FINAL TRANSCRIPT

Enerplus Corporation

Q4 and Year-End 2021 Results Conference Call

Event Date/Time: February 25, 2021 — 11:00 a.m. E.T.

Length: 37 minutes

CORPORATE PARTICIPANTS

Drew Mair
Enerplus Corporation — Manager, Investor Relations

Ian Dundas
Enerplus Corporation — President and Chief Executive Officer

Wade Hutchings
Enerplus Corporation — Senior Vice President and Chief Operating Officer

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

CONFERENCE CALL PARTICIPANTS

Ray Kwan
BMO Capital Markets — Analyst

Jeremy McCrea
Raymond James — Analyst

Jeoff Lambujon
Tudor, Pickering — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enerplus Q4 and Year-End 2021 Results Conference Call. At this time, all lines are in a listen-only mode, and following the presentation, we will conduct a question-and-answer session.

If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

I would like to remind everybody that this call is being recorded today, February 25, 2022.

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

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 our fourth quarter news release. Our financials have been prepared in accordance with the US GAAP. As a reminder, we have changed the reporting of our production volumes to a net after deduction of royalty basis, and our financial figures are now reported in US dollars unless otherwise specified.

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

And with that, I will turn it over to Ian.

Ian Dundas — President and Chief Executive Officer, Enerplus Corporation

Thank you, Drew. Good morning, all. 2021 was a transformational year for Enerplus. Our strong financial position coming out of the downturn gave us an early-mover advantage to acquire high-margin production and expand our resource base at exceptional value.

But before I move on, I'd like to take a minute to thank our staff for their dedication throughout the pandemic. We have accomplished a lot and have delivered solid results. However, there's one area I'd like to specifically call attention to and that's our safety performance. We came through 2021 without a single lost-time injury. We consider this an outstanding accomplishment, and I'm extremely proud of our organization for continuing to prioritize the safety of our colleagues, particularly in such a busy and transitional year.

Now moving on. The Bakken acquisitions we completed last year helped to drive company record production and free cash flow and significant value creation during the year. Consistent with our capital allocation framework, we prioritized free cash flow growth, resulting in over $400 million of free cash flow generated in 2021.

Having utilized the balance sheet in connection with our acquisitions, we focused on reducing leverage over the course of the year and made solid progress, ending 2021 with less than one turn on our net debt-to-adjusted funds flow ratio, having repaid $273 million of debt since our peak level in the second quarter.

We also delivered meaningful cash returns to our shareholders in 2021. We increased our dividend 37 percent and repurchased over $120 million of our stock, leading to total cash returned of over $150 million.

Importantly, we made further advances on all of our key ESG initiatives last year. Relative to emissions, we achieved our 20 percent methane emissions intensity reduction target one year ahead of schedule and made further progress towards our target of a 50 percent reduction in greenhouse gas emissions intensity by 2030.

In a separate news release today, we also reported our year-end reserves, which grew substantially last year. Under US reserve standards, our proved reserves grew by over 160 percent with reserves additions that replaced our 2021 production by over 7 times. Reserves growth and resource capture in 2021 have extended our high-quality drilling inventory in North Dakota to over a decade, further enhancing the sustainability of our long-term outlook.

While 2021 was an exceptional year for our company, the setup for 2022 is also compelling. Our Bakken-focused capital program is designed to efficiently deliver organic, high-margin production growth of 3 percent to 5 percent, which, when combined with the acquisition and divestment impacts last year, results in total production growth of approximately 6 percent.

This plan is expected to deliver free cash flow growth of over 20 percent compared to 2021, assuming $75 WTI. At $85 WTI, our free cash flow is projected to grow by 50 percent compared to last year. Factoring in our planned share buyback program, that number moves higher on a per-share basis. This translates into an attractive free cash flow yield of between 18 percent and 22 percent based on WTI prices of $75 and $85 respectively.

With this significant free cash flow outlook, we plan to continue to prioritize debt reduction and shareholder returns. Previously, we had talked about a leverage ratio target which is at or below 1 times net debt to adjusted funds flow, assuming a $50 deck. While we’ve called this a target, it’s really more of a maximum leverage ratio over the long term. This doesn’t mean we aren’t willing to use leverage and go above this level to take advantage of some strategic opportunities, as we so clearly demonstrated last year. What it does do, though, is provide a reference point that, all things considered, debt repayment levels will be directionally higher until we are under that level.

Over the longer term, we will continue to prioritize low leverage and reducing debt during periods of high commodity prices. We simply believe that maintaining a strong balance sheet is critical to enhancing sustainability throughout the cycle and offers strategic advantages. With this in mind, we plan to continue to allocate a portion of free cash flow to the balance sheet in 2022 and will continue to do so as we move under our maximum target of 1 times.

We also plan to continue to return significant capital to our shareholders through dividends and share repurchases. We continue to believe that our intrinsic value, based on mid-cycle commodity price assumptions, is not adequately reflected in our current trading value. As a result, we plan to continue our aggressive approach to share repurchases and expect it to fully utilize the remaining authorization of our normal course issuer bid to repurchase stock over the next five months.

At our current share price, this represents approximately a $100 million increase to our repurchase program and, upon completion, we will have repurchased 10 percent of our shares outstanding since initiating the program last August.

We also highlighted updates to our five-year plan. Last year, we provided an outlook through 2025, based on a $50 to $55 WTI price environment. We’ve now extended the outlook through 2026 and updated it to reflect the higher current commodity price and inflationary environment. Our updated outlook projects annual capital spending of $400 million to $450 million per year, with cumulative free cash flow estimated at $2.2 billion over the five years with production expected to grow by 3 percent to 5 percent annually.

And lastly, we recently announced plans to initiative a sales process for our remaining Canadian assets. While these assets had been exceptionally well-maintained and operated, they simply no longer attract capital in our portfolio, and, as a result, we made the decision to market the assets. If successful, we would expect it to prioritize any divestment proceeds towards debt reduction and enhancing cash returns to shareholders. We would also assess our ability to redeploy a modest amount into our higher-return Bakken development program.

And with that, I will leave it and turn it over to Wade.

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

Thanks, Ian, and good morning, everyone. Beginning with production, our total volumes in the fourth quarter averaged 103,000 BOE per day, which was just under the high end of our guidance range and 48 percent higher than production in the fourth quarter of 2020. The solid production performance relative to our guidance was driven by strong rates from our fourth quarter Bakken and Marcellus onstreams.

In the Bakken, our fourth quarter completions program consisted of an eight-well pad with peak 30-day average rates of 2,900 BOE per day on a per-well basis. In the Marcellus, we participated in bringing 20 wells on production in the fourth quarter, with peak 30-day average rates of 27 million cubic feet per day on a per well basis. Overall in 2021, our total production averaged 92,000 BOE per day on capital spending of $302 million.

Looking back at the guidance we released in April of 2021 when we announced our second Bakken acquisition, our total production came in at the top end of the range, and capital spending came in right at the midpoint of the range. I think this speaks to how successfully our teams integrated the new assets and businesses we acquired in 2021.

And as Ian noted, our safety performance was outstanding with not a single lost-time injury in the year. This is exceptional performance, particularly in a year where we added so many new assets and people to the Company.

Moving on to 2022, I expect this operating momentum to continue. The well cost efficiencies captured in the Bakken with costs down 10 percent year over year in 2021, combined with our early procurement in which we have secured pricing for approximately 75 percent of our 2022 North Dakota development program, have left us well positioned to efficiently execute the program. These actions will also continue to help offset some of the inflationary pressures we're seeing.

To execute our 2022 plan, we've added a second drilling rig in the Bakken, which we plan to operate for about a half year. So overall, we're looking at about a rig-and-a-half in 2022.

Our capital program will be focused around FBIR and the Dunn County acreage. In addition, we've approximately $80 million earmarked for non-operated activity in North Dakota, primarily in the Dunn County area.

Turning to operating expenses, we are seeing cost pressure here and expect this line item to be higher year over year. This is primarily driven by three main categories. First, inflationary pressures, particularly where we have contracts with price escalation clauses linked to CPI. Second, with our continued improvement on gas capture, we are seeing higher sales gas volumes and, therefore, higher gas processing fees. Importantly, however, this also comes with a benefit of increased gas revenue. And lastly, higher well service spend driven by the larger suite of wells we now operate.

Lastly, we continue to deliver strong results relative to our ESG initiatives in 2021. Based on preliminary estimates, our Scope 1 and 2 GHG emissions intensity improved by approximately 25 percent in 2021 versus our 2019 baseline.

Keys to the success we are having reducing emissions intensity is our improvement in methane emissions and flare management. In 2021, to reduce methane emissions, we initiated wide-scale deployment of air-driven pneumatic controllers and began installing vapour recovery units to reduce tank emissions. With respect to flaring, we have further optimized operational practices and improved our planning processes to reduce flaring during initial production. Combined, these efforts have led to a material reduction in our emissions intensity, and we're working hard to deepen this success in 2022.

I'll leave it there and now pass the call to Jodi.

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

Thanks, Wade. Our earnings momentum continued in the fourth quarter, reaching $0.71 per share, an increase of 87 percent from the prior quarter. Our fourth quarter adjusted funds flow was $258 million with capital spending of $81 million, resulting in free cash flow of $177 million.

Our realized Bakken oil price differential improved to $0.88 per barrel of WTI in the fourth quarter as a result of strong refining demand and significant available pipeline capacity in the basin that continues to support pricing.

Our Marcellus natural gas price was $1.70 per Mcf below NYMEX in the fourth quarter. This was wider than our expectations and reflected their increased volatility in the NYMEX benchmark pricing and weaker local market.

Moving on to expenses, on a full year basis, our operating costs were $8.69 per BOE, which was in line with our guidance. As noted last quarter, our operating costs in 2021 reflected increased workover activity, which contributed to our strong production results. But it was also as well as higher water-handling charges due to contracts with price escalators linked to WTI.

Our cash G&A costs averaged $1.14 per BOE in 2021, 10 percent lower than in 2020, as the higher volumes we added in 2021 reduced our unit cost.

Turning to the balance sheet, we remain in a strong financial position and expect the delevering to continue through 2022. We ended 2021 with net debt of $640 million and a net debt-to-adjusted funds flow ratio of 0.9 times. In addition, we continue to have excellent liquidity and are undrawn on our $900 million bank credit facility.

Moving on to our free cash flow priorities, as Ian noted, we plan to continue to reinforce the balance sheet and further enhance our cash returns to shareholders. With respect to our return of capital plans, in yesterday's release, we announced an increase to our share repurchase program equating to roughly an additional US$100 million based on our current share price, which is incremental to our previously announced C$200 million repurchase program.

As a reminder, we anticipate completing our $200 million program by the end of the first quarter, and the additional US$100 million reflects the remaining authorization under a normal course issuer bid, based on our current share price and market conditions. We expect to complete the purchases between now through July and renew the NCIB in August for another 12 months.

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

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press *, followed by the 1 on your telephone keypad. If you would like to withdraw your question, please press the *, followed by the 2. And as a reminder, if you are using a speakerphone, please lift the handset before you press any keys. One moment please for your first question.

Your first question comes from Ray Kwan, BMO Capital Markets. Please go ahead.

Ray Kwan — BMO Capital Markets

Good morning, everyone. Thanks for taking my questions. I guess the first question I'll ask is just around, I guess, the general cost inflation question, just particularly around your operating cost assumptions for this year and the five-year outlook. I mean do you feel most of those cost assumptions are appropriately baked in and like I guess ways to mitigate that over the future years here? And then in addition, that'd just be helpful to understand cost inflation on the capital side as well too. And I do have a follow-up question after this too.

Ian Dundas

Good morning, Ray. Yeah. I'll put that over to Wade. Maybe just at high level, like it's clearly a transitional environment. Were they appropriately baked in? We've done our best. We're now partway through the year, and we've given ranges to help deal with some of that. But why don't I turn it over to Wade to give you maybe a little more detail on how we've been thinking about this and what we're experiencing.

Wade Hutchings

Thanks. Good morning, Ray. Let me start with capital. So on capital, we actually began working on this last year. Last year, we saw another really good performance on driving total well costs down. We were down another 10 percent year over year. In 2021, we ended the year average in $5.7 million for total well costs, but we could see some inflation already beginning to impact our costs last year on diesel and steel. And we were very mindful of locking in our program for 2022. And so last year, we've locked in our essentially pressure pumping services, drilling services, got all of the sand we needed for the 2022 program, actually secured about two-thirds of the casing, and then numerous other key service components for our capital program.

So today, we estimate that we've locked in prices for about 75 percent of our total capital spend in 2022. With that, though, we still are projecting a slight increase in our average well costs for 2022. We think we'll average right around $6 million in the year. So you could think of that as projecting around a 5 percent to 7 percent inflation. But it clearly would have been much higher than that, if we wouldn't have proactively secured some of these services after the capital program.

Let me address your long-term question now for actually both capital and operating costs. In our five-year guide, we obviously have the 2022 inflation baked in there. But we have also assumed some additional inflation potentially hitting us in the out years. And so we feel like that five-year guide is reasonable. To Ian's point, we've done our best to project what inflation might be over not only the shorter but the medium term.

Let me turn to operating costs now. Clearly, you can see that our operating costs are up year over year, and inflation's one of the key drivers there. I'll just reiterate a couple of points, and then I'll come back and talk about inflation.

So in the operating costs docket for us, you also see our gas-processing costs. And we continue to make good progress on gas capture and driving down flaring, driving down GHG emissions. And so the reality is as we do that, we see higher expenses. Fortunately, though, today, those are all more than offset by increased revenue. So that's a good thing for us. We also are seeing some additional costs across this kind of more diverse set of wells we operate.

And then back to inflationary pressures. In the operating costs world, last year we noted that we were seeing some escalated costs due to contracts that were linked to WTI. Some of that pressure continues, of course, this year. But we also had a series of contracts that had a change in costs at the start of this year because they have price escalators linked to the consumer price index. And so, in our operating costs guidance for the year, you're probably seeing something on the order of 6 percent inflation as well baked into those numbers for this year. And as I noted, we've got a bit of inflation baked in for the out years in that area as well.

In terms of mitigating actions, we just continue to work really hard with our contract partners. We did that last year to lock in pricing and lock in services and then, for them, gave them a clear line of sight to work this year. We've done that on several OpEx categories as well as all of those capital costs categories I noted.

Ray Kwan

Yeah. That's great colour, Wade. I guess my second question, and it's just the typical token question I'll ask is just around M&A. And I know you touched on this, Ian, but just love to get your takes on kind of the current M&A market. And, obviously, you're on the sell side in terms of like how you're thinking about the Canadian assets as well as just wondering how you're thinking on the buy side, particularly around potential consolidation in North Dakota here.

Ian Dundas

Yeah. Thanks again for that, Ray. It's been a couple of years of talking about volatility, and it continues to play out. It really does. And as you stand back, there's no question there're broad themes in play around continued consolidation drivers, rationalization, hydrating portfolios, and those things are all at play. I guess I would tell you it feels like more of a balanced market probably than we've had before; a lot of new money coming in looking to buy or thinking about selling. But the volatility, I think, is probably the single biggest driver that has impacted the ability for transactions to happen.

So that's broad market themes. I think those mostly play out in the various basins that we're interested in. So yeah. I mean, today, you said were sort of a seller; I think we always think that we're both. And strategically, it's about building scale around the core, looking for value, looking for synergistic opportunity, consolidation opportunity, and then moving assets that don't compete out. So, I don't know where else you'd want to go on that. (Unintelligible) more constructive. But there haven't been a lot of data points really anywhere. The ones that you have seen get over the goal line in the last little while, they certainly look at meaningfully higher valuations than occurred a year ago. You contrast what we were able to get done about a year ago to the market today and everything is worth 2x to 3x what it would have been at that environment.

Maybe a final point on how we're thinking about everything right now. We're pretty clear with the Canadian assets' quality but just smaller. And so we think there's potentially an opportunity to move those to somebody else's hands.

And then on the North Dakota side, we changed our stars in a meaningful way a year ago relative to the scope of the business and the inventory of the business, which we spent some time talking about. And so, the bar for North Dakota acquisition and consolidation, it's maybe higher than it was because anything we do needs to compete with a deeper, more resilient, more robust portfolio. But we went from a subscale business in North Dakota to a business that feels more scaled up. And I think there are probably opportunities out there to make our business even better. But we'll be disciplined in that, and we will, as always, manage value, expectations, and keep shareholder interests at the fore of anything that we think about.

Ray Kwan

That's great. Thanks, everyone.

Ian Dundas

Thanks, Ray.

Operator

Your next question comes from Jeremy McCrea of Raymond James. Please go ahead.

Jeremy McCrea — Raymond James

Yeah. Hi, guys. It's actually a bit of a follow-up question to Ray's there. Supposedly, you sell Canadian to Canadian assets. You sell your Marcellus portfolio. You really could be debt free here completely. Like what's the long-term goal then? Is it to just wait for another opportunity in the Bakken to show up? Or do you start to go more aggressive on the buybacks? Potentially increase spending? Like at what price, maybe, at WTI do you actually really think about spending more to develop some of those deep Bakken assets? And then I just have a follow-up question after.

Ian Dundas

Yeah. Good morning, Jeremy. And the long-term goal is to have our shareholders have outsized returns. And so how does M&A factor? And like so portfolio management is a really, really, really important part of that. And with all things in life, timing seems to be playing an important role in those decisions.

So we have a portfolio today that we believe can deliver outsized returns. We believe that a managed approach to organic growth is a really important part of delivering those returns on a sustained basis. And so that's our five-year plan.

How does M&A complement that? We have choices on the Canadian assets, which is to produce those out. We think there is an opportunity to enhance shareholder returns by monetizing those assets for value, presumably into the hands of somebody else who is going to prioritize higher capital spending in connection with that. I think that would be accretive activity for our shareholders.

Could we buy something in North Dakota to enhance returns? That's possible. Many of the things that we would think about we see synergistic opportunity there. On the capital side, that's pretty easy to see. It's also you can imagine it on the operating cost side, although it's a little bit harder.

And so then to your question of balance sheet and capital structure in connection with that. Our long-term principles haven't changed for a long time, which is strong balance sheet and returning capital to shareholders. And so what we have right now in front of us is a bit of a unique thing that you're highlighting. We've been able to use the balance sheet strategically, and now we're delevering pretty rapidly.

So we really like this near-term plan. And the near-term plan is to continue to push our debt down and, as we think about all the tools available to us, to return capital to shareholders, which, by the way, is complementary, hopefully, to the share price going up, which is obviously where then the big return will come in the last couple years. We see a lot of value in the stock right now based on these mid-cycles.

So what's next if we're in a—get to a zero-debt position? I guess, let's start by answering the question, where's the share price? If the share price is where it is now and all conditions are the same, we'll be buying a lot of stock. And if the share price is double and we move through that intrinsic value, maybe there's different opportunities relative to dividends and capital structure. But let's be really clear.

The big-ticket items are figuring ways to grow organically or inorganically, and the acquisition stuff that we've done recently has been incredibly successful in capturing that opportunity.

Now we're looking to monetize that, and everything else we're doing will be complementary to that. So I mean, that's a long-winded answer. There's some generic stuff in there, but it's a high-level strategic question. So I mean I'm happy to take a follow-on there if there's more you want to throw down on it.

Jeremy McCrea

Yeah. No. And I know it's a kind of a difficult question to sometimes answer there. But maybe I'll kind of flip it and go really specific. Is there any one or two things that you're seeing from industry, like a new approach to drilling technology, frack designs, that you're looking to implement for this year that could probably have maybe an outside change to your type of (unintelligible) or your costs that you're seeing?

Ian Dundas

A single thing that would have an outsized impact this year, I think I'll turn that to Wade. I'll tell you I don't have something on my radar that says we've got to see change, but there's lots of interesting things going on that are both incremental and could be more impactful over time. But why don't I hand it over to Wade to talk about technology, operating practice, some of the things we're doing, and some of the themes that are out there.

Wade Hutchings

Thanks, Ian. I, also, wouldn't say that it's just one thing. It rarely has been one thing. If you look at our track record over the last several years of driving capital and other cost efficiencies, it literally has been dozens of things every year that have added together that has driven the continued improvement you see in our capital efficiency and other cost optimizations.

I think the things we saw that have been really beneficial on the operating side is the deployment of incremental technologies in our drilling and completions business that has helped us be more efficient. So these are things that have helped us improve well connection times on the simulation side and continue to shave minutes off of different operations on the drilling side. So we haven't run out of those kinds of operational technologies. So you'll see us continue to deploy those.

I think, on the broader sense throughout the Company, we continue to deploy automation and digital technologies to just make us more efficient. I mean we continue to do more work with less labour than we've done in the past, and we still see a large number of opportunities that we're going to continue to deploy.

Ian Dundas

Wade, maybe just build maybe an anecdote on VRUs. So it's not something that has dramatically moved F&D or LOE, but it has made a pretty significant move to emissions. Maybe just a little bit of context for folks on the line or Jeremy.

Wade Hutchings

Yeah. I think there, we're motivated to continue to find technologies to reduce our emissions profile. But at the end of the day, we also want to recover as much hydrocarbon as we can from the system and sell it. And so the big success we had last year was deploying VRUs on our new paths. And so we've done that on both the high-pressure and low-pressure systems in that facility design, and it really made a big impact on our ability to limit our emissions, recover more gas, sell more gas, and, ultimately, manage the ability to continue to flow oil in areas where we may have some emissions limits.

So that's probably one of the deeper areas of focus for us is this whole emissions management technology suite. And I think the thing that we're quite pleased by is almost every one of those technologies that we've tested and deployed not only reduced emissions, but they've actually been constructive to profitability.

Jeremy McCrea

Okay. That's great to hear, guys.

Operator

Your next question comes from Jeoff Lambujon, Tudor, Pickering. Please go ahead.

Jeoff Lambujon — Tudor, Pickering

Morning, everyone, and thanks for taking my question. I've just got one here, following up on some of your free cash flow allocation commentary around returns in particular. I see the disclosure around your plans for capital returns has gotten clearer with each update with yesterday's release confirming plans to utilize what's left of the NCIB authorization and stating the intent to renew it in August. I wonder if you could just maybe frame how you think about utilizing that once we get there. If there's a way to think about that in terms of a component of cash flow or free cash flow that sees its way to shareholders like it has historically in terms of magnitude, or if the long-term leverage targets you talked about would be the best guidepost at this point in thinking about free cash flow allocation.

Ian Dundas

Yeah. Good morning, Jeoff. Jodi, do you want to take that?

Jodi Jenson Labrie

Sure. Morning, Jeoff. Yeah. We've outlined our plan. It is consistent with previous years as well. We talked about our five-year track record of returning over 60 percent of our free cash flow to shareholders. At this time, we've provided guidance regarding what our plans are over the next six months and that equates to a similar level of returning free cash flow to shareholders as well. So I think, at this point in time, we expect to be able to buy back the remaining shares outstanding under NCIB over the next five months. And then we will look at, depending on where share prices are at at that time, we will look at further returns to shareholders come August, so.

Jeoff Lambujon

Okay. Thank you.

Operator

Once again, ladies and gentlemen, if you would like to ask a question, please press *, 1 now.

There are no more questions from the phone lines. I'll turn the conference back to Mr. Ian Dundas for closing remarks.

Ian Dundas

Well, I would just say thank you for everyone. It's been a busy year, and it's also a busy day for folks relative to reporting. So we appreciate your time for this call, a little bit longer today. So enjoy the rest of your day, and I appreciate your interest. Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for this morning. We'd like to thank you for participating and ask that you please disconnect your lines.