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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enerplus Q3 2021 Results Conference Call. At this time, all lines are in 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 star zero for the operator. As a reminder, this call is being recorded on Friday, November 5, 2021.

I would now like to turn the conference over to Mr. Drew Mair, Manager of Investor Relations. 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 our third quarter news release. Our financials have been prepared in accordance with US GAAP. All discussion of production volumes today are on a gross company working interest basis and all financial figures are in Canadian dollars unless otherwise specified.

I'm here this morning with Ian Dundas, our President and Chief Executive Officer; Wade Hutchings, Senior VP and Chief Operating Officer; Jodi Jenson Labrie, Senior VP and Chief Financial 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

Good morning, all.

We achieved another company production record in the third quarter with volumes of over 123,000 BOE per day, 7% higher than the prior quarter and 36% higher than the prior year period. This momentum is expected to continue in the fourth quarter with production set to increase to between 124,500 BOE to 128,500 BOE per day. We've moved the midpoint of our annual 2021 production guidance higher by 750 BOE per day due to outperformance in North Dakota and the Marcellus. This is despite having sold volumes in connection with our non-core Williston Basin divestment that closed on November 2nd and further underscores the operational momentum we are seeing. Our spending plans remain on track and we have tightened up our 2021 capital guidance to $380 million, the midpoint of our prior range.

Our free cash flow profile continues to grow, driven by increasing commodity prices, our higher production outlook, and our disciplined capital allocation. We now expect to generate approximately $540 million in free cash flow in 2021 based on forward strip commodity prices. This increased free cash flow generation, combined with the US$115 million proceeds related to our non-core sale, has accelerated the timetable to achieving our $400 million net debt reduction target. We now expect to achieve this target here in the fourth quarter. As a result, we are accelerating our plans to increase our cash returns to shareholders sooner than anticipated by way of an expanded share repurchase program and a dividend increase. We are immediately commencing a $200 million share buyback program. Our target today is to fully execute this program by the end of the first quarter of 2022, if not sooner. This

represents approximately 50% of forecasted free cash flow over this period based on the forward strip. We continue to see a disconnect between our current market valuation and the intrinsic value of our business based on our view of mid-cycle commodity prices. As a result, we believe share repurchases offer an attractive capital allocation opportunity. We also announced an 8% dividend increase, our third dividend increase year to date. In aggregate, this represents a 37% increase on an annualized basis from our dividend level at the start of the year.

Turning to 2022, our preliminary outlook is consistent with the five-year plan we announced earlier this year. Approximately $500 million in capital spending, which is expected to generate strong economic returns and meaningful free cash flow, while delivering 3% to 5% liquids production growth. Inclusive of our 2021 acquisitions and recent divestment, the absolute year-over-year liquids production growth is closer to 7%, but normalized for the timing impact of the acquisitions, the organic growth associated with the 2022 budget is in line with our stated 3% to 5%. Based on strip prices, we see our free cash flow growing by close to 20% year over year in 2022. Factoring in our planned share buyback program, that number moves higher on a per-share basis.

Before I turn the call to Wade to discuss operations, I want to reiterate one final point. We are committed to returning a significant portion of free cash flow to shareholders. The $200 million buyback and dividend increase are just the most recent examples of our commitment to return meaningful amounts of our free cash flow to our shareholders. Although the strategy is becoming more common in the industry, it has been a hallmark of our capital market strategy since the inception of the company. Since 2018 we have returned over $370 million to shareholders through a combination of dividends and buybacks during a time of far less attractive commodity prices. Combining those returns with the

buyback we announced today will bring us close to 20% of the value of our market cap, which will be returned to shareholders.

As I said earlier, we are commencing the buyback immediately and expect it to be completed relatively early next year, but once this plan is executed we will continue to look for opportunities to further increase returns to shareholders as we move into next year and gain further visibility to the commodity price environment, inflation expectations, and overall market conditions. The portion of free cash flow that we do not allocate to shareholder returns will be used to fortify the balance sheet. We continue to believe that having a top quartile balance sheet strength is a strategic asset. Volatility will continue. We want to maintain our resilience through the cycle and through price shocks.

With that, I will leave it there and turn the call to Wade.

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

Thanks, Ian, and good morning, everyone.

Our operational performance this year continues to be solid and is reflected by our increased production guidance and disciplined capital execution. We brought 16 operated wells on production in the Bakken in the third quarter and have maintained our strong completions efficiency, continuing to average approximately 13 stages per day, over 30% faster than our 2020 performance. In terms of Bakken well costs, we continue to track to an average expected 2021 total cost of US$5.7 million despite some inflationary pressures that are starting to emerge in the supply chain specific to steel and diesel costs. With respect to remaining 2021 completions activity, we're bringing on an eight-well pad on

production in the fourth quarter in North Dakota, which, along with strong volumes in the Marcellus, is expected to drive Q4 production to over 126,000 BOE per day based on our guidance midpoint.

Third quarter operating expenses were higher than forecast, which was a function of two factors, the biggest of which was a temporary increase in well service activity resulting from our decision to accelerate the restoration of downed wells. This activity became increasingly economic as oil prices moved substantially higher through the summer. The other factor was an increase in water handling costs, largely due to contracts with price escalators linked to WTI. While the higher water handling charges will persist in the current WTI price environment, we are back down to a more normalized pace of well workover activity and workover rigs and, as a result, we expect operating costs to come down in the fourth quarter to approximately $8.80 per BOE.

Moving on to 2022, our preliminary capital budget of approximately $500 million will be largely focused on North Dakota where we plan to add a second rig for about half the year. During the past six months we have secured pricing for approximately 75% of our 2022 North Dakota development program, providing protection against inflationary pressures. Key items we have secured include drilling rigs, pressure pumping, sand, and the majority of casing. Notwithstanding this, we do expect to see some impacts from inflation and have budgeted for a 5% to 7% increase in total North Dakota well costs in 2022 assuming the current strength that WTI continues.

In terms of our 2022 development focus, we plan to be active on the acreage we acquired in our transactions earlier this year. So, in addition to Fort Berthold Indian Reservation, operations will also be focused on the lightly drilled acreage to the south at Little Knife and Murphy Creek. Today we see over a

decade of tier-one drilling inventory ahead of us in North Dakota; however, we think there is an opportunity to extend this further by bringing modern stimulation and well design to other parts of our acreage footprint, specifically in Southern Little Knife, Murphy Creek, and Central Williams. The southern acreage in Dunn County was not a focus for the previous operator, so there are very few wells in these units and they are generally of an older vintage. Several recent wells from offset operators have strong production results and we see the potential to extend the core of the play to these areas.

I'll now pass the call to Jodi.

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

Thanks, Wade.

Our third quarter adjusted funds flow was $256 million with capital spending of $80 million, resulting in free cash flow for the quarter of $176 million. Our realized Bakken oil price differential improved to US$2.9 per barrel below WTI in the third quarter. Refining demand was strong and there continues to be significant available pipeline capacity in the basin supporting pricing. Following Dakota Access Pipeline's expansion in August to 750,000 barrels per day, we see approximately 400,000 barrels per day of spare capacity in the basin and we believe it will remain over-piped for a number of years. Given the improved pricing year to date and ongoing market strength, we have narrowed our 2021 differential guidance in the Bakken to US$2 per barrel below WTI. Spot differentials have continued to strengthen in the fourth quarter and we expect this pricing dynamic to continue into 2022 with potential for sub-$2 Bakken differentials to WTI.

Our Marcellus natural gas pricing also improved quarter over quarter with a realized differential of US$0.45 per Mcf below NYMEX due to increased natural gas demand and lower storage levels. Strong pricing is expected through the winter season and we have tightened our 2021 full-year Marcellus differential to US$0.55 per Mcf below NYMEX.

Further to Wade's comments on operating expenses, although we increased 2021 operating expense guidance, our total cash costs remain approximately the same. The reduction in cash G&A guidance combined with the improved Bakken and Marcellus differential guidance has effectively offset the impact to our annual cash flow from the higher operating expenses.

Now turning to the balance sheet, we remain in a strong financial position and expect the de-levering to continue with meaningful free cash flow forecast in the fourth quarter of 2021. Our net debt to adjusted funds flow ratio is expected to be under 1x by year end.

Lastly, we recently added 12,500 barrels per day of incremental oil hedges for the first half of 2022 using three-way collars with average US dollar WTI strike prices of approximately $58 by $75 by $88. These structures provide protection at $75 WTI while allowing participation up to $88 WTI, helping to protect the free cash flow generation associated with our return of capital plans as outlined by Ian at the beginning of the call.

I'll leave it there and we'll turn it over to the operator to have the question period.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now conduct a question-and-answer session. If you would like to ask a question, please press star followed by one on your touchtone phone. If you would like to withdraw your question, please press star two. Please stand by for your first question.

Your first question comes from Jeoffrey Lambujon of Tudor, Pickering, Holt. Please go ahead.

Jeoffrey Lambujon — Analyst, Tudor, Pickering, Holt & Co.

Good morning. Thanks for taking my questions. My first one is just on free cash flow allocation once you achieve your balance sheet objectives, which, as you all pointed out earlier, should happen here in the fourth quarter. We certainly appreciate the buyback over the next few quarters and what that means relative to free cash flow across that same timeframe, but is there any additional colour you can give us on how you'd like the balance sheet to look longer term, maybe towards giving us a sense of how the free cash flow allocation framework in terms of debt versus capital returns mix could evolve over time, especially as we think about you all exiting the year under 1x on leverage?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thanks for that. So, I guess I'll start by saying it's strategically important to us and it's, you know, all the cool kids are doing it now, but we've been doing this for a long time, and so it really is an important part of our framework. As it stands today, I guess we've given very explicit visibility to what

happens over the next couple of quarters, which is a continuation to pay down debt, about 50% free cash flow with the majority, allocate to shareholders with the majority of that going to the buybacks.

As we move forward, and assuming the outlook remains supportive, which it certainly has that feel now, I think you're going to continue to see very similar themes. When we think about delivery mechanism to shareholders, a stable growing base dividend that's highly resilient makes a lot of sense to us, so I think there's room to continue to go there. I think the thing that we've maybe stayed away from a little bit is exactly what percentage of free cash flow gets allocated and we will evaluate that as we move forward. As we think about value in the stock today, we really do think that share buyback has a very strong role to play, highly accretive and a strong capital allocation choice. I guess we are open minded to specials and variables and those sorts of things that are starting to get a little bit of traction in the market and we'll evaluate that as we go through looking for what we think is the best way to continue to deliver returns to shareholders and maintain a sustainable business.

Jeoffrey Lambujon — Analyst, Tudor, Pickering, Holt & Co.

Great. Appreciate that. And then just as a follow-up I wanted to ask one on portfolio management. I think this was not highlighted as a potential use of free cash flow over the near term, but just given that there's been some bolt-on activity to the Bakken in the recent past, just wondering if additional activity like that is maybe further down the road at this point. And then conversely, I'd be curious to hear your thoughts on if the commodity price environment has maybe opened up some doors to keep selling down some of the non-core positions.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Yeah, thank you. So, relative to bolt-ons or acquisitions, I think folks who've been following us over the last year will appreciate we really made significant changes to the portfolio through the Bakken acquisitions that we were able to execute somewhere in the trough. They have effectively doubled our inventory plus additional optionality that sits there that Wade alluded to in his comments. So the bar to bring additional inventory, the bar for acquisitions, those sort of things is higher than it once was. We really don't have any holes in the portfolio now. We'll obviously remain opportunistic and the balance sheet strength is exceptional and I think that it's sort of a core business for people thinking about whether you can accretively add value in those areas, but the bar is higher than it once was.

To your question about, I guess, the market and the ability to sell non-core, I guess I would highlight this divestment we just executed is a good example of that. So, if you look at the acquisitions we executed the front half of the year, I just want to put them on a cash flow metric, we effectively bought at 3x based on a 60 deck. The deck wasn't 60 at the time, but just to normalize it. And we just sold assets that are more mature with higher cost structures at 5x based on a 60. And that happened over not much more than a quarter and a half. It was really quite astounding how fast the market has moved.

Since then though, with the increased strength in oil and maybe a bit of volatility, there actually hasn't been a lot of deals. So I think the market is actually struggling a little bit with the volatility and bid-ask spread doesn't usually close in those periods of volatility. The takeaway, though, to your question, do I think there might be better opportunity to realize proceeds from non-core? I would think

so. We've come from what has been felt like a generational buying opportunity, which we were able to take advantage of, and now it feels like there will be opportunity to monetize non-core, but I guess we'll have to see where the market goes. Two weeks of stability might just help, just a little bit of stability.

Jeoffrey Lambujon — Analyst, Tudor, Pickering, Holt & Co.

Appreciate it. Thank you very much.

Operator

Your next question comes from Aaron Bilkoski of TD Securities. Please go ahead.

Aaron Bilkoski — Analyst, TD Securities

Thanks. Good morning, Ian. I was hoping you could talk a little bit about the parameters you look at when making the decision to buy your shares. I understand you've gone down that route. I'd be curious sort of what framework you think about when you when you think about them being undervalued. Are you looking at them on a NAV-type basis? Is that like a 2P NAV? Is there upside in that 2P NAV? What sort of pricing assumptions? I don't want you to tell me when you're going to stop buying your shares; I'm just kind of curious what goes into your decision-making process.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Yeah, no, I think that's fair. And I would expect that will come under increasing focus as the quantum of buybacks across the space increases. I guess for us it's relatively straightforward. It's based on a view of intrinsic value, the stock relative to trade. And we, as you know, that is a multistep process.

You have to think about commodity prices and cost structures and those sorts of things. And we build it up PDP and we build it by wedge and all of those things and apply discount rates. So I guess I won't give you exactly the math on it, but we've given some insights into it. It's based on a price view, on our midpoint price view. If you look at the stock now versus the strip, compelling, compelling value. We don't think we actually have to lean into the strip to feel comfortable with returns and we're thinking about our mid-cycle pricing in that $55 to $65 range. Let's call it $60 for kicks. And we see returns strongly supported with that framework, independent of the capital markets drivers, which we think are supportive, and all those sorts of things. This, on a pure capital allocation basis, we think is a great idea.

And I guess you didn't ask this question, but I'll use the opportunity, you know, the reasons we don't have an explicit formula in the market right now is, you know, if Enerplus was $25 a share instantaneously, I'm not sure it would be $200 million of a share buyback. I'm not sure about that. And so things evolve and things change, but right now it feels like a very clear decision that we should execute an aggressive buyback representing about 7% of our stock based on valuation.

Aaron Bilkoski — Analyst, TD Securities

Perfect. Thanks, Ian.

Operator

Your next question comes from Travis Wood of National Bank. Please go ahead.

Travis Wood — Analyst, National Bank Financial

Thanks. Good morning. The question is a bit of a follow-on around the free cash, but more so I wanted to get a sense of how you think about debt levels. And not, obviously in this market, as respect to kind of a max number, but could you see debt? I mean we see it pretty easily in this type of commodity price environment and the free cash generation heading significantly lower. Do you think it's optimal to drive that to zero? Do you think there's a cap stack that you can leverage on and maybe that ties into the sustainability-linked lending as well? But just kind of wanted your thoughts on debt or gross debt or net debt on types of levels at this kind of free cash generation point.

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thanks, Travis. So those will probably remember, we had set, I guess, a target, a gated target on debt that we would hit and then accelerate returns. And that was 1x debt to cash flow based on a 50 deck. And, as we announced, we see getting there this month, next month. And we have now highlighted the excess cash beyond the share buyback and the dividend increase that will go to the balance sheet right now. So implicitly we are, I guess, moving past that debt target.

We have not set an explicit debt target. We do see value in continuing to strengthen the balance sheet. And although it's not a goal, I could see taking the balance sheet to zero if we continue to generate extraordinary cash flow and we don't see a compelling alternative to redeployment. I'm not saying that's a goal and I understand what the textbooks would tell us about efficiency and capital structure there. I don't know how important those are when you put those in the context of the volatility that we've been experiencing. But this will be something we'll be talking to our board over

time. I think it's, you know, absent additional divestments, it's not a next quarter type thing. And I do see, as long as we still have debt on the balance sheet, allocating some capital towards that, I think, is a de-risking and value-creating event and I can see that playing out in many, many different ways. We wouldn't have been able to execute on just $800 million of acquisitions where we have now effectively doubled our money if we didn't have exceptional balance sheet strength. But I do see that question and a conversation continuing over time if these commodities continue to hold and the cash flows show up the way that they're looking right now.

Travis Wood — Analyst, National Bank Financial

Okay. That's a great colour. Thanks, Ian. And this might be for Jodi or Wade, I might have missed it, I think they might have touched on it, but just some colour on OpEx as we step into 2022. I mean, obviously, I think in Q4 you guided to looks to be significantly better after some transient items in Q3, but how can we think about into next year and do you still see some opportunity that there's some inflationary pressure on the 2021 kind of average number?

Ian Dundas — President & Chief Executive Officer, Enerplus Corporation

Thanks, Travis. I think maybe I'll hand it over to Wade. He can sort of talk us through that.

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

Happy to. Good morning, Travis. Let me give you a little context for Q3 and then try to address your question on 2022. So, as we indicated in the press release and the script, we see a key part of that higher Q3 OpEx is temporary. Essentially what had occur was, as you recall, we inherited a fair number

of shut-in wells in the Bruin transaction and as we cleared that backlog in the early summertime we also experienced more wells needing workover than normal in the middle to late summer. Given the really robust pricing environment, we chose to add workover rigs to restore those valuable volumes. By late September we had returned to a more typical pace of workover activity and a more typical rig count and so that's why you see the lower OpEx guide for Q4 based on that trend.

Now the reality is some of that increase in Q3 was a bit inflationary, simply tied to WTI price where some of our water handling contracts have a bit of a link to WTI price. So clearly some of that, if we stay at these levels, we'll continue into 2022. Now we, of course, haven't, as you noted, put out any official OpEx guidance for 2022, and so that will come in January when we put out a more robust budget guide, but clearly, to your question, we're watching lots of inflationary pressures either emerge or strengthen into next year. On the capital side of the business we've been very proactive. Over the last six months we've actually locked in about three-quarters of our total well cost. And so we feel like we're protected there. We've done a few things like that on the OpEx side. For instance, we have our workover rig day rates locked in. So we've been proactive on several items in the OpEx arena but, as you can appreciate, there's a lot of moving pieces on OpEx. So we would expect some inflation in that operating cost environment. The guide we've given for Q4 is probably a reasonable starting point to think about where the future is headed.

Travis Wood — Analyst, National Bank Financial

Much appreciate that, Wade. Thanks very much and that's all for me.

Operator

Ladies and gentlemen, if you would like to ask a question, a reminder to please press star followed by the one on your touchtone phone.

There are no further questions at this time, so I will turn the conference back over to Mr. Mair. Please go ahead, sir.

Drew Mair — Manager, Investor Relations, Enerplus Corporation

Thanks, operator, and thank you to everyone that joined the call today. Have a great rest of your day and weekend. 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.