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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to Cenovus Energy's second quarter results. As a reminder, today's call is being recorded. At this time, all participants are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. You can join the queue at any time by pressing *, 1. Members of the investment community will have the opportunity to ask questions first. At the conclusion of that session, members of the media may then ask questions.

Please be advised that this conference call may not be recorded or rebroadcast without the express consent of Cenovus Energy.

I would now like to turn the conference over to Mr. Jason Abbate, Senior Vice-President, Investor Relations. Please go ahead, Mr. Abbate.

Jason Abbate — Senior Vice-President, Investor Relations, Cenovus Energy Inc.

Thank you, Operator, and welcome, everyone, to Cenovus's 2023 Second Quarter Results Conference Call.

Please refer to the advisories located at the end of today's news release. These describe the forward-looking information, non-GAAP measures, and oil and gas terms referred to today. They also outline the risk factors and assumptions relevant to these discussions. Additional information is available in Cenovus's annual MD&A and our most recent AIF and Form 40-F. All figures are presented in Canadian dollars and before royalties unless otherwise stated.

Jon McKenzie, our President & Chief Executive Officer, will provide brief comments, and then we'll take your questions. We ask that you hold off on any detailed modelling questions. You can follow

up on those directly with our Investor Relations team after the call and then, please keep to one question, with a maximum of one follow-up. You are welcome to rejoin the queue for any other follow-up questions you may have.

Jon, please go ahead.

Jon McKenzie — President & Chief Executive Officer, Cenovus Energy Inc.

Great. And thank you, Jason, and good morning, everyone.

Before we start, you'll have seen a few changes to our executive team that we announced this morning. When I succeeded Alex in April, it did create an opportunity for us to move some of the executive group around to really take advantage of their capabilities and versatility. You can read the full details in our news release. However, I'd just like to step you through a few of the changes.

Keith Chiasson will become our new Chief Operating Officer, and replacing Keith in the Downstream will be Doreen Cole, who's been promoted to the position of Executive Vice-President, Downstream.

Drew Zieglgansberger will become our new Chief Commercial Officer, and Andrew Dahlin will replace Drew as the Executive Vice-President of Natural Gas & Technical Services. Jeff Hart, who is currently our Chief Financial Officer, will succeed Andrew as the Executive Vice-President of Corporate & Operations Services. And finally, Kam Sandhar will replace Jeff as our new Chief Financial Officer.

I really do feel incredibly fortunate to be surrounded by such a talented group, and we have absolute confidence in their ability to continue stewarding this company.

At this time, I'd also like to recognize Canning Fok, who's announced his retirement from our board. I've known Canning for over 10 years, and I've really benefitted from his knowledge and experience. I think, further, Canning has played a significant role in the repositioning and success of

Cenovus over the past two years, and we all wish him the very best and really look forward to his continued presence as one of our major shareholders.

But now, let's move to our results. So, as always, I'll start with our top priority, which is health and safety.

This quarter posed some unique and significant health and safety challenges, and I couldn't be more proud of the way our people have stood up to the challenge. In this quarter, we focused on the safe and disciplined ramp-up of the Superior and Toledo refineries, as well as completing the major turnaround at our Foster Creek asset. I'd like to thank all our people for their continued commitment to safety and our core values as we completed these tasks. The results were truly exemplary.

Similarly, in our Conventional business, we dealt with a number of wildfires through the quarter. We temporarily shut in 85,000 BOE per day of our natural gas and NGL production through most of May and part of June, and supported our staff and their communities. The company worked tirelessly to keep our people and our assets safe.

In addition, we greatly appreciate the actions taken by local authorities and the provincial emergency management teams. Our staff truly demonstrated our core value in protecting what matters. Going above and beyond for each other and our communities is truly something we're all proud of.

And with that, I'll take you through our operational results.

So starting with our U.S. Manufacturing assets, as we mentioned in the first quarter call, our focus has been on bringing the Superior and Toledo assets online. Toledo was fully operational by mid-June, while Superior continues to ramp up with a focus on safely restarting the cat cracker, which is the last of the major units to restart.

These assets are incredibly important and meaningful contributors to our integrated heavy oil strategy. Our focus in the third quarter and beyond will be to operate them reliably, efficiently, and profitably.

Our Lima Refinery continued to operate at high rates of utilization through the quarter, while the Wood River Refinery ran well through the quarter, following the completion of some planned maintenance. The Borger Refinery is back up to full rates after some planned and unplanned outages over the course of the second quarter.

So turning to our Canadian Manufacturing, our Lloydminster Upgrader and refinery ran at a combined utilization rate of 86% in the quarter, and they're fully operational as we enter the third quarter. We expect both of these assets to run at high levels of utilization through the remainder of the year.

Overall, I'd say we achieved everything we set out to do in the Downstream during the second quarter and we're very confident in our ability to produce reliably and profitably through the remainder of 2023.

In the Upstream, we revised guidance as a result of the wildfire impacts, which had an annualized impact of approximately 10,000 BOE a day in our Conventional business. And we've also built in a modest decrease of 5,000 barrels a day for our Lloyd thermals, adjusting for the slower-than-anticipated ramp-up in the year. These changes have resulted in overall lowering of our guidance to between 775,000 and 795,000 BOE per day.

At our Oil Sands assets, we safely completed a large turnaround at Foster Creek early in the quarter. The turnaround was on schedule and on budget, and the asset is now running at pre-turnaround rates. Our focus through the quarter has been on continued execution of projects that support our short and long-term production volumes with our new well pads progressing as planned.

You can see the benefits of our continual effort to optimize these assets with the increased production at Sunrise. And in addition, at the Lloyd thermals, we saw record daily production and quarterly production volumes of approximately 112,700 barrels per day and 106,000 barrels a day respectively. We expect strong production from Oil Sands in the second half of 2023 with all major maintenance behind us.

In Asia Pacific, our volumes over the quarter were lower as a result of planned and unplanned outages. On April 7th, an unauthorized vessel, travelling in our dedicated pipeline corridor, struck an umbilical line at the Liuhua 29–1 field in China. The line detached, as designed, which resulted in immediate and secure shutdown of our subsea wells. Our operating group restored production by the first week of June with no environmental impacts on the surrounding area.

And as I mentioned, with the vast majority of our major maintenance behind us and the forecasted continual ramp-up of wells across the Upstream portfolio, we expect to see elevated and steady production numbers over the remainder of the year.

I'd now like to highlight our corporate performance and shareholder returns.

We delivered almost $2 billion of adjusted funds flow in the quarter, supported by tighter differentials and increasing Oil Sands operating margins, partially offset by no recorded sales in our Atlantic region during the—due to timing of liftings, and a negative FIFO adjustment of about $170 million, which really impacted our U.S. Manufacturing segment.

With a dividend increase announced in April, and through our base dividend and NCIB, we distribute about $575 million directly to our shareholders in the quarter.

As per our June 14th announcement, the warrant repurchase transaction presented us with a unique opportunity to repurchase about 2.4% of our diluted shareholder base at an attractive price, purchasing just over 45 million warrants.

I believe we obtained favourable payment terms that provide us with the flexibility to remain within our shareholder returns framework, and we'll continue to dedicate 50% of our excess free funds flow to shareholder returns until we reach our $4 billion net debt target, at which time we'll dedicate 100% of our excess free funds flow to shareholder returns.

We continue to focus on running our assets safely and reliably. As we line out our integrated business model, we expect to have strong production and throughput in the second half of '23, which will continue to move us forward to achieving that $4 billion net debt target.

So before we take your questions, I'd also like to update you on our sustainability work.

Our 2022 ESG report was released in June, and we announced a new milestone to reduce our methane emissions in Upstream operations by 80% by year-end 2028. We see reducing methane as a key near-term action that contributes to our 2035 emissions target. We also continue to advance technologies that will help us address our 2050 net zero ambition.

You can read more about those achievements and the progress we've made towards other ESG targets in the ESG report on our website.

So in closing, we've succeeded in accomplishing the operating goals we set out for ourselves in the first quarter and are well positioned for a significant improvement in our financial performance in the back half of 2023. And with that, we're happy to take your questions.

Q&A

Operator

Thank you. Ladies and gentlemen, as a reminder, you can join the queue to ask a question by pressing *, 1. We will now begin the question-and-answer session and go to the first caller.

First question comes from Dennis Fong at CIBC World Markets. Please go ahead.

Dennis Fong — CIBC World Markets

Hi. Good morning and thanks for taking my questions. My first question here is just on capital structure. Just with respect to term debt, you guys are showing about a 14-year average maturity.

How are you thinking about continuing to take either advantage of the free cash flow that you're generating to change, essentially, the structure of what you guys have for term debt?

Jon McKenzie

Great. Good morning, Dennis. It's not necessarily the first question that I was anticipating, but maybe I'll have Jeff answer that for you.

Jeff Hart — Executive Vice-President & Chief Financial Officer, Cenovus Energy Inc.

Yeah. No. And I'll just give you some colour, Dennis, on where we see the capital structure, and we talked to the $4 billion net debt. We view that as driving towards $7 billion on the gross side. And you're right; we're right around the 14-year average term mark.

Look, we'll be balanced through all of this, so I think you have view as our—our end goal on this is to have a tower structure that is sustainable and that we like and is balanced through. So we'll target throughout the different towers and be balanced in it, so. And it'll really be dependent on the market and where we see the curve and different factors in there as well. So roundabout answer is that we'll be balanced and end up with the structure that we like, as we get through this deleveraging, and see us taking to about $7 billion of gross debt.

Dennis Fong

Great. Great. Thanks. So my follow-up or my second question probably aligns more with, maybe, what you were expecting.

In terms of Superior and the kind of ramp-up of the FCC unit there, I'm just hoping to get a little bit more context in there. Are you able to sell some version of, we'll call it, slightly offset product?

And how should we be thinking about the timing of, we'll call it, the full ramp-up of all units at Superior?

Jon McKenzie

Yeah. I'll let Keith answer that question, but the FCC is really the gasoline-producing unit, and it's more incremental to where we are versus what we're producing today. But, Keith, maybe you can provide some colour on Superior?

Keith Chiasson — Executive Vice-President, Downstream, Cenovus Energy Inc.

Yeah. Thanks for the question, Dennis. Maybe I'll just step up a little bit. When I think about the whole Downstream throughput, we're kind of right at the 690,000, almost 700,000 barrels a day of throughput. So most of our assets are online, with the exception of the FCC at Superior.

At Superior, I would say it's been a little bit of a challenge for us but nothing systemic there. It's just working through kind of normal start-up issues. So we're days away from introducing feed into that unit. And as Jon alluded to, when we go through the crude unit, we do make on-spec products that we can sell—asphalt, gasoline, and diesel—and then we make some intermediate products that would require the FCC to continue to process, so.

So we have a fair amount of inventory there that we'll be able to run through the FCC once it's up and running, and generate cash. And like I said, it's imminent. We're just knocking through the last couple of challenges that the team has seen as they've safely restarted that refinery after being down for five years.

Dennis Fong

Great. Great. Thanks for answering my questions. I'll turn it back.

Jon McKenzie

Great. Thanks, Dennis.

Operator

Thank you. The next question comes from Greg Pardy at RBC Capital Markets. Please go ahead.

Greg Pardy — RBC Capital Markets

Yeah. Thanks. Good morning. Thanks for the rundown.

Maybe just to stick with the U.S. Manufacturing for a bit. Like your utilization rates actually looked okay from what we were expecting. But it's cost, obviously. And I guess the question there is, is the costs, effectively, are they inflecting now into margin?

And then, I guess this is a question for Keith. But as you ramp up fully at Superior and now with Toledo, then could we look forward to, potentially, working capital releases as we go through the back half of the year?

Keith Chiasson

Hey, Greg. Thanks for the question. What I would offer up on just the cost base is, as you can imagine, through start-up, you're incurring some additional maintenance costs and repair costs. So we do expect those to normalize at the back end of the third quarter and into the fourth quarter. And so we should see some of our cost structure come down as we get to normal operations through this quarter.

With regards to revenues and profitability, I would say things are looking good. We're producing products. We're going to be able to—we're marketing those products and sales, so we're going to see the

normal cash cycle associated with the refineries. But all's looking good, kind of coming out of the second quarter into the third quarter, across those assets.

And like you said, utilization—and I alluded to this in the previous question—utilization is into the low 90% now across all of our assets. And the FCC just is the last unit to start-up across our fleet, and that one's coming up imminently.

Jon McKenzie

Hey, Greg. Just on the—

Greg Pardy

Okay. Yeah?

Jon McKenzie

—working capital question as well. I think one of the things that you will see—and Keith has kind of mentioned this—is we do have a reasonably significant inventory of intermediates that we will work through, through the refineries, through time as they continue to produce on-spec product.

But when we kind of guide you to where you should be thinking about inventory levels in particular, you should be kind of in that 45-to-50-million-barrel range. So with these refineries coming up, there is additional inventory that we will carry, both on the front end and the back end of those refineries going forward. So while you may see some short-term working capital releases as we chew through the inventory that we built up, I think that's a reasonable number for you to be building into your models.

Greg Pardy

Okay. No. Thanks for that. And then, sort of all of this then rolls up into the question everybody's asking, right, which is, should we sort of be thinking around $4 billion as around year-end? Is that

November? Is that December? Is that the early part of next year? What's your thinking there? And frankly, does it matter that much?

Jon McKenzie

Well, the way we think about it, Greg, is we've now got our assets into the condition that we wanted them to be in. Getting Superior and Toledo up were really kind of the last assets that we wanted to bring forward, that kind of completed our vision of the assets that we acquired from Husky. So getting those value chains in order was really important to us.

Now one thing I would say is, don't expect us to do anything different, other than run these assets well over the coming quarters. So we are focused on getting our debt down to $4 billion. Whether that happens in November, December, January, or February is really a function of the pricing and the commodity strip that you want to use. Over the course of the quarter, we've seen crude be as high as $80 and as low as $65, and today, it's back—it looks like it's back to $80. Cracks have been volatile. We saw, actually, negative diesel cracks for a couple of days this month.

So I think the important thing is to understand this is the trajectory that we're on. All the assets are up and running. We're going to dedicate 50% of our free cash flow to debt reduction, 50% to shareholder returns and then, when we get to $4 billion, we'll flip over to 100. And there's nothing that's going to change the operating strategy of this company between now and then.

Greg Pardy

Understood. Thanks very much.

Jon McKenzie

Thanks, Greg.

Operator

Thank you. The next question comes from Neil Mehta at Goldman Sachs. Please go ahead.

Neil Mehta — Goldman Sachs

Yeah. Thank you and congrats to everyone on some of the leadership changes here.

My first question was just on the offshore. The tactical question is, can you spend a little more time talking about the softer results there? It sounds like it's just a timing effect. And, if that was an under-lift, do you get it back in the back half?

And then, the bigger-picture question related to offshore is, how do you see this business evolving over the next couple years and fitting into the big—into the broader portfolio?

Jon McKenzie

Okay. Sorry, Neil. You cut out a little bit. I assume you're talking about the under-lift on the East Coast?

Neil Mehta

Yes. The under-lift in the East Coast and then, do you get it back in the back half?

Norrie Ramsay — Executive Vice-President, Upstream - Thermal, Major Projects & Offshore, Cenovus Energy Inc.

Yeah. Hi. Norrie Ramsay here from the Upstream. We always took, as we mentioned, a timely opportunity to take a TAR earlier in the year that we were going to take in August, so we're going to have flat production going forward. We're fully operational and up, and it's purely timing. There's two things. So we actually offload it and take it to storage tanks. So those continue to take place.

But our lifting just happened to be a few days after the second quarter finished. So we've actually had a lifting in very early July, which you'll see kind of coming through in the 3Q results. But we expect to see steady production from our base zeros operations in the East area there.

And as we mentioned before, Terra Nova continues to be at the harbour site. Just finishing some maintenance to allow it to back offshore. And we're collectively supporting the operator and gaining a lot of confidence to be able to see line of sight to that going offshore. And then, establishing safe production from the Terra Nova asset as well, later on, the end of this year, beginning of next year.

Jon McKenzie

Yeah. So I think, Neil, just to expand on that a little bit, is we see White Rose having a good, clean run through the rest of the year. I think we've got a line of sight now on Terra Nova to potential production before the end of the year, although we're not calling anything into our forecast, and we continue to make really good progress on West White Rose through the quarter as well. We did achieve a couple of major milestones there.

But maybe, Drew, you might want to talk a little bit about the other offshore business in Asia and where we are with that.

Drew Zieglgansberger — Executive Vice-President, Natural Gas & Technical Services, Cenovus Energy Inc.

Yeah. Sure thing, Jon. So as you would have seen in the news release and then just Jon's comments this morning, we had an unplanned event in China. And we dealt with that in April and May, and the teams did an extraordinary job getting that back online. And as you guys may recall, we had a very strong first quarter, and demand for gas and our production was actually over kind of our budget at the time.

And happy to say that, that now continues, now that we're back up and fully operational in June. So as we see the back half of this year, we expect to have, still, strong demand for our production in the Asia Pacific business and happy to report that things are running very well, and we are still trending on the high end of our guidance, relative to what we thought the demand was going to be.

Neil Mehta

Thank you. That's great colour. And the follow-up is just on the Pathways project.

Jon, it's hard for us, often, to get visibility on where we are in those negotiations. But I guess the working assumption for a lot of investors is that it gets to FID next year. Just any of your thoughts on timing? And what are the gating factors to get this thing to FID?

Jon McKenzie

Sure. I'm actually going to turn that question over to Rhona DelFrari. Rhona's not usually here; she's usually on the road, speaking of the virtues of our industry. But Rhona's here with us today, and she's knee-deep in this. And you've probably got the most up-to-date and relevant information on this, Rhona.

Rhona DelFrari — Chief Sustainability Officer & Senior Vice-President, Stakeholder Engagement, Cenovus Energy Inc.

Yeah. Neil, I mean, I can tell you we are still full steam ahead with the Pathways work, all six of our companies but, as well, the federal and now the provincial government. There was kind of a bit of a waiting period when the Alberta government was in the election campaign. But you would have heard that there's been bilateral talks announced between the feds and the Alberta government. So that's all positive.

And the Pathways companies are right there. We're meeting every week with our government counterparts to talk about how we progress the policy and the fiscal frameworks that are needed to push forward with the Pathways foundational project, which is the 400-plus-kilometre CO_2 pipeline and the hub. But there's also—there's still 70 other technologies that the Pathways companies are working on that will progress us towards our net zero 2050 target.

But I think we're still pleased with the amount of attention that the federal and the provincial governments are putting towards this. I would say that it's unprecedented level of attention in Ottawa with multiple departments working together. They're taking this really seriously, and the governments understand how important the CCS project is, not just for our sector, but for the entire country.

So I remain very optimistic that we're going to get going on this. We've been really clear. The next big spend would be—for the Pathways companies—would be the purchase of pipeline for that CO_2 pipe project. And so governments understand that, and they understand that they need to clarify things like the investment tax credit and give us more details on that, and things such as contracts for difference that they've already announced. But I'm very positive this is still progressing at the right pace.

Neil Mehta

Thank you so much.

Jon McKenzie

Great. Thanks, Neil.

Operator

Thank you. The next question comes from Menno Hulshof at TD Securities. Please go ahead.

Menno Hulshof — TD Securities

Thanks and good morning, everyone. Maybe I'll just follow up on Neil's question with a higher-level government-related question as well.

What do you think of this week's government announcement related to the potential phasing out of what they're calling inefficient subsidies? I know it's pretty fresh. But when do you think we'll have a better sense of what that means in practical terms?

And is it fair to say that ongoing negotiations on CCUS incentives are a separate conversation?

Jon McKenzie

Yeah. Menno, it's Jon. Sometimes, I don't know how they name these pieces of legislation or how they end up positioning them. But if it is what it purports to be, it probably should be a fairly short piece of legislation.

One of the things I'd say is I'm not really aware of any subsidies that are direct and unique to the oil and gas industry. I've been in this industry for a lot of years and, many of those years, I've spent in finance. And I certainly remember writing a lot of cheques to the provincial and federal government. I don't remember receiving a lot of cheques in return.

A couple of things I would say is in 2022, we spent almost $4.5 billion on royalties and taxes. And that exceeds the amount of money we spent in capital, exceeds the amount of money that we returned to shareholders. And that is our single largest expense, and we expect that number to be even higher in 2023.

So we're kind of like you. We're waiting to hear what this is all about. We certainly hear political rhetoric with regard to oil and gas subsidies. We're just really not sure what it means because, again, we're not really aware of any oil and gas subsidies for the industry.

Menno Hulshof

Okay. Yes. Thanks for that, Jon. And maybe I'll just follow up with a question on shareholder capital returns. You've made it clear on many occasions that the relative economics of buybacks are tested at mid-cycle US$60 WTI. But today, we're sitting at about $80. The stock is off of its low.

So my question is, how are you thinking about buybacks versus a variable dividend? And I'm asking that with the understanding that we've only seen one variable dividend since the return framework was formalized.

Jon McKenzie

Yeah. Nothing changes in our framework, Menno. We screen all our capital at US$45. We screen our buybacks at US$60. We still think those are sort of the right low-cycle and mid-cycle prices. I think—I'm looking at Kam, and he's nodding his head. I'm looking at Jeff, and he's nodding his head. But I think with where our share price is today, we're still more inclined to return capital to shareholders in the form of buybacks and that the share price today, in our view, doesn't reflect the net asset value at US$60.

So I think you're going to continue to see that until—or continue to see shareholder returns come back in the form of largely buybacks until we get there. But we've been pretty clear on the framework. If we get to the point where we think it's in excess of mid-cycle pricing, or the discounted value of the shares are in the excess of mid-cycle pricing, I think you'll see a greater majority of the returns come back in the form of special dividends.

But, Kam, I don't know if you have anything else to add on that?

Kam Sandhar — Executive Vice-President, Strategy & Corporate Development, Cenovus Energy Inc.

Hey, Menno. It's Kam. The only thing, maybe, I would just add is like, I think, keep in mind, we're going to keep continuing to be disciplined. So 50%'s going to go back to shareholders until we get to that debt target of $4 billion. And as Jon said, I think right now, the bias continues to be towards buybacks.

And I think the other thing you should be thinking about is we obviously did the warrant transaction back in the middle of June. And we made it clear that that's something we're going to manage inside of that framework through the balance of this year and sort of, at the latest, next January, when that payment has to be made by. So the focus hasn't changed, the discipline hasn't changed around the framework, and we'll continue on the path we're on.

Menno Hulshof

Appreciate the colour. I'll turn it back.

Jon McKenzie

Thanks, Menno.

Operator

Thank you. The next question comes from John Royall at JP Morgan. Please go ahead.

John Royall — JP Morgan

Hi. Good morning. Thanks for taking my question. So first one's in refining. You've talked about the run rates. Just wondering on profitability and cash flows.

On the prior call, you guided to Toledo and Superior being free cash flow positive by July. Is that the case now? Or is the FCC impacting the ability to generate positive cash flows?

Keith Chiasson

Hey, John. It's Keith. Yeah. Good question. I would say Toledo's been up and running since early June, making products and selling products, so we're highly confident on kind of cash flows there. Superior has been able to sell products as well, but until we actually get to full gasoline make, coming out of the FCC, it's kind of going to be kind of right at that kind of cash flow breakeven. I would say we're seeing that trend of improvement, though, through the quarter.

I think the other thing to look at, though, is kind of where cracks have been, and I think Jon alluded to it in one of his answers. They've kind of been pretty wide and then very narrow and, more recently, have come back to kind of matching the various regions around the U.S.

So cracks are pretty supportive now. Differentials have tightened in. So obviously, the refineries that run heavy crude lose a little bit of that crude advantage. But anything that we lose in our Downstream, we actually get in our Upstream.

So I think, in general, it's setting up for a great third quarter, like we anticipated. And as we've talked about, the last unit to come up is Superior, which is a relatively small unit in the grand scheme of things.

John Royall

Okay. Thank you. And then, in terms of the wildfire impacts on the Upstream, I know it's a very fluid situation generally, and it's tough for us who aren't on the ground to really understand the impact. How confident are you that you're on the other side of the major impacts and that the 5 to 7 barrels per day—thousand barrels-per-day offline, couldn't go the other way and grow in scope there? Just trying to understand the risk that the fires pose as we stand today.

Drew Zieglgansberger

Yeah. Hey, John. It's Drew. Yeah. Great question. And as you alluded to, it was a very wild quarter, no pun intended. I think one of the things I would start with is that our teams did an outstanding job, considering that we actually had the town of Edson and a lot of our staff there actually evacuated three times, two by wildfires and once by an actual flood, to be honest.

So just to give you a little perspective on kind of the 5 to 7 that's still left to be brought on, the vast majority of that, and almost all of it, is still up in our Rainbow Lake asset, just inside the B.C. border in our Bivouac dry gas play. And the reason that we can't bring that back on yet is we just are waiting for some more secondary power lines to still be reactivated by third-party providers.

There are some wildfires in northeast BC; nothing around our actual assets. As you can imagine, with the amount of impact we had, that fuel is now all gone. And so the risk, to your question about could it go the other way, there's not a lot left to kind of burn and reactivate that risk for us. And thankfully, we've had very little and almost no direct asset damage or concern around the ability to safely produce.

So the remaining that's offline now is still just waiting for power. And it's third-party kind of activation from power poles and whatnot, and it's on a dry gas play. The remainder are just some other remote sites, more in Central Alberta, that's waiting for the same thing, is just some power. So I think the risk has been reduced significantly, and it's just the realities of how forest fires burn and where they've now been burnt. But it's very low risk that something in those areas could be reactivated. The fuel has been used.

John Royall

Thank you.

Jon McKenzie

Thanks, John.

Operator

Thank you. The next question comes from Manav Gupta at UBS. Please go ahead.

Manav Gupta — UBS

Hey, guys. I just quickly wanted to touch base on Lloyd thermal volumes. Looks like this was one of the stronger quarters, if not the strongest since you got these assets. So help us understand some of the changes that you have made at this asset, which is allowing you to get the higher volume versus when you acquired them.

Norrie Ramsay

Hi, there, Manav. It's Norrie here. Yeah. We've talked about it in the previous quarter as well. I mean, fundamentally, we've been applying our subsurface technologies and methodologies from our Foster Creek/Christina Lake assets over to our Lloyd thermal assets. The assets are really, really good assets. And we have lots of opportunities around the central processing facilities.

So what we have been doing is basically drilling longer wells that have what we call higher conformance, so that they actually produce at a higher rate. We've also been utilizing our zero-base design facilities and using submersible pumps to actually increase the rate of production.

So, well, basically, the philosophy is trying to fill all of our plants that we have and keep them full as we kind of go forward. So it's been very successful. We continue to build out new pads to sustain this level of production and, at the same time, take advantage of opportunities as we understand them. So our production currently is very, very strong, and that's the kind of plan kind of going forward.

Manav Gupta

Perfect. And if I could just pick your brain around, I mean, you had some downtime in 2Q; some of your peers had downtime in 2Q. Now all you guys are ramping up. So I mean, the last few months, apportionments were zero. But like what's your outlook for near-term apportionment? Do you expect them to rise?

And then, eventually, what are you hearing on the TMX expanded pipeline start-up? Thank you.

Keith Chiasson

Hey, Manav. It's Keith. You're bang on. Apportionment on Enbridge has been zero for the past several months, which is just pointing to the fact that, that egress out of the country is matching production. I think you're also bang on that some of the upstream has been taking turnarounds through this period.

With regards to TMX, it's scheduled to come on in Q1 2024. Obviously, there's pre-start-up activities and line fill that happens into the fourth quarter of this year. With all of that kind of happening, we actually anticipate, for the first time in a long time, that there'd be sufficient egress from the province, even as we head into the winter months, where all the upstream producers are back on, and you're at that higher concentration of diluent in your bitumen blend.

There probably will be a little bit of widening on that just as the system normalizes. But I think we're looking at tighter diffs. And with TMX coming on, that should sustain itself for a longer period of time.

Manav Gupta

Thank you so much for the detailed responses.

Jon McKenzie

Great. Thanks, Manav.

Operator

Thank you. The next question comes from Harry Mateer at Barclays. Please go ahead.

Harry Mateer — Barclays

Thank you. Good morning. I guess first circling back on the debt reduction question at the start of the call. Your $7 billion gross debt landing zone implies about $1.5 billion of debt reduction. Yeah. Rates markets (phon) have been tough to call here but, for the time being, you've got no shortage of options on your curve that are below par. So just how are you thinking about prioritizing? Is it maturity ladder? Or coupon? Ability to buy back below par? CAD versus USD? And then open market versus doing something a little bit more accelerated like a tender, to get it done more quickly?

Jeff Hart

Yeah. So it's Jeff here. And the answer is yes to all of it. So when we pounce on that is we'll look at relative interest cost, where we see—you'd see discounts relative to premiums, and then the end tower structure, and so. And then as far as execution goes is, again, it'll be yes, we'll look at both, what does it look like on a tender and open market purchase. And so we'll spread it around in all of that and take a balanced approach in all of it.

Jon McKenzie

Yeah. Harry, we don't mean to be coy on that. But obviously, we can't answer that question literally.

Harry Mateer

Yeah. No. I get it. Second one is just going back to something that came up last year a couple times on calls, is just around your JV and your strategy going forward. And at the time, you indicated—and you've taken some steps towards this in some of your assets—but the strategy is to be an operator and not 100% owner of your refineries where possible. Just curious, is that still the case? Is that still the vision? And are there any discussions you've had on that front that might have advanced beyond a preliminary stage?

Jon McKenzie

Yeah. Harry, one of the things we've been successful in is unwinding the JVs we've had with BP. And we've purchased the 50% of the interest in Sunrise that we didn't own and, more recently, we've bought the 50% of Toledo and assumed operatorship of that refinery.

The way we think about the refineries where we have an ownership interest is those are core assets for us. And core assets, you want to have both operating and strategic control. We think that is important. So we have always signalled to the market that we have a desire to own and operate those assets that we have an interest in, that we believe are core to the future of this company.

So nothing has really changed there. There's certainly no update on any kind of discussions that may or may not be happening in and around that JV. We're happy to own those assets in the form that they're in, understanding that, longer term, we want to own and operate the assets that we would consider core to our portfolio.

Harry Mateer

Okay. Thanks very much.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have any questions, please press *, 1.

Next question comes from Dennis Fong at CIBC World Markets. Please go ahead.

Jon McKenzie

Hi, Dennis.

Dennis Fong

Hey. Good morning. Hey. Thanks for taking my follow-up. Just two on the—one on the Upstream side. I know you provided a brief update on the Narrows Lake to Christina Lake, connected and in development. Can you provide a little bit more details in terms of what the next steps happen to be? I know there's some CapEx this year, but also maybe an update on timing and how we could see that kind of ramp up through time?

Norrie Ramsay

Yep. Hi. Norrie Ramsay here. We continue to make good progress. The context is, obviously, Narrows Lake as an extension from our Christina Lake operations. And it's a 17-kilometre pipeline that takes us up to another very rich area for development. The pipeline's two-thirds kind of complete.

We expect to actually be starting to steam up our first pads, which we've actually started to drill already, in early 2025. So by about midyear 2025, we should expect to see impact production coming from that asset area. And the first phase of development are four rich pads up in that area that will tie back to Christina Lake. And that really reflects our long-term business plan, and then we'll start building out from there into the second and third phase of drilling opportunities.

So it's all on track. It's a very exciting opportunity. We like the rock there. It's very clean and very thick. So it's a great opportunity and quite innovative. Rather than building a central processing facility away up at the site, being able to tie it back to our existing plant is a very accretive approach.

Dennis Fong

Great. Great. Thanks. And my next question is just more on carbon capture and GHG emission-reduction plans. Under the list of projects for CCUS, you have both the Lloydminster Upgrader as well as Christina Lake Phase 1. I was hoping to get a little bit of an update on the progress, potentially, and in identifying opportunities at this kind of Phase 1 Christina Lake carbon capture project.

And then, secondarily, just with the Lloyd Upgrader carbon capture, is that contingent on the Pathways pipeline project moving forward? Or are there other opportunities to store and sequester carbon that's captured from that facility? Thanks.

Keith Chiasson

Maybe I'll take the second part first, Dennis. It's Keith. And just around Lloyd Upgrader, and then I can hand it over to someone else to talk about Christina Lake Phase 1.

But the interesting thing about the Lloyd Upgrader is we have a steam methane reformer there, relatively high-concentration carbon dioxide source, relatively straightforward to capture. And the other interesting part is, obviously, we have a very large resource in a close proximity to the Upgrader that we can actually use for enhanced oil recovery.

So I would say it's not dependent on Pathways. We can build the infrastructure and have an economic project at that asset so, hence, why we're advancing today through our standard project development process and looking at ways to integrate that with our Upstream business for enhanced oil recovery. And maybe I'll hand it off for—

Norrie Ramsay

Okay.

Keith Chiasson

—the Upstream.

Norrie Ramsay

Norrie here, since it's a Christina Lake question. As we've kind of explained in our public documents, our first phase of our carbon capture is at Christina Lake. There's the ability to have a number of phases there, and it's core to our commitment under Pathways. The pipeline will run adjacently to our operations there.

So we've actually started preliminary engineering to understand the size and scale of this complex project, which is, by its scale, almost kind of a world's first. But again, it's in the plan. It's consistent with our Pathways commitments. And we're just continuing to de-risk it and understand how we'd operate something like this going forward.

Rhona DelFrari

And, Dennis, it's Rhona. And just to add on to that, just to make it even more confusing, while everything that Keith was explaining and Norrie is, is absolutely correct, when you look at the numbers overall, when you're talking about Pathways' targets of 22 megatonnes by 2030 of a reduction, Lloyd Upgrader is part of that because the federal government includes the Lloyd Upgrader in its oil sands emissions numbers.

Dennis Fong

Okay. Perfect. Thank you, all, for that context. I'll turn it back now.

Jon McKenzie

Great. Thanks, Dennis.

Operator

Thank you. At this time, if any members of the media would like to ask a question, please press *, 1.

First question from Chris Varcoe at Calgary Herald. Please go ahead.

Chris Varcoe — Calgary Herald

Hi. This is a question—

Jon McKenzie

Good morning, Chris.

Chris Varcoe

Hi, Jon. This is a question about differentials. What impacts have the narrow differentials had on you in the first half?

But maybe, more importantly, where do you see heavy-light differentials going in the second half of this year?

Jon McKenzie

Yeah. So maybe I'll take the first piece of this, and then I'll turn it over to Keith because he lives and breathes this every day.

But we saw a real narrowing of the differential from the first quarter to the second quarter. And for this company, it's more beneficial for us to have a narrow differential than a wider differential. With the processing assets that we've got and the takeaway capacity that we have inside the company, we can

mitigate roughly 75% of the location differential and about half of our heavy oil differential. So having those narrow differentials certainly helps us, and you saw that in the second quarter.

Where we go from here, Keith's got some views on. I'll just turn it over to him.

Keith Chiasson

Hey, Chris. We kind of look at this in two parts, kind of in Western Canada and also in the Gulf Coast where heavy differentials kind of get set.

On a global basis, we're seeing pretty good strength in the differential, driven mostly by kind of the heavy refinery utilization and some additional refineries coming on in Asia that consume heavy barrels. That, coupled with the OPEC cuts being predominantly heavy barrels, and then the U.S. Strategic Petroleum Reserve starting to refill, all drives a pretty healthy demand for Western Canadian heavy production.

In kind of Western Canada, with TMX forecasted to come online in Q1 and start line filling in the fourth quarter, we actually see an opportunity for differentials in Alberta to stay relatively tight as well, so setting up for a pretty good fall, winter, and into next year.

Chris Varcoe

And just to follow up on something that you referenced earlier, Jon. I wanted to ask you about what impact does the talk from the federal government of phasing out these fossil fuel subsidies and their plan for an incoming emissions cap have on the Pathways projects moving forward? Does it have any impact at all?

Jon McKenzie

The second part of your question, I don't believe it does have any impact on Pathways at all.

First part of your question, I think I was relatively clear. I really don't know what they mean by subsidies to the oil and gas industry. I'm genuinely not aware of any subsidies that are direct to the oil and gas industry that they may or may not be speaking of. So like you, we're waiting for more detail on this, similar to waiting for more detail on the emissions cap and how that's going to play in. But we don't necessarily see how this all comes together quite today.

Chris Varcoe

Thank you.

Jon McKenzie

Thank you.

Operator

Thank you. The next question comes from Alex Bill at allNewfoundlandLabrador. Please go ahead.

Alex Bill — allNewfoundlandLabrador

Good afternoon—morning where you are. Jon, I was wondering if you guys could provide any comment or colour on the Irving assets that are on the market right now, and assets I would imagine you are pretty familiar with. And you may have answered part of this earlier with some of the comment on that debt. But is there any appetite for M&A at all right now?

Jon McKenzie

You know what? I think, Alex, we are really focused on staying close to our knitting right now. This organization's been through a lot of change and growth over the past numbers of years. And as I mentioned in some of my comments, we've really got the assets configured and built in a way that we are really happy with, where we are today.

So I think, for us, over the next few quarters, it's really about demonstrating the earnings and cash flow capability of these assets, running them in a safe and reliable condition, and demonstrating the profitability of what we've built. So that is priority one and job one.

In terms of Irving, we're aware that—just like you, of the announcement that they put out. But I haven't worked there in almost 10 years, so we don't have any unique insight into that. But we, as a company, will stick with our knitting for—or stick to our knitting over the short to medium term.

Alex Bill

Okay. Thanks for that. And as my follow, I'm wondering if you can provide any colour on the asset life extension for the SeaRose and, specifically, if a shipyard has been picked for that, and where that stands parallel to West White Rose.

Jon McKenzie

Sure. I'll turn that over to Norrie. Norrie's been the one who's been leading that effort on our side.

Norrie Ramsay

Hi, there.

Alex Bill

Hi.

Norrie Ramsay

Norrie here. Yeah. Just to confirm, the asset life extension is a statutory requirement to, in simple terms, recertify the SeaRose FPSO and make sure it can stay out for the duration of the period we wish to develop the West White Rose project.

It’s obviously commercial, what we’re kind of doing, so I’m not in a position to talk about any details of the supply chain. But the principle is we will take the FPSO. There’s two pieces of work. There’s offshore work in the subsea components that are offshore in the buoy area. So again, that uses local subsea expertise within the province. And we will be taking the FPSO early next year to an appropriate yard. But as I said, we’re just not in a position to disclose that until we’ve completed all our commercial processes.

Alex Bill

Okay. Thanks, everyone.

Jon McKenzie

Great. Thanks, Alex.

Operator

Thank you. And the next question comes from Robert Tuttle at Bloomberg News. Please go ahead.

Robert Tuttle — Bloomberg News

Yeah. Hi. Good morning. Thanks. I just want to get your insight on where—the tolls on the Trans Mountain have come out. There’s been a lot of unhappiness by some producers with those tolls as being too expensive.

I’m just wondering how this will play out in terms of oil exports. How competitive will this pipeline be when it comes to reaching Asia? Or will the oil end up mostly going down to the U.S. West Coast? How competitive will it be to reach, say, China versus going down to the Gulf Coast? Just want your insight.

Keith Chiasson

Hey, Robert. Suffice it to say, obviously, the commercial arrangements are sensitive. But in general, there's components of our toll structure that are fixed and components that can fluctuate with increased costs. And you would have seen a few letters going into the CER, just making sure the allocation of those costs was done appropriately. So that's kind of the work that you're seeing around that avenue.

From a competitiveness, this is one of the first pipelines that have been built and providing egress out of Canada in a long period of time, first one that kind of goes to the West Coast and doesn't go through the U.S. So we think it will provide a very attractive alternative for Canadian producers to move their barrels to market in a different fashion and, potentially, even access different markets.

So our view would be that this pipeline, when up and running, will run full and provide pretty good economics, not only to the producers but to the country, to move those excess barrels outside of Canada.

Jon McKenzie

Yeah. And I'd just like to kind of pile on with what Keith is saying. And the tolls get a lot of attention right now and justifiably so, but we will work through that with TMX.

But the reality is, is this is an absolutely necessary piece of infrastructure, not only for Cenovus but also for the oil and gas industry in Canada at large. This is going to take another 590,000 barrels of Canadian oil to market at a time when the world is really needing more energy and the demand for oil and gas is growing, and those barrels should come from Canada.

Beyond the tolls, you do have to realize as well that this is an asset that's going to be in service for decades. It's going to provide jobs, it's going to provide tax dollars, and it's going to provide royalties for Canadians going forward. So we think this is a very good news story for Canada, understanding that

there are cost overruns and implications for tolls in the short term, but something that is very, very important for this country.

Robert Tuttle

Thanks. And I'm wondering, the reality there'll be more capacity than there'll be production, at least initially, I mean, which lines are going to, you see, lose the spot? Will that come off Enbridge? If you got TMX full, will that come off Enbridge? Or will TMX not actually run full? At least some of those spot barrels will go down to Enbridge. Where do you think that'll happen there?

Jon McKenzie

Well, one of the things, Robert, I'd tell you is this industry has a great habit of expanding to fill pipeline capacity. And I talked about the 590,000 barrels a day of incremental takeaway capacity that this pipeline will be able to take away. That'll be filled, I think, in relatively short order over the coming years. The reality is, this industry has grown by almost 800,000 barrels a day since 2015. And those kind of infrastructure projects that increase our ability to get to market tend to get filled fairly quickly with the amount of resource we have in Canada.

So you're quite right. There'll be some short-term rebalancing. But longer term, we'll fill this pipeline and, I think, probably sooner than most people think.

Robert Tuttle

Thank you.

Operator

Thank you. There are no further questions at this time. I will now turn the call back over to Mr. McKenzie for closing comments.

Jon McKenzie

Great. Well, listen. Thanks, everybody, for joining us today. We always appreciate the interest in this company and the questions that come with it. I just end this call by saying I hope everybody has a great day and stay safe.

Operator

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