FINAL TRANSCRIPT

Enerplus Corporation

First Quarter 2021 Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enerplus First Quarter 2021 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, May 7, 2021.

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.

With that, I'll turn it over to Ian.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thank you, Drew. Good morning, all. I'll begin with some comments on our first quarter results and then move on to talk more about our recent acquisitions in the Bakken and our five-year outlook.

Production was just under 92,000 BOE per day in the quarter, which was 6% higher than the previous quarter due to increased Marcellus volumes and about a three-week contribution from the Bruin acquisition. We commenced completions operations in the Bakken towards the end of the quarter, which, in combination with the production acquired through our acquisitions, will drive a material increase to our second quarter production. Wade will provide more details when he speaks.

We generated over $60 million in free cash flow during the first quarter. Based on current commodity prices, we expect to generate free cash flow in each of the remaining three quarters with more substantial amounts expected during the second half of the year.

Moving on to our Bakken acquisitions, which are now both closed, the combination of these deals has meaningfully increased our operational footprint in North Dakota, extended our development runway, and is helping to drive a step change in the free cash flow profile of the business.

Here is a high-level summary of what we added between the two transactions: 230,000 net acres, increasing our land position by four times; 340 net identified economic drilling locations with the potential for an increase to this number through our exploitation efforts; 30,000 BOE per day of high-margin and relatively low-decline production; and the operational benefits of more scale, including increased operational flexibility across a broader asset base and an ability to further enhance our drilling and completion efficiencies. We were also able to add this increased scale while keeping our total net general and administrative costs flat. Integration of the assets is on track and we're focused on ensuring safe and consistent execution as we incorporate these new positions into our operations.

When we announced the Dunn County acquisition in April, we also provided a five-year outlook, underpinned by the following capital allocation principles: Maintaining low financial leverage. We believe the cyclicality of our sector does not lend itself to high-debt levels. We continue to target a long-term net debt to adjusted funds flow ratio of less than 1x. We increased debt levels in connection with the acquisitions, but with the incremental cash flow we see a clear path to quickly deleveraging. We estimate that we will be at or below 1.3x by the end of this year based on a $55 WTI oil price. If today's higher prices hold, we will be ahead of that estimate. The second principle we highlighted was our commitment to generating free cash flow. We are focused on sustainably growing our free cash flow by investing in the highest-return projects in our portfolio. Third is our focus on returning capital to shareholders. We aim to grow our shareholder returns, supported by an increasing cash flow base. None of these principles are new to Enerplus. This is how we've been operating for many years, as we believe our track record demonstrates. Assuming a $50 to $55 price for West Texas, we see $1.2 billion to $1.8 billion in cumulative free cash flow through 2025 while delivering an annual liquids growth rate of approximately 3% to 5%.

Consistent with our focus on growing our shareholder returns, we announced a 10% dividend increase supported by our expanding cash flow generating capabilities. Given the robust outlook for our business, including our expectations of meaningfully reducing debt this year, we will continue to evaluate the potential for increasing our return of capital to shareholders this year in the context of this capital allocation framework.

I will pause there and turn the call over to Wade.

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

Thank you, Ian, and good morning, everyone.

As Ian noted, we started our completions program in North Dakota towards the end of the quarter. We brought three wells of a six-well pad on production right at the end of the quarter with the remaining three wells online in April. We have since completed a nine-well pad to date in the second quarter. The second and third quarters will be our most active this year and we expect to bring 32 gross (26 net) operated wells online over this period.

Our execution has been solid, with completions performance on both pads having averaged approximately 13 stages per day, representing an improvement of over 30% compared to our 2020 average performance. This acceleration is one of the reasons that we increased our 2021 production guidance when we announced the Dunn County acquisition in April.

The integration of Bruin, which we closed on March 10th, is also going very well. Production has been resilient, supported by our efforts to quickly restore inactive wells requiring workovers. We are on track to have most of these wells returned to production by the end of May. I'm also happy to report that the new operators that have joined us as part of this acquisition are demonstrating an excellent commitment to our safety culture.

Now I'd like to share a few perspectives on the new acreage that we've acquired. With the Bruin acquisition, we acquired 30,000 net acres on FBIR adjacent to our existing operations and another 67,000 net acres in Williams County. Across both areas we've identified about 100 net drilling locations. As I've noted previously, the Williams locations we've identified are only focused on the eastern portion of the acreage position or about one-third of the total Williams acreage. Over time, we will look at testing the western Williams acreage, but our near- and medium-term plans will be focused on FBIR and Eastern Williams.

With the Dunn County acquisition we acquired 79,000 net acres to the south and southwest of our FBIR position. We've highlighted 110 net drilling locations from this acquisition, which are clearly tier one, supported by robust recent vintage industry activity and results. We have also noted an additional 120 net locations which we believe are economic today but offer the potential for more compelling returns as we test more modern completions on the acreage.

Lastly, the drilling locations we've identified are only in the Middle Bakken formation. There are recent offset productive Three Forks wells in the area that offer additional upside on our new acres.

We are starting to see tangible synergies from these acquisitions. As Ian noted, we've added 30,000 BOE per day and hundreds of leases while effectively keeping our absolute G&A flat to our historic run rate and lower on a unit cost basis. We've also leveraged our larger operating scale to support the extension of a rig contract at advantaged rates. This is helping to drive the continued D&C cost efficiencies we highlighted in our press release. We're now targeting US$6.1 million total well cost this year, a 20% reduction compared to 2019.

I'll now pass the call to Jodi.

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

Thanks, Wade.

Starting with our oil price realizations in the Bakken, our differential averaged US$3.12 per barrel below WTI in the first quarter. Refining demand was strong and basin production continued to be lower than pre-pandemic levels, the combination of which is supporting strong pricing for Bakken crude. We continue to expect our full-year Bakken differential to be approximately US$3.25 per barrel below WTI and that is assuming the continued operation of the Dakota Access Pipeline.

We realized strong natural gas liquids pricing during the first quarter, driven by the cold weather event in February, which was centred over key NGL pricing hubs in both the Midwest and Texas. Our realized Marcellus differential was US$0.15 per Mcf below NYMEX in the quarter, benefitting from the strength in regional pricing with the onset of colder weather. Marcellus pricing in the second quarter is expected to be weaker due to normal seasonality, which has been exacerbated by maintenance on the Transco-Leidy Line during May. We continue to expect a full-year differential in the Marcellus of US$0.55 per Mcf below NYMEX. This assumes weaker pricing in the second and third quarters with prices strengthening through the fourth quarter.

We provided unit cost guidance for 2021 with our first quarter press release. This included operating expense guidance of $8.25 per BOE, which is 4% higher than 2020 due to our increased liquids production weighting, which we expect to increase from 56% in 2020 to 62% in 2021. Cash G&A

expenses are expected to be $1.25 per BOE in 2021, 7% lower than 2020, primarily driven by higher volumes in 2021 following our acquisitions.

Moving on to the balance sheet, as separately announced last week, we increased and extended our senior unsecured bank credit facility to US$900 million, maturing in October 2025 with no changes to our existing price grid or covenant package. We also transitioned this facility to a sustainably linked credit facility which incorporates ESG-linked incentive pricing terms based on our performance relative to our three ESG targets. We view this as continued progress toward integrating our ESG initiatives across our business and believe it will enhance our access to credit markets and support our cost of capital in the future.

We continue to have significant liquidity available through our upsized credit facility. After closing our Dunn County acquisition on April 30th, we had approximately US$750 million of undrawn capacity. Based on current commodity prices, we expect to generate substantial levels of free cash flow in 2021, which will result in deleveraging quickly throughout the year. We are on track to achieve our target leverage ratio of less than 1x net debt to adjusted funds flow by 2022. Given this outlook and the increased scale of our business, we elected to increase the dividend effective with the June payment. Concurrently with the dividend increase, we are transitioning from a monthly dividend to a quarterly dividend. With our April and May dividends already paid or declared, the change to quarterly payments commencing in June will result in an incremental $5.6 million in dividends paid in the second quarter.

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 any questions, please press the 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 your handset before pressing any keys. One moment for your first question.

Your first question comes from Ray Kwan with BMO. Ray, please go ahead.

Ray Kwan — Analyst, BMO Capital Markets

Thank you. Thanks for taking my questions. I have three questions. The first one I was just going to ask is in around the dividend. I guess the 10% increase was a nice surprise, but can you talk about, go forward, how you think about that in terms of potential increases and how that's going to be tied to or what that's going to be tied to? There is, obviously, US players or your peers are doing special dividends or whatnot. How do you guys think about that as well too?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Good morning, Ray. So I guess this is going to evolve, but it will evolve in the context of this framework we've outlined with our largest near-term priority to continuing to focus on debt. When we think about the dividend, I'd say the overarching principle is we want it to be sustainable and resilient.

So we didn’t think it was a heroic call. We thought it was actually quite a balanced decision to start to change the dividend now. And it will be something that we’ll be evaluating as we move through the year, clearly.

To your question about a special or some sort of structured dividend, I guess we’re open-minded. As people may recall, 15 years ago that was part of the construct we had at Enerplus. We didn’t find, at the time, that we thought it was necessarily maximizing cost of capital, but there are some good companies out there trying to now, so we’ll be evaluating that.

But I will come back to just the fundamentals. We want a sustainable dividend, obviously one that is growing is better, and it’ll be a function of this capital allocation framework. Didn’t necessarily think we were going to be adjusting it now, but the deals have gone well, they’re closed, they’re integrated well, and obviously pricing is pretty strong and, as we highlighted, we see a pretty robust next five years in front of us and a robust 2021, so probably it felt like it was a balanced decision to start with the change today.

Ray Kwan — Analyst, BMO Capital Markets

Yeah, that makes sense. I guess following on to your kind of the five-year plan here, can you talk about, you know, you’ve kind of stated 3% to 5% growth over the next five years here per year, can you talk about like the cadence around whether, like what drives kind of the 5% growth versus the 3% growth?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

A little bit of a rounding error sometimes. I guess, again, I'll come back to the capital allocation framework, Ray, and we were really careful to say we're not targeting an absolute growth level. We see a growing business is much more attractive one that is not growing, but it needs to be an outcome of the financial characteristics of the business. And so the principles, the balance sheet, generate free cash flow, return capital to shareholders, those are all things we're going to do, that we have done for a long time, and then in a $50 to $55 world we see an ability to do all of those things and grow the business.

So, the difference between 3% to 5%, I don't know if there's any particular magic to that number. I think the message we were trying to put on top of it as opposed to just saying growth was we would anticipate lower growth levels for our company, and this is obviously a broad theme in the industry, than maybe traditionally we've had. But again, it's been 15 years of Enerplus talking about a balanced approach to growth and income and right now we think that sort of low- to mid-single-digit growth rate is one that makes sense.

If we really want to get granular here, and maybe this happens over a coffee some time, but you can see subtle differences in decline rate. You start to go past five, let's say, and you start to see decline inching its way up, and that happens less than the sub-five level. So we're not trying to tell people there's like the absolute firm rock cap on it, but think about in environments where we have an ability to grow more than that, prioritizing free cash flow generation, I think that would be the outcome, and then in these higher-price environments obviously there's a lot of that cash that has the potential to kick around. I don't know if that helped you out.

Ray Kwan — Analyst, BMO Capital Markets

It does, yeah. 100%. My last question, and this is more of an operational type of a thing question, so it's probably more for Wade, as well as you, Ian, but I guess just wondering, I mean I just want to confirm, are you going to be drilling on the new lands this year? And like can you maybe expand on kind of the upside locations or delineating kind of the upside locations to add more inventory?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Yeah, it's a great question. Why don't we have Wade talk about that and maybe I'll spend a moment or two giving some context, because it is, you know, for those who followed the company for a long time, there's been a big change to the portfolio, like a strategically significant change in the portfolio, and it's not just free cash flow generation. It's inventory, it's opportunity set, and it's a lot broader than just the economic wells we've highlighted.

So, Wade, do you want to maybe take us through some of that?

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

Yeah. Happy to. Thanks for the question, Ray. Good morning.

So I think the first thing I'll touch on is what's happening this year. So, as we indicated when we announced Bruin, they had 10 DUCs in inventory from 2020. Roughly half of those were in the Williams County area and we will be (inaudible) those DUCs, bringing them on line later this year. So that will be an important kind of first Enerplus test of Williams County.

In terms of the new inventory and acres that we got in Fort Berthold itself, those other kind of core areas of Eastern Williams County and that core Little Knife area in Dunn County, all of those new areas are going to compete for near-term capital with our kind of existing legacy FBIR inventory. So expect that 2022 will be a balance of spending between those areas and then you'll see that kind of integration, kind of optimization as you move out into the five-year plan. So, yeah, the broad answer to your question is you'll see all of these core areas that we bought from both Bruin and then that we bought from Hess in Dunn County factor pretty prominently in our five-year plan.

Now beyond that, in terms of the upside, clearly the 230,000 new acres that we've added to the portfolio, they really have brought several new interesting opportunities for resource expansion. And those clearly go beyond kind of the core inventory we relied on to justify the purchase of those two assets and then clearly goes beyond the inventory that we built our five-year plan on and really even goes beyond the inventory that we've talked about in our ten-year kind of inventory life underpinning that kind of 3% to 5% outlook.

So let me give you just a little bit of colour on where we see the upside. So there are several specific areas that we're actually quite keen to test. The first one I would note is starting with the Bruin acquisition. In Williams County, we do see additional Bakken upside on the two-thirds of the 67,000 acres that we didn't model core inventory on. As we noted at the Bruin release, we think stimulation design in Williams County is going to be critical. Generally speaking, we saw a little bit more intense completion relative to, say, the Fort Berthold area, being more effective in Williams County. So that'll be a feature of kind of the core part, the eastern third of Williams, but it's also likely going to be pretty critical to unlock additional inventory in Williams as you move further to the west.

In Dunn County, as we've indicated in our release, we do see quite a bit of additional Middle Bakken upside in both the Murphy Creek area and in the southern portions of Little Knife. So if you look at page ten of the last investor deck, you'll see those 120 Mid Bakken upside wells denoted there clearly. They're actually economic today, not quite as competitive as the core inventory we've counted, but we actually are excited to see what kind of a full modern stimulation design will do to the Middle Bakken in those areas. Fortunately, for us, it's actually a very active area and so we're watching quite a bit of industry activity in Dunn County, some of which directly offsets our acreage, and so that non-op and industry activity is going to help accelerate our learnings and even our own testing of that upside.

And then lastly in Dunn County, we noted that there's a lot of additional Three Forks upside beyond what was a very small number that we included in our core assumptions. Now for the Three Forks in that area, it's a little more complex than, say, in the core of the basin in Fort Berthold and so really careful subsurface geologic characterization is going to be a key to unlocking Three Forks upside there.

Now to the question of when are we going to test that, as you might imagine, we're already working our 2022 budget. It's actually quite mature at the moment. And we have very firm plans in place to begin to test specific parts of the upside I just noted starting next year. And then beyond that, I'm quite confident what you'll see is a very systematic and kind of balanced risk approach to continue to test more and more of that upside as we move forward beyond 2022. So certainly, as Ian noted, it's really brought a diversity of inventory options, diversity of capital allocation options, even within the Williston Basin for us, so we're actually quite excited to begin to test and unlock some of that.

Ray Kwan — Analyst, BMO Capital Markets

Yeah. I guess I'm looking forward to 2022 then. I'll just jump off, because I've been hogging the mic, but, everyone, appreciate you answering my questions. Thank you.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thanks, Ray.

Operator

Thank you. Your next question comes from Jamie Kubik with CIBC. Jamie, please go ahead.

Jamie Kubik — Analyst, CIBC World Markets

Good morning and thank you, everybody. I guess a couple of questions from me as well. I mean we've seen Enerplus start off 2021 quite acquisitive. Are you seeing further opportunities in the Bakken, I guess, and maybe can you outline how you're thinking about further M&A at current levels?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Good morning, Jamie. Yeah, it was a busy Q1 for sure. So, are we seeing things, I mean the market for (inaudible) talk about this high-centred concept, and it really was. Like there was just nothing that had happened. And then we got a deal done and then another one happened and then we got another done. So there's been a bit of activity and there's no question that is causing potential sellers to think about putting product or deals in the market. So they're out there. There are deals happening or I think that will happen. How do we think about them at current levels? I guess sort of do you mean like pricing levels or like…?

Jamie Kubik — Analyst, CIBC World Markets

Yeah. Yeah, I mean, I guess on a couple of fronts. Like are you thinking about additional opportunities in and around your acreage there and would you look to dispose of anything, perhaps, to help with the use of proceeds? So two parts, I guess.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

So we've been pretty focused on assets that fit the operational plan where we saw line of sight to making money and we're really excited about the two things we've done this year. And a really important part of this was making money for our shareholders on a full-cycle basis without changing the credit profile in a meaningful way. So we leaned into the balance sheet a little bit and we've got some goals to de-lever, but that's on us pretty rapidly. So I think we're in a position where you could do something else and then it becomes value and operational fit and integration and balancing all of those things. So two deals in effectively a quarter is a fair amount, so there's no announcement tomorrow, I can tell you. But we've put ourselves in a really good position to continue to move forward. I think scale, continuing to build out scale is a positive thing. You've got to do it the right way though. And so I guess we'll see where value shakes out and I guess what that looks like.

Relative to divestments, I think we've been pretty clear over the years. Anything outside of the Bakken we would look for opportunities to maximize value and so the challenge we all had was it didn't make a lot of sense to be a seller of anything and that's why we weren't and we're buyers. So as the market strengthens, which I think it will, I think you're going to see metrics, I think people will look back on Bruin as quite an attractive price. It was at a moment in the market. I think that's actually how they Dunn County will look as well. So I would think you're going to continue to see valuations move forward and that probably does provide an opportunity to maybe unlock a little bit of value here and there for the non-core assets. So we'll be nimble and stay on the balls of our feet on that.

Jamie Kubik — Analyst, CIBC World Markets

Okay. Maybe on the Bruin assets actually, I know you mentioned previously that that asset effectively came with 100 wells that were shut in over 2020 or thereabouts. You mentioned earlier that you're actively restoring production on some of those shut-in wells. Can you comment at all on like where the production rate is of the Bruin assets versus the 24,000 BOEs a day that was purchased, I guess?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Yeah, I think if you run a little bit of math, we highlighted the contribution to the quarter, which implies it was a little bit above that level. So we're a little bit ahead of the game, but within the range of what we were planning for. Part of that was, and I think it was actually just in Wade's script, it wasn't in the release, you know, we did a pretty good job getting on those wells that were shut down and I think our office manager, she would tell you that we're getting everything done that we hoped to get done by this time, maybe a little bit in front of that. So that's been part of it. It's also going really well and according to plan and, again, a little bit ahead of where we would have been.

Jamie Kubik — Analyst, CIBC World Markets

Got it. Okay. And then maybe last question for me here. You've highlighted, and Ray touched on it, the 3% to 5% liquids growth from 2022 to 2025 in your previous plan you set forth, but I guess how should we think about that target changing if DAPL is offline for any type of duration? And can you just remind us on contingency plans if that were to go offline here?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

So, we highlighted 3% to 5% as an outcome of the plan that we will follow in a $50 to $55 world. And today we're in a $64, I suppose. So, DAPL goes off tomorrow and we're in a $64 world, no change whatsoever. No change whatsoever. One of the keys to that is our view that there is just ample rail capacity. So we think it'd be a really strange thing to happen and there would be negative economic consequence and we will have less cash flow than we otherwise would have, but our business is still very resilient and so I do not see that impacting that plan in that kind of price environment.

I suppose if you're in a $50 world and it's wider at the margins, a little bit maybe, but it's still pretty resilient. And in the next year, the next six to eight months, the lion's share of our on-streams are actually just completing DUCs with rates of returns that are hard to calculate they're so large at these levels.

Jamie Kubik — Analyst, CIBC World Markets

Okay. Thank you. That's it for me.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thanks, Jamie. Appreciate it.

Operator

Thank you. Ladies and gentlemen, as a final reminder, should you have any questions, please press star one.

It appears there are no further questions at this time. You may proceed.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Well, thank you, operator. Thanks, everyone, for joining. Appreciate your time today and have a safe weekend. Thank you.

Operator

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