCs in the fourth quarter. Wade will talk more about these plans, but I would add that the operational efficiencies we've delivered in the first half of this year and our plans for the second half have put us on solid footing for 2021 and beyond. I'll also add that this plan is expected to generate free cash flow this year, inclusive of funding the dividend.

So with our strong liquidity position, free cash flow outlook, stabilized production and DUC inventory, we have flexibility to quickly respond to changing market conditions. In short, we remain well positioned.

Now I'll turn the call over to Wade, who will update you on our operations.

**Wade Hutchings** — Senior Vice-President & Chief Operating Officer, Enerplus Corporation

Thanks, Ian, and good morning, everyone.

As Ian mentioned, we're certainly managing in a volatile operating environment; however, amidst all the change and upheaval, the team delivered solid operational results in the second quarter. Although we had limited operated capital activity in the quarter, our execution right up to the suspension of our program was very strong.

As we indicated in our last earnings call, drilling cycle times and completion operations in North Dakota have considerably outperformed our forecast through the first six months of 2020. The cost

savings from this outperformance have allowed us to fit four more completions within our capital guidance plan. I'm optimistic that we can pick up where we left off when capital activity starts again.

We also thoughtfully managed production levels throughout the quarter, safely shutting in and restoring wells that were curtailed due to low prices and ensuring the continuity of our operations. All of this drove second quarter production of over 87,000 BOEs per day, including liquids of just over 48,000 barrels per day.

In our Q1 release, we estimated that we would curtail approximately 25% of our liquids volumes in (inaudible) and that we didn't anticipate curtailing beyond this level in June. Our estimate for May was about right and, as oil prices strengthened headed into June, we started restoring curtailed volumes. That didn't happen all at once, as some wells required workover crews for things like pumps failing. But fast forward to today and I think we're pretty much back to a normal run rate.

In terms of rest of year activity, as Ian mentioned, in addition to non-operated activity we've layered in four additional operated DUC completions, which are targeted to flow back late in the fourth quarter. The current strip in the low 40s supports this activity and these plans also help drive a more efficient operational program over the next 18 months. It also still leaves us with a material DUC inventory entering 2021.

In our release this morning, we also provided an estimate of our maintenance capital in 2021. Our annual 2020 liquids production guidance implies second half volumes of approximately 48,000 barrels per day. We estimate that we could keep this level of production essentially flat in 2021 with approximately $300 million of capital. Importantly, this is not just a myopic focus on a capital-efficient

2021, but includes resuming drilling operations in 2021 to leave us well positioned for 2022. To be clear, this is not a 2021 plan and we're not issuing 2021 guidance, but it is meant to provide an indication of how we could sustain our production levels going forward and how the benefits of a moderating base decline rate and the operational execution we've demonstrated have helped capital efficiency. The key takeaway is that we have a lot of manoeuvrability as we think about 2021 and beyond.

I'll leave it there and turn it over to Jodi for a financial update.

**Jodi Jenson Labrie** — Senior Vice-President & Chief Financial Officer, Enerplus Corporation

Thanks, Wade.

I think our results through the first half of the year demonstrate that we continue to be disciplined stewards of capital and have the financial flexibility to adapt to a turbulent market. Key among those advantages is our balance sheet strength. We made scheduled principal repayments of US$82 million on our senior notes during the second quarter using cash on hand and ended the quarter with our US$600 million bank credit facility essentially undrawn.

Our leverage ratios remain strong. We ended the quarter with a net debt to adjusted funds flow ratio of 1x. We generated $30 million of free cash flow for the quarter and expect to generate additional free cash flow through the second half of 2020, which further supports our financial strength.

Our earnings in the quarter were impacted by non-cash impairments to our property, plant and equipment, along with our goodwill and totalled $630 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 US GAAP. The goodwill impairment was a result of the ongoing deterioration in macro-economic conditions and low commodity prices due to the COVID-19 pandemic.

Moving on to our oil realizations in the Bakken, our differential remained relatively strong in the second quarter despite the physical market weakness we saw at times. This was largely due to our decision to curtail volumes to protect against selling into weak pricing along with our diversified marketing approach, which consists of a combination of in-basin monthly spot and index sales, term physical sales was fixed differential pricing versus WTI and Brent, as well as sales at the US Gulf Coast delivered via firm capacity on the Dakota Access Pipeline.

Now with respect to the Dakota Access Pipeline, we were disappointed with the district court's order on July 6th requiring the pipeline to cease operations; however, on Wednesday, the court of appeals granted the pipeline owners' request for a stay over the lower court order that required the pipeline to cease operations. So, as it stands today, there is no outstanding court order in place requiring Dakota Access Pipeline to shut down; however, the legal process is continuing. Based on this, and assuming the pipeline continues to flow this year, we expect our Bakken differential will average $5 per barrel below WTI in 2020.

As we look at the basin dynamics, in a scenario where Dakota Access is not operational, and depending on basin production levels, our analysis suggests some 400,000 barrels per day would need to move on rail. This is within the context of current rail volumes of approximately 200,000 to 300,000 barrels per day. So we're talking about 100,000 to 200,000 barrels a day of incremental rail capacity required, which we believe can be added in relatively short order.

There remains a lot of rail infrastructure in the Bakken. During 2014 we saw the basin move over 800,000 barrels per day at times. So, while not necessarily an egress issue, this would result in wider pricing in the Bakken based off rail economics. We think this sets up a spot differential of approximately US$6 to US$8 per barrel below WTI. In terms of impact to Enerplus, if we were to assume that the pipeline could not operate for all of 2021, we estimate the wider Bakken differential would impact our corporate netback by approximately $0.80 per BOE.

Lastly, turning to our commodity hedges, we have layered in some new hedges in 2021 to further mitigate risk. We have added 6,000 barrels per day of three way WTI collars at $32 by $40 by $50 for the first half of next year

I'll leave it there and I'll turn the call over to the operator and open it up 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 the 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 are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Neal Dingmann of Truist Securities. Neal, please go ahead.

**Neal Dingmann** — Analyst, Truist Securities

Good morning, all. Ian, my question for you all is, you know, you've been pretty cautious in your planning and it's made a lot of sense. I'm just wondering, as you're looking at 2021, I know you don't have guidance there, will kind of waiting on a DAPL decision or waiting on some sort of finality with DAPL, will that influence your plans? Or is it, at this point, it's just better to move on and you'll worry about how that sort of plays out later?

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

Good morning, Neal. That's a good question. I wouldn't expect DAPL will be the single biggest driver of our 2021 plans. Sorry, we got some feedback going on there. I don't think it will be the single biggest driver of our plans. As Jodi highlighted, we would anticipate some widening to the differential based on rail, but we're talking in the order of a couple of dollars. So I think in a $35 world those dollars matter. In a $40 to $45 world they're less impactful. So TI is going to be as big a driver as anything on that. And I think, you know, the longer this thing plays out in the sub-$50 a barrel, the more decline is sorting this out for us in basin. So obviously DAPL operational permanently would be a positive outcome for us and we think would be a really important thing strategically for the industry and helpful for our business. I don't think it's the single biggest driver there.

**Neal Dingmann** — Analyst, Truist Securities

Very good. And then just on M&A, was questioning, you know, you guys continue to have one of the stronger balance sheets out there and, again, I guess my question is, you know, to see deals you

want to see maybe a forced sale or... I guess maybe just give us, just overall, I don't like to say, hey, are you just seeing anything out there, but more your thoughts about that and what would cause you to maybe become a little more active in that market. Thanks.

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

I mean I think, as you think about—let's talk about North Dakota. It's not a bad proxy for a fair number of basins. There really haven't been many deals of any size in the last several years. Bid-ask has been too wide. That's just been the reality. At one point, quite a few players out there, there's a lot of PE who made some moves two, three years ago, and since then it's been pretty quiet. It feels though that the landscape might be shifting a little bit out there. There's been a lot of restructuring. A lot of companies who have been active aren't there any longer. PE seems to be on the sidelines. And I'd say looks like maybe a looks like maybe a better competitive dynamic if you're a structural buyer out there. So that feels interesting.

The rubber is going to hit the road in terms of where prices of our assets start to get to. We've been really clear, like we're in a really good position right now. If our goal was just to hold production flat, we've 15 years of inventory in the Bakken to do that without layering on the DJ. So we've got lots of opportunity with the base business. So, for us, adding to the portfolio, it needs to make sense for our shareholders. And we know where Enerplus trades right now and so there's just been a disconnect between valuations of public companies, certainly the smaller guys, and where sellers' expectations have been.

I would think there will be a reckoning in that and assets will start to (inaudible) that make sense. So it's going to be interesting to see how this unfolds over the next six months to a year. And for us, if you can see value in some of those assets, we'd be very interested in them. The key will then be just making sure we keep our balance sheet strong. And, as you highlighted, we've come into this in a really, really good place. And if you look at our plan this year, if you look at strip, we're actually going to generate some decent free cash flow and still hold production flat for the back half of the year.

**Neal Dingmann** — Analyst, Truist Securities

I agree. I love your perspective and think you're spot on. Thanks, buddy.

**Operator**

Your next question comes from Adam Gill of Eight Capital. Adam, please go ahead.

**Adam Gill** — Analyst, Eight Capital

Thank you. Good morning, everyone. Two questions for me. First off, in regards to the $300 million to maintain flat liquids volumes in 2021, how much of that budget is earmarked for the Marcellus and how many DUCs does that envision in the Bakken at year end 2021.

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

Thanks, Adam. It would assume a similar kind of spend profile in the Marcellus. There'd be some rounding there. I think you'd got granular, maybe a little bit higher, but relatively flat, but a little bit higher than the Marcellus. And then I think we'll probably stay away from an exact number relative to

DUCs, but I guess what I would highlight, and Wade weaved in the word myopic in his comments on this, it's not pure exhaustion, right? So we do start drilling. And so we would model that you'd start drilling at some point mid to later in the year, DUCs get pulled down. We've generally run a DUC count of 10 to 15, somewhere in there, so we'd be pulling them down maybe a bit more than we normally would, but it does allow us to start to drill again so that 2022 looks reasonable.

**Adam Gill** — Analyst, Eight Capital

Thank you. Secondly, gas prices have been rallying here, at least in the near months. What gas price could you see that some Marcellus spending expand compared to where it's been the last year?

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

Well, you probably have as much insight into that as we do. We look at the activity of our operators broadly. It's been pretty consistent. And I wouldn't imagine there's a big shift in spending if we get a three handle out there. I would think, you know, most of those companies have been talking about prioritizing free cash flow and flat to modest growth, so I wouldn't think you're going to see a big spending shift. I think the lessons of productivity out there and how unbelievably robust those wells have been have caused, I think we understand that pretty well right now. And you look at some of the big public operators up there, they've been quite vocal with their desire to moderate growth and maximize free cash flow, return to shareholders, pay down debt, and those sorts of things. So I wouldn't think you'd see a big shift until you're well past the threes. And even then, Adam, I would think that, if it's winter related and we just generate some backwardation in the market, people would look straight through that and not change their plans. I guess we'll see, but that's what I would guess.

**Adam Gill** — Analyst, Eight Capital

Thanks, Ian.

**Operator**

Your next question comes from Greg Pardy of RBC Capital Markets. Greg, please go ahead.

**Greg Pardy** — Analyst, RBC Capital Markets

Thanks. Good morning. So, notwithstanding the stay on DAPL, I mean I've got to believe your marketing group has already probably looked into securing crude by rail almost as like an option if you needed to. Is that like a fair comment?

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

That is a fair comment, yeah. I mean our folks are really active in that. Historically, we don't contract railcars and those sorts of things, so we deal with people who have got those cars on to contract, but I guess the substantive nature of your question is we've looked quite carefully, and we've done this before, at securing financial exposure to rail contracts, I guess, is the best way to talk about it.

**Greg Pardy** — Analyst, RBC Capital Markets

Okay. Okay. No, I mean I would have been surprised if you said, no, we've done nothing because we think the optimistic case proves itself out, but that's helpful to know.

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

Just a little more colour, I mean this is more you're looking for, but obviously when that shut down, when that first order was issued, put some sort of operational uncertainty for August, as you could imagine, and so our teams did a lot of work to, I'd say, restructure and give us some operational delivery flexibility around what would happen in August. So I think this is one where we can sit back and go this makes sort of no sense to us that we'd be talking about it, but we are in a legal process and there's uncertainty around that process and so we're going to manage our business with flexibility to mitigate any impact, which includes thinking about delivery points, thinking about rail and those sorts of things.

**Greg Pardy** — Analyst, RBC Capital Markets

Okay. Makes sense. And with where we stand today, this may not be a fair question, but could you envision spending less than $300 million with what you see in the world today next year?

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

I think it's a fair question. Tell me the oil price, I'll tell you what we'll do.

**Greg Pardy** — Analyst, RBC Capital Markets

Well, let's just say it's a futures world.

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

I think in a futures world, could we spend less? Well, it'd be wonderful if we could and Wade's team were able to execute this program more efficiently. So that'd be great. I think the model that we've put out there was a model that we have confidence in, costs that we've been able to demonstrate and those sorts of things, and our goal is to continue to get better on those. So, can we be more efficient than that? For sure we can be. Would we stop spending altogether in a $40 world? I don't think that makes a lot of sense. We see really strong economics in the completions and those sorts of things. So yeah, we'll be responsive. The same principles we've always had will play out, economics, economics, economics, affordability, affordability, affordability, and then the outcome of that.

**Greg Pardy** — Analyst, RBC Capital Markets

Okay. Go ahead.

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

No. Sorry, go ahead, please.

**Greg Pardy** — Analyst, RBC Capital Markets

No, here's, to top it off, a beside-the-point question: So with the level of CapEx you're spending this year, I mean would you envision any issue in terms of replacing all of your production on a proven basis? Or is it just too soon to say at this point in the year?

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

On a proven…?

**Greg Pardy** — Analyst, RBC Capital Markets

Yeah, on a proven, because we know you've got a ton of inventory, right, on a 2P basis, and it's going to become probably a broader industry question at some point, just given how much spending levels have trailed back. So it's not like a resource question, it's more just sort of thinking about your, just given the drilling activity then, you know, is it a year where you can actually add or convert probables into proven? Or does that just simply not matter this year because of the drastic conditions we've gone through?

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

I think a lot of fundamental things are going to matter less to people this year. There's going to be so much noise in the system. You've also got a lot of reserves that are at risk for price-related impacts as well. You've got people looking at their UD wedges, their undeveloped wedges, and wondering if they've booked too many reserves relative to their future activity levels. So I think there's going to be a lot of noise out there. We've tried to approach this from a really balanced perspective throughout the years, not having too much future development capital on the books, not having too many locations on the books that implied 20% growth rates ramping up.

So I think the overarching industry question is going to be a lot of noise. I think there's going to be a lot of noise. And then that'll settle out over the next year or so. And you've got to sustain your

business, right, which it means sustaining your producing reserves and you need price signals that support that. So we look at it and I think in the 40s life is okay for us. I think it's a heck of a lot better than for most people. Many, as you start to transition mid-40s into the low 50s, suddenly things look pretty resilient again. But I think there will, I think lots of companies are going to have a lot of, a lot of reserve noise this year. That would be my guess.

**Greg Pardy** — Analyst, RBC Capital Markets

Okay. Okay. And I do appreciate the conservatism you guys have always employed in reserve booking and so forth, so that's helpful to know. Okay, thanks very much.

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

Thanks, Greg.

**Operator**

Your next question comes from Patrick O'Rourke of ATB Capital. Patrick, please go ahead.

**Patrick O'Rourke** — Analyst, ATB Capital

Good morning, guys. I know you've probably touched on the capital efficiencies and a few things here over and over again, but just looking at kind of the corporate slide deck and where the breakevens have come down to, ah, $38, just wondering how durable that is. And it does appear that the 2020 drill program you're seeing a bit more consistency in terms of the results versus prior years. Wondering if that's a takeaway that you could agree with there.

And then I know you've touched on mid-40s and how the business looks there, but you started to deploy capital in June at a time when spot was high 30s, curve was just below 40. Is it safe to say that that's kind of the price where you're comfortable going at these things and in the mid high 40s can we anticipate potentially some growth? Or is it more a free cash flow accumulation strategy going forward?

**Ian Dundas** — President & Chief Executive Officer, Enerplus Corporation

Yeah, a few things there. So I'll turn the resiliency, capital efficiency and that over to Wade in a moment. I think variability, you know, we don't see a dramatic difference year to year. Like I know there is some difference in that, but almost everything we saw last year was really close to our type curves and our expectations and those sorts of things. But yeah, Wade will talk about costs, resiliency, and how we see that now and into next year.

Relative to your question about deployment and growth, so a couple of things going on here. We've got these 33 DUCs and the economics for the 33 DUCs are exceptionally robust with current costs in under a $40 deck. So there's nothing stopping us there relative—like economics look wonderful. And so tweaking up our capital now I think it makes all the sense in the world economically. And then as we think about it in the context of the broader model it also facilitates some powerful free cash flow. So we're not going, we're not busting through our free cash flow perspective at this moment.

As you think about growth, I think where things get pretty interesting is as you move your way through 40. You start to move your way through 40 and touch 50, I think you really have choices there, because in addition to the DUCs being economic your full cycle looks economic. So don't really love thinking about drilling a new well right now in a $40 environment, but at $50 looks pretty good.

And then I think we'll find our way through that. You're going to have to really think about the resiliency of the model, because you like it at $50 and you don't love it at $45, that tells you something about it. We look at the market right now and there is a fragility to it on some levels. Inventories are high. Demand is improving, but it's still somewhat tenuous. I think as you continue to move out through 2020 with this level of global spend, that fragility is going to turn into potential really resilient, really resilient, powerful price response sometime over the course of the year. So I think it's going to be easier to be more bullish a little further out once we deal with these inventory levels.

So, long speech. Today's costs, I think free cash flow, flat production in the 40s, as you move through 50s lots of choices around growth, and I think for lots of folks it's going to be a more balanced model that is, I think, a combination of some growth with free cash flow is going to be the new world order, which is going to sound a lot like how we've lived for quite a while.

Wade, do you want to chat a little bit on capital efficiency this year and costs and how we're sort of thinking about that next year with all that's going on?

**Wade Hutchings** — Senior Vice-President & Chief Operating Officer, Enerplus Corporation

Yeah, happy to. So I think maybe just to address your one comment, Pat, on capital deployed in June, I think the only true incremental investment we made in the last month or two has really been on workover capital, deploying some workover rigs to restore some of the wells that we had shut in that needed a bit of workover spend. And then obviously what we've talked about today is the next spot of deploying incremental capital comes late in the year, these four additional operated DUCs.

Now to the broader capital efficiency question, I'll talk about cost first and then performance second. So, I think on the cost side we have just been really pleased with the cost performance on the capital side this year. We've talked about seeing our capital costs come down quicker than we had planned. Right now we've averaged year to date on our new wells $6.7 million total well cost. That's about $700,000 lower than we had planned for in our budget. So, again, pretty encouraging results.

The run rate near the end of that program was at an even lower point than $6.7 million. So we feel like that's a pretty sustainable level. Most all of that feels pretty structural in nature. Certainly, as we look at pricing out there in the market today, it actually looks even constructive to helping us drive even more continuous improvement into that cost profile. So, even though we're obviously in a mature state of development, we still continue to see areas where we can take capital costs out of the system.

And then to your comments on maybe a bit more consistent well performance this year, I think what you're seeing is simply the reflection of (inaudible) kind of deep understanding of our acreage. So each pad gets its own kind of custom design in terms of spacing and even, to a degree, completion parameters, and so we'll continue to optimize that, but we feel pretty confident that we've got our development model pretty well dialled in. And so I would expect things would continue to perform pretty consistently in the future on the well performance side.

**Patrick O'Rourke** — Analyst, ATB Capital

Okay. Thanks, guys.

**Operator**

Your next question comes from Mike Dunn of Stifel. Mike, please go ahead.

**Mike Dunn** — Analyst, Stifel Nicolaus

Thanks. My questions have already been answered.

**Operator**

Okay. Ladies and gentlemen, as a reminder, should you have a question, please press the star followed by one.

Okay, so there appears to be no further questions. You may proceed.

**Drew Mair** — Manager, Investor Relations, Enerplus Corporation

Perfect. Well, thank you, everybody. Appreciate everyone joining us this morning and enjoy the rest of your day. Thank you. Bye.

**Operator**

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