FINAL TRANSCRIPT

Enerplus Corporation

Q1 2020 Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enerplus Q1 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 the call you require immediate assistance, please press star zero for the operator. This call is being recorded on Friday, May 8, 2020.

I would now like to turn the conference over to Mr. Drew Mair, Manager, Investor Relations. Please go ahead.

Drew Mair — Manager, Investor Relations, Enerplus Corporation

Thank you, operator, and good morning, everyone. Thanks for joining the call today. 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 joined this morning, virtually at least, 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 — President & Chief Executive Officer, Enerplus Corporation

Thank you, Drew, and thanks to all of you for joining us today. We will make some brief remarks on today's call about our first quarter results, but given the new world we find ourselves in, I believe it's also appropriate that we provide some context into how we are thinking about this environment and the actions Enerplus is taking to respond to it.

Firstly, as evidenced by our results released this morning, our underlying business is running well operationally, despite the challenges related to COVID-19 it. It is a very difficult time for people and I'm proud and I'm humbled to say our people have risen to the challenge, as we knew they would. And while there have been changes to how we work day to day in both the office and the field, our people remains focused on delivering strong safety and operational performance across the business.

As the downturn began to unfold, 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 suspended all operated drilling and completion activity several weeks ago, which resulted in a 45% reduction in capital spending compared to our original 2020 plan.

Although it is possible we saw a bottom in oil pricing in April, at the risk of stated we obvious, we believe the next period will continue to be exceptional and challenging for the industry as the demand destruction from COVID-19 has left a significantly oversupplied oil market. The storage levels testing capacity limits and oil price is collapsing to incentivize production shut-ins. As a result of this oil pricing weakness, we announced that we've started to curtail production in April and have shut-in more production in May. It is this uncertainty around oil market fundamentals and the significant near-term volatility we expect that caused us to withdraw our 2020 guidance.

Currently, our production decisions are effectively being made in real time depending on the liquidity and prices in the physical market for crude oil. Although we believe markets will balance and pricing will improve, the trajectory, timelines, and even a potentially new baseline level for world demand are highly uncertain, creating a wide disparity and outcomes.

On the one hand, there is a plausible scenario were demand against the recover reasonably quickly, rising to close to pre-COVID consumption levels within the next year, followed by continued demand growth in 2021. This demand scenario, combined with significant under investment, the potential for some elements of lost supply due to shut-ins, and continued supply management from OPEC would result in the drawdown of global crude oil inventories potentially quite quickly, which would create a far more supportive pricing dynamic.

On the other extreme, we could see a much slower demand response potentially due to a slower opening up of economies and/or structural changes in consumption behaviour. This scenario would likely result in sustained production cuts and depressed oil prices for significantly longer, as oil storage levels would be persistently near capacity.

So, when we think about these two bookends, the large divergence in possible outcomes, and with the uncertainty of assessing the likelihood of either scenario at this moment, we plan to remain nimble and responsive to market conditions, ensuring we are laser focused on preserving our financial strength and protecting shareholder value. Fortunately, we entered this downturn in an advantaged position compared to our peers, given our high-quality assets and strong balance sheet.

However, as we look through the current market turmoil, I do believe there will be positive strategic implications for the industry coming out of this downturn. Prior to the crisis, the market was already transitioning to a more balanced model, increasingly prioritizing generating full cycle returns instead of a myopic focus on top line production growth. I think we will see this shift accelerate as investors demand that reckless growth firmly take a back seat to a more sustained returns-focused business model with lower leverage levels, lower operational volatility, more performance-based executive compensation structures, and enhanced free cash flow as the key outcomes. These principles have been central to how we run our business.

We also believe that this crisis will probably act as a catalyst for accelerated consolidation in our industry. There are simply too many companies, too much G&A, and not enough relevance for investors. Although the timing for consolidation may take longer than some wish, we believe the die is cast and the trend will continue to accelerate. Out of this transition, we believe opportunities will exist for a limited number of companies to receive strong market support if they focus on being good stewards of capital, delivering a thoughtful ESG strategy, and critically generating real and sustained returns. While our focus today is squarely on preserving our financial strength and protecting value, as the market conditions improve we believe we will be well positioned to take advantage of potential strategic opportunities that could create further value for our shareholders.

In summary, here's what I hope you'll take away from my comments. We delivered another strong operational quarter and our workforce remains highly engaged. There is a significant uncertainty regarding the shape and timetable of recovery in oil prices as we navigate a particularly challenging time for the industry. Enerplus will be disciplined and responsive to the volatile market conditions with a focus on protecting value for our shareholders and we will also preserve our strong financial footing as this environment plays out.

With that, I'll turn the call over to Jodi to speak to some of our financial highlights.

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

Great. Thanks, Ian.

I'll start with our oil realizations in the Bakken. Our Bakken oil differential in the first quarter was US$5.26 per barrel below WTI, consistent with our original full year 2020 outlook of US$5 per barrel. However, as they moved into April, demand for crude and products fell sharply due to the COVID pandemic and inventories began to build across the US. This created a very weak market for crude oil as refiners significantly lowered runs and traders scrambled to find enough storage for the excess oil. This pushed physical prices for all grades, including the Bakken, substantially lower.

With North American storage currently close to capacity, the physical market and spot Bakken differentials remain extremely volatile. Differentials for May traded as wide as US$15 per barrel below WTI last month, but have since improved with spot barrels for May recently trading at a positive differential to WTI. We are also seeing encouraging signs of liquidity returning to the market for June with differentials trading substantially tighter than where May index prices were set. With this as a backdrop, we expect June sales to be at least the same or potentially a bit better than May.

We continue to be nimble and have based our sales decisions on whether we can realize prices above our cash costs regardless of our financial hedges. So, not only has the production we chose to keep online during this time met specific netback hurdles to ensure profitability, we continue to realize ongoing benefits from our strong financial hedge position on top of this.

We have financial hedges of 24,800 barrels per day on average for the rest of 2020 through a combination of swaps, put spreads, and three-way collars, as well as approximately 13,000 barrels per day of fixed physical differential sales agreements for the remainder of 2020, which provide additional downside protection from wider differentials.

It's obviously difficult to predict at what point congestion in the physical oil market eases, but ultimately, with the production shut-ins and reduce capital spending in the basin, we are constructive on Bakken differentials and expect them to come back to more normalized levels and range between US$3 to US$5 per barrel below WTI over the medium to long term.

Turning to natural gas, in the Marcellus, our realized differential in the first quarter was US$0.38 per Mcf below NYMEX. This reflects the weak demand during the past winter, which was one of the warmest on record. Our full-year 2020 outlook for our Marcellus differential remains unchanged at US$0.45 per Mcf below NYMEX.

The overall outlook for natural gas continues to improve based on growing concerns over potential declines in associated gas production as US crude oil production falls. We are positioned to capitalize on this and would expect to realize stronger free cash flow from our Marcellus asset if the gas market continues along this path in the month ahead.

Moving to our balance sheet, we ended the quarter with liquidity of approximately US$700 million based on our cash position of approximately US$100 million and our undrawn US$600 million bank credit facility. The only debt we have outstanding is US$467 million related to our senior notes, which amortize over the next five years on a relatively flat maturity profile of between US$80 million to US100 million in repayments each year. In 2020 we have $82 million maturing, which we plan to repay using cash on hand.

We were able to accelerate our remaining alternative minimum tax refund of $21 million as a result of changes made by the US government through the CARES Act. The CARES Act was passed to provide financial relief for businesses and preserve jobs in response to the COVID pandemic in the US. Previously, we expected to receive the refund over the next two years; however, we now expect to receive the additional cash during the second quarter of 2020

Our commodity hedges provided cash gains of $33 million in the first quarter. Based on recent strip prices, we expect hedging gains for the remaining three quarters of 2020 to be approximately $115 million.

Overall, we expect our adjusted funds flow to be approximately balanced with capital spending and dividends for the rest of 2020 based on recent WTI forward prices.

We have taken further steps to protect our balance sheet through reducing our cash G&A expenses and operating costs. We have reduced cash compensation for our board of directors, executives, and employees and have reduced operating costs through efficiencies and service cost reduction.

Finally, we chose not to renew our normal course issuer bid in March upon expiry; however, we plan to renew it in due course as commodity prices and market conditions improve.

I'll leave it there and turn the call over to Wade.

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

Thank you, Jodi. Good morning, everyone.

Our operational execution was very solid in the first quarter and this continued right through our suspension of drilling and completions activity in mid-April. In our press release this morning we highlighted the strong performance we delivered year to date on our capital program in the Bakken. On average, our 2020 drilling results are more than a day and a half ahead on cycle times compared to last year's average. On the completion side, we were running at an average of five days per well to frack, which is also ahead of forecast. And it's worth noting that these results were achieved during winter operations. We weren't expecting to see this kind of improvement until we were into spring and summer. So all in, our total well costs averaged approximately US$6.8 million year to date and we were well positioned to drive that down further during the summer months. I'm optimistic that we can pick up where we left off when capital activity starts again, giving us a head start on driving further capital efficiencies.

We provided April production in this morning's press release. Despite some curtailments, production was stronger than we had forecast. With the weakness in the physical crude oil market from May, we have begun to curtail additional volumes. Currently, we estimate approximately 25% of our liquid volumes are curtailed. This number does not account for a recently completed high working interest seven-well pad, which we chose not to produce into these low oil prices. Based on prevailing market conditions, we do not anticipate curtailing production beyond these levels through the rest of the second quarter. The good news is that we have a significant amount of operational flexibility to reduce and bring back volumes online relatively quickly.

Moving on to the Marcellus, we continue to see some exceptional well performance across our acreage, driven by longer laterals and completions optimization. We had an interest in 10 gross wells that were brought on production in the first quarter and these had an average peak 30-day production rate per well of 33 million cubic feet per day. This includes two wells with peak 30-day rates in the 40 million to 50 million cubic feet per day range. Although we have withdrawn our corporate production guidance due to the potential for curtailment stemming from low oil prices, we have provided an outlook for our Marcellus volumes, which we expect will average between 185 million to 200 million cubic feet per day for the rest of the year.

As Jodi mentioned, we have made good progress lowering our operating costs. As noted in the press release, we expect our unit operating expenses to average $8.25 per BOE compared to our original 2020 guidance of $8.50 per BOE. This reduction as a result of efficiencies we have driven across our processes, vendor service cost reductions, and further project deferrals and prioritization.

Lastly, let me turn back to the sentiments Ian expressed about our team. Frankly, we can’t say enough to thank all of our employees and contract partners for the resilience they have shown so far during this crisis. Very importantly, our safety and environmental performance has been excellent so far this year and our team has adapted very successfully to remote work.

I'll leave it there and will 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 the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and questions are taken in the order received. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Neal Dingmann from SunTrust. Please go ahead.

Neal Dingmann — Analyst, SunTrust Robinson Humphrey

Good morning, all. My first question, guys, is around your return requirements. I'm just wondering, you all took some major steps in not only curtailing that suspending (inaudible) and I'm just wondering could you talk about how you think about margin requirements to potentially bring you to those sites back.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Good morning, Neal. I guess in terms of capital, the next capital will be completion activity. If you anchored it on minimum return thresholds, you could probably start spending money today in the mid-20s. I guess that's not really where our mind is. Things start to get a lot more (inaudible) as move into the low and mid-30s and you get the $40 oil and it's compelling activity for those completions. And fortunately, we've got pretty nice backload of ducks sitting there in North Dakota. So if you looked at the forward market, that says later in the year, early next year, and then we'll be assessing conditions at that time.

Relative to the decision not to flow most recent pad, you know, as that activity was completed and we were thinking about sales, we were looking into a market three or four weeks ago in the teens. So that made no sense whatsoever. Mid-20s, you've got a lot of margin that sits there, so you certainly could bring it on and make some money. Obviously it's a lot more fun with a little bit more margin sitting there. And I guess we'll assess that on a real-time basis. Managing operational issues just with the reality of liquidity in the marketplace, as Jodi said, liquidity is coming back into the system, but it is highly volatile. And so think about that pad likely being on probably sooner rather than later if we continue to see sort of modest improvement that we're starting to see now. But we'll assess that as we move through this.

Neal Dingmann — Analyst, SunTrust Robinson Humphrey

Okay. And then just lastly, Ian, from a high level, I mean in this kind of environment, I mean is it still just cash conservation? You guys have, even prior to this, I would classify as being one of the more conservative. I'm just wondering, I don't know that we've seen distressed yields yet, but I guess why I was asking about the cash conservation, I'm just wondering, you know, not as simple M&A question, but if you see some interesting opportunities, I'm just wondering sort of externally versus organically, I mean would it take materially higher prices to do anything on both those fronts or is it just really the right opportunity based on margins here? Thank you.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Yeah, it's a good question, Neal. I think it's a multidimensional equation we're solving for here. Anything we do needs to keep us financially strong. And if you looked at the forward market with some recovery, we look all right. Nothing's very fun when oil is trading at $12, but the market will respond and they'll be some recovery here. So we certainly have to look at that.

One of the big gating items is also going to be just value. You have not seen distressed deals yet. I haven't seen that happen. Although it certainly feels like it is inevitable and coming to us, there's just too many balance sheets out there that you just can't imagine your way through it without restructuring. So I think that's going to continue. And then out of that will come sort of prices for assets and companies that make sense and there's some equilibrium in there.

So it hasn't happened yet. I think it's inevitable. I think patience isn't always a virtue. But right now we just haven't seen that market open up yet. The bid-ask spread has been too significant. But rapidly these decisions are getting taken out of company hands and out of equity hands and creditors are going to make some decisions there and we'll find some equilibrium in the marketplace and, again, I just think we're really well positioned to be able to take advantage of that when and if that starts to open up.

Neal Dingmann — Analyst, SunTrust Robinson Humphrey

Thanks so much. Appreciate your comments.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thanks, Neal.

Operator

Ladies and gentlemen, as a reminder, should you have any questions, please press star followed by one. There are no further questions. You may proceed.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

All right. Well, thank you, everyone, for calling in. It’s a busy morning, lot of calls, lots of things going on right now. We certainly appreciate everyone’s time. And I hope everyone has a good safe day and start of the weekend. Thank you. Have a good day. Bye.

Operator

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