FINAL TRANSCRIPT

Cenovus Energy Inc.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to Cenovus Energy's Fourth Quarter and Year End 2023 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 star one. 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 call 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. Good morning, everyone, and welcome to Cenovus's 2023 year-end and fourth quarter results conference call. On the call this morning are CEO, Jon McKenzie, joined by Cenovus's management team, who will take you through our results. Then we'll open the line to take your questions.

Prior to passing it over to Jon, I refer you to our 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 this discussion. 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. You can view results on our website at cenovus.com.

I'd ask that you 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. Thank you, Jason, and good morning, everybody. I'm going to highlight some important safety milestones that we achieved in the fourth quarter of 2023 and in the full year.

We achieved a total recordable injury frequency of 0.31 in 2023 and, importantly, we noted a marked decrease in the potential severity of our safety incidents, a trend we are very focused on continuously improving. 2023 was an important year, which included the restart of two refineries and the progression of the West White Rose project, which today stands at 75% complete, and we did this, as we would expect, without a significant incident. I'm proud of the team for their continued focus on safety and what they've accomplished over the year.

Early in 2023 we signaled that the first two quarters of the year would be impacted by the start up of Superior and the delayed closing and start up of Toledo. We also signaled that we expected to have our full suite of assets operation available to us in the third and fourth quarters. Our fourth quarter reflects the results of the second consecutive quarter of operating our integrated value chain.

Our upstream business continued to build on operating momentum. We increased production to nearly 810,000 barrels of oil per day, our highest quarterly number for this year and the second highest in the Company's history. This is something we are extraordinarily proud of. We saw a particularly strong performance at our oil sands assets, most notably at Foster Creek. The ramp up of new sustaining pads added about 10,000 barrels a day of increased production relative to the third quarter, taking this asset to nearly 200,000 barrels per day. We also started steaming our first sustaining well pad at Sunrise and we have two more well pads to bring on in 2024. This is the first step in our multi-year development of this asset that will see us push production volumes to or through nameplate capacity.

Our upstream business generated an operating margin of about $2.5 billion in the fourth quarter and this reflects higher production, lower unit OpEx, but also lower crude prices and wider heavy oil differentials. Now with the start up of the TMX pipeline, we anticipate light-heavy differentials to narrow. This is an important piece of infrastructure and creates additional egress in the Western Canadian basin and Cenovus is an anchor shipper. Our oil sands and thermal assets continue to perform exceptionally well as we enter 2024. We are focused on executing our capital plans at Christina Lake, Foster Creek, Sunrise in support of the organic growth of this business over the next two years.

In our conventional business, fourth quarter production volumes remained steady around 124,000 BOE per day and the business was consistent and stable after dealing with wildfires through much of the summer. Offshore production reached about 70,000 barrels a day in the fourth quarter, a 6% increase quarter over quarter, and in Asia Pacific gas volumes were up by about 20% in Indonesia as we brought on the MAC field in September. Our Asia Pacific business continues to generate with great predictability, generating about $1 billion of operating margin for the year. In the Atlantic region, the Terra Nova FPSO returned to production in late November, contributing about 4,000 barrels a day to Cenovus in the month of December. The operator has since seen a ramp up of production in the field and is working towards the asset being increased to full rates.

We also advanced work for the regulatory dry dock of the SeaRose FPSO. In late December, the vessel was taken off station. The vessel has now arrived in Belfast and maintenance work has begun. We anticipate the SeaRose to return in the third quarter of 2024. The investments we are making today ensure the vessel will be ready well in advance of the start up of the West White Rose project, supporting production from that field well into the late 2030s. Overall, it’s been a very strong quarter and a very strong start to 2024 for our upstream businesses. Consistent with our guidance, planned turnaround activity will occur in the third quarter and we expect to grow production exiting the year at higher production rates.

Turning to the downstream, the fourth quarter was another good step forward for our operated refining businesses. In Canadian, refining crude utilization was 91% in the fourth quarter. The Lloydminster upgrader and refinery demonstrated consistent and strong performance. This performance has continued in the first quarter as we prepare for a major turnaround of the Lloydminster upgrader beginning in the second quarter. We anticipate the quarterly throughput impact to be about 42,000 to 46,000 barrels a day, consistent with guidance, and coming out of the turnaround we expect the Lloyd complex to continue to run reliably with high rates of utilization for the foreseeable future.

In US refining, our operated assets continue to run safely and reliably, performing mostly as expected. I'm very pleased with the improvements we continue to make in this business. The Toledo refinery ran steadily over the quarter and was able to take advantage of the wider light-heavy crude differentials. We also completed planned maintenance of the distillate hydrotreater at the Lima refinery in the quarter. We expect this asset to run at high levels of utilization through the first three quarters of this year going into the fourth quarter turnaround. Now we continue to have some challenges to the Superior refinery. You'll see the throughput was in line with the prior quarter. We're working to improve reliability, which will allow us to increase crude throughput in the second quarter of 2024. Our non-operated Borger refinery underwent significant planned maintenance in the fourth quarter and the operator experienced significant delays bringing the facility back up, which impacted utilization and profitability in the quarter. This refinery is now operating at full rates.

The most notable item in the fourth quarter results was the weak Chicago crack price environment and volatility quarter over quarter. The Chicago 3:2:1 crack spread averaged US$13.24 per barrel, a decline of over 50% compared to the third quarter. The December crack averaged US$7.65 per barrel and at times gasoline cracks were negative, which caused us to respond by economically optimizing throughput. This not only drove lower US refining operating margin in the fourth quarter, but also lowered throughput and contributed to a significant FIFO headwind in the US refining of about $450 million as we processed higher priced crudes that were purchased in prior periods. Now the weak crack environment has persisted through the month of January with an average Chicago 3:2:1 benchmark of about US$5.50 per barrel, but recently the Chicago refining crack environment has improved. Cracks have risen into the low teens and the high 20s. And with seasonal impacts easing and product inventories rebalancing, as well as refineries entering the turnaround season, we anticipate seeing more normalized cracks going forward. We expect to continuously improve our operating and financial performance in this business as we produce refined products into this pricing tailwind.

Now to our corporate and financial performance. In the fourth quarter, Cenovus delivered approximately $2.1 billion of adjusted funds flow. As mentioned, the upstream business was impacted by lower realized prices with wider WTI/WCS differentials, and the downstream was impacted by lower refined product pricing in the US and a negative FIFO impact. Through our base dividend, share buybacks, and final payment of the common share warrant obligation, we distributed over $700 million directly to our shareholders in the fourth quarter. In addition, the Company's net debt was approximately $5.1 billion at the end of the fourth quarter, a reduction of more than $900 million from the third quarter, which reflects a working capital release as well as the application of free cash flow. We remain focused on achieving our $4 billion net debt target and delivering 100% of excess free funds flow to our shareholders once this milestone is met.

So, looking back at 2023, there are some important achievements I'd like to highlight. We delivered safe and reliable upstream performance throughout the year while responding to the significant wildfire activity in our conventional areas in the spring and summer and safely executed a major turnaround at Foster Creek in the second quarter. We successfully delivered our capital spending guidance in 2023, with total investments of $4.3 billion and achieved several key project milestones as planned. We materially progressed construction of the West White Rose project, which, as I mentioned, is now about 75% complete and reached a major milestone in the second quarter with the completion of the Conoco slip form on the gravity-based structure. At Christina Lake, we achieved approximately 45% completion of our Narrows Lake tieback pipeline on time and on budget. This will allow us to produce our high-quality, low-

SOR resource back to the Christina Lake processing facility. We further integrated our heavy oil production and refining capabilities through the acquisition of the remaining 50% of the Toledo refinery and we safely returned that refinery to full operations in June. We brought Superior online and, combined with Toledo, we added approximately 130,000 barrels a day of refining capacity, much of that heavy oil refining capacity. We reduced our long-term debt by almost $1.6 billion with US$1 billion of that being repurchased debt. We also strengthened our credit ratings during the year with a credit rating upgrade from Fitch Ratings to BBB stable and a change in our Moody's outlook from stable to positive. We generated nearly $9 billion of adjusted funds flow in the year. This enabled us to deliver around $2.8 billion to shareholders through our base dividend, the purchase of common shares, and the purchase and cancellation of about 46 million Cenovus warrants.

We end 2023 on a strong note operationally and we'll continue to build on this through the year. 2024 will be focused on achieving our $4 billion net debt target, progressing our high-return growth projects in the upstream, and continuing to improve the profitability of the downstream business while running it safely and reliably. Ultimately, as part of our capital allocation framework, we look forward to shifting to 100% of excess free funds flow going back to shareholders. We are well positioned as a company. The achievements I just spoke to set us up well for 2024 and will continue to generate value for years to come. On March 5th we'll be hosting an investor day and I welcome you to attend to hear more about our strategy and detailed five-year plans at that time.

And with that, I'll stop and 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 star one. 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 — Analyst, CIBC World Markets

Hi. Good morning and thanks for taking my questions. Maybe starting with the downstream here, do you mind discussing some of the opportunities that you're currently working on to help improve cost structure, improve run time and margin from the downstream business, especially now that you have running and own and operate those three refineries in the US?

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

Sure. So I'll let Keith answer the question but, as you know, Dennis, Toledo and Lima are sister refineries and their pipeline interconnected, which does give us some opportunities to improve the integration of those two refineries and the overall synergy that we hoped to capture when we bought that refinery. Superior, there's lots of opportunities that we think, in the future, we'll be able to take advantage of; the focus today really though is bringing up that refinery to full capacity and running that in a reliable way. But maybe, Keith, you could talk a little bit about what you're seeing in terms of opportunities in the refining sector.

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

Thanks for the question, Dennis. I think in our guidance you'll see a noticeable step up in our utilization in the downstream, US downstream in 2024 versus 2023. 2023 was really a year of restarting the refineries and 2024 is a year of running the refineries. We were pretty happy with, ah, you may remember the little bit of a cold snap in January that we had. The refiners ran through that reasonably well. So we're really focused on now running these well and capturing the margin out of the back end of them. And reliability improvements will persist and continue but, in general, the kit is running well. Obviously, in January, cracks were still pretty weak, as Jon alluded to in his opening remarks, but we saw that change in February and the kit ramped up to max throughput and did it reliably. So we're pretty happy with what we're seeing. We'll continue to focus on ensuring long-term reliability of these assets and full integration with over 110,000 barrels a day of increased heavy conversion capacity in this kit now that it's running. We have lots of opportunity and optionality to move our barrels down into this PADD II network and capture the margins out of the back end.

Dennis Fong — Analyst, CIBC World Markets

Great. I appreciate that colour there. My second question here, maybe shifting gears a little bit, it seems like there was obviously significant progress made on lowering outstanding leverage. I guess that progress, as you alluded to in the prepared remarks, was driven a little bit by the changes or the unwinding of working capital. As we think about this going forward, can we or can you provide maybe a little bit of structure or an idea as to what maybe a normalized rate of like net debt pay down might be and are there any one-time items we should watch out for in the next couple of quarters?

Kam Sandhar — Executive Vice-President & Chief Financial Officer, Cenovus Energy Inc.

Good morning, Dennis. It's Kam. So a couple of things I would highlight. Yes, you did notice we had a working capital release through the fourth quarter, and that's really a combination of, I would say, slightly lower absolute levels of inventory and also the change that you saw in pricing.

When you think about, I guess, anything unusual coming, I think we've articulated this previously. I think the only change that really I would highlight is we're obviously continuing to wait for a line fill on TMX. We've had a small portion called, but we've got amounts still that's, ah, we still owe them to fill that line on the timing that they start up that line. So you should expect probably about a million barrels increment as a result of that, so that will likely happen here between now and kind of middle of this year. So, other than that, I would say you shouldn't expect anything else material. I think, generally speaking, the trajectory you saw in the debt in the fourth quarter is really strong. I think, given the pricing environment we see today, both on the upstream and the downstream improving out of January into February, I think you're going to continue to see us make progress on the debt through this year.

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

Dennis, I'd just add to that. I think we've been pretty clear with the value chains that we've built, whether it be condensate or the value chains that we've built to move our heavy oil out of Hardisty and into our refineries, you should expect us to be carrying somewhere around 45 million to 50 million barrels in inventory. And we're always going to be optimizing that through time. And with the refineries running more stably and predictably, there's an opportunity maybe to optimize that some more and take a few more barrels out of inventory.

The other thing that we do pretty consistently is we run that value chain for the optimum cash flow, and where we have opportunities to store barrels and sell them in future periods at higher prices, we'll do that as well. But what you should count on us is kind of that 45 million to 50 million barrels, as Kam mentioned. There will be about a million barrels coming into that related to the start up of TMX, but we're always going to be optimizing that depending on the pricing scenarios that we see going forward and the opportunities that this value chain gives us.

Dennis Fong — Analyst, CIBC World Markets

Great. I really appreciate the additional colour there, Jon, and Kam. I'll turn it back. Thanks.

Operator

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

Menno Hulshof — Analyst, TD Securities

Good morning, everyone, and thanks for taking my question. I'm just going to start with a quick follow up on Superior and Toledo. You did answer quite a bit of it already, but can you just guide us on what current utilization for the two refineries looks like today? And then, Jon, you talked about potentially seeing a bigger ramp in Superior in Q2. Like what are the risks that you see in successfully being able to ramp Superior within that time frame?

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

Yeah, I'm going to let Keith answer the first question last and I'll start with your last question, and I'm sure Keith will have some thoughts there, too.

There's no doubt Superior has been a bit of a fistfight for us in starting a refinery that hasn't run in five years and rebuilding it has been a bit of an issue. And any time you take a new set of kit in a refinery that hasn't run for that length of time through its first winter, you do find some deficiencies and, sure enough, we found some deficiencies. But there's nothing mechanically process are technically wrong with this refinery, it's just taken us a bit longer to get to where we wanted to get to.

I'd also kind of point to the strategy of why we have these two refineries. And it's important to remember that when we get Superior up to nameplate capacity, in that 49,000 barrel a day range, it's going to consume about 35,000 barrels a day of heavy, and we can get that from Hardisty to Superior for about US$4 with no take-or-pay commitment on Enbridge. That is the strategic rationale for wanting that refinery. It's not only going to make profits on its own, but it really does give us egress from Hardisty to Superior. Similarly on Toledo, of the 150,000 to 160,000 barrels a day of throughput capacity, about 90% to 95% of that is heavy oil, and we can get our oil from Hardisty to Toledo for about US$6 a barrel. So these are really important assets for us, not just on a standalone basis but on an integrated basis, so getting them up to full rates and demonstrating the full strategic value that we've seen for some time is really important to us.

But maybe I'll turn it over to Keith and he can talk to you more about the [inaudible] of the path forward with those two refineries.

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

I think your question probably gears on the 76% utilization in the US downstream in the fourth quarter. In that period of time we had a pretty large turnaround at Borger refinery and the operator had a little bit of challenge starting that refinery back up. It's now back up and running at full rates. Toledo ran well through there, but you will recall in December we saw cracks diminish in PADD II in Chicago region and we took the opportunity to optimize the kit and run it down. Heading into this quarter though, we are back up north of 90% utilization across the kit, including Toledo and Superior. Superior though, you should expect, through the first several months of this year, to run more in the 65% to 70% utilization. All of the kit is running. And to Jon's point about the heavy oil integration, we're able to run kind of that 30,000 barrels a day of heavy. But we're just running off a bunch of intermediates that we built during start up and shutdowns over the past six months that limits kind of getting the full utilization as we run those intermediates through the processes and fill out those process units. So the kit's running, but you won't see that top-line utilization number go up until the second quarter.

Menno Hulshof — Analyst, TD Securities

Terrific. Appreciate all of the detail. And I'll follow up with a question on solvent-assisted SAGD. We've seen quite a bit of news flow of late with Imperial being the first to bring a commercial SAGD project on line a couple of months ago and I believe CNQ is talking about commercial activity towards midyear. And I'm just going over past presentations; I believe it was at your last investor day you talked about solvent-assisted pilot activity within the five-year plan. And you may want to hold back on this for the investor day, but if not, where does SA SAGD rank on the excitement scale right now? What's getting done in the background? And would you be willing to fine-tune the time line to commercial development? Thank you.

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

Hey, Menno. It's Keith again. The way we look at SA SAGD for Cenovus is, you know, we're pretty gifted with very thick, clean reservoirs that allow for the actual recovery process to use SAGD and be very effective and very efficient. Over the years, probably dating back 15 years, we've piloted all kinds of solvent recovery technologies. So I would say those are, in our mind, commercialized and they are waiting for the resource and opportunity to deploy them at, but right now we have resource and capability to utilize our steam most effectively and most economically to drive the highest shareholder return. So that's kind of where we're focused, but we do have that technology in our back pocket should we see an opportunity to deploy it in the future.

Menno Hulshof — Analyst, TD Securities

Terrific. Thanks, Keith. I'll turn it back.

Operator

Thank you. As a reminder for analysts, should you have any questions, please press star one.

Next question comes from Greg Pardy at RBC Capital Markets. Please go ahead.

Greg Pardy — Analyst, RBC Capital Markets

Thanks. Good morning. So, lots of emphasis on the downstream, which makes sense. Jon, the upstream has had good momentum. I'm just wondering if you can give us a little bit of an ops update there, including maybe where current production rates are or roughly where production rates are right now.

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

Sure. I'll get Keith to give you the detail on a property-by-property basis, but we entered this year, again, as I mentioned, with kind of the second-highest production quarter that we've ever had, but December was probably the second highest production month that we've ever had as a company. All that needs to be tempered, you know, as you go into the summer months and we have a turnaround schedule. That's all part of our guidance that we've given you. And as I mentioned, we expect Q4 to be even bigger next year than it was this year, particularly as we kind of bring on more well pads right across the business. But I feel really good about how we've paced and staged the capital right across the upstream to ensure that those rates that we put into our guidance are very achievable. We've seen some really good rates at places like Lloydminster, where we hit some daily production records in December and early January. So it's kind of right across the business and I think it really sets us up well for the growth projects and integration of those growth projects starting in 2025 with the Narrows Lake tieback.

But Keith, maybe you want to run through the portfolio and talk about where we are on the individual assets.

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

Yeah, sure, Jon. Thanks for the question, Greg. It's actually been pretty impressive watching the ramp up in the back half of 2023 and into 2024 with, as Jon indicated, kind of the second best quarter ever in Q4. That performance has persisted into January. And I would also like to commend the teams. We went through minus 45 degrees Celsius weather in January and the winterization programs we have across the asset base allowed us to weather through that without any hiccup, so really happy to see.

We have put in some new well pads at Foster and Christina and we're starting to see the success of those well pads with strong production starting into January and continuing. That will continue through the quarter. As Jon indicated, the Lloyd thermals, we're actually above our expectation a little bit there as some of the redrills and redevelopments that we've done in the region, as well as implementing some of our subsurface technologies, has allowed us to increment up production in the Lloyd thermal. So, pretty happy with the combination of the Lloyd thermals and the conventional heavy oil. You may recall that, on the East Coast, we do have the life extension happening on our SeaRose, so the boat has come off station and it's in the dry dock going through that life extension project, and that will persist out to the back end of Q3. Happy to note, though, that Terra Nova came back on station in the middle of last year and started production in November and we're starting to see production from Terra Nova ramp up. And then our Asia business has been very strong for us as well and that has continued into the new year. And then when I look back at conventional, it's been performing well and, similarly to our oil sands assets, weathered through the real cold snap as well. So all in all, across the portfolio in the upstream, really happy with the performance in Q4 and that's continuing early into Q1 of 2024.

Greg Pardy — Analyst, RBC Capital Markets

Okay. Terrific. And completely, maybe just shifting over to the financials, because in your opening remarks, I mean you pretty much answered the question, which is, i.e., hitting that elusive $4 billion net debt target. I'm curious, maybe it's a question for Kam, just is there any more, maybe a bit more precision around that? Is that possible to get there by midyear or would that be jinxing it? And then kind of related to that, is the upstream portfolio sufficiently streamlined or are there still aspects of the portfolio that could be, i.e., non-core asset sales and so on, or are we pretty much done?

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

I'm going to answer the last question for Kam. We're very happy with the portfolio, Greg. This is probably the first quarter that we've had full access to all our assets and I'd tell you they're all investable, they all fit within our strategy, and they're all things that are part of our plan going forward. So we're very happy with the portfolio that we have today.

Kam Sandhar — Executive Vice-President & Chief Financial Officer, Cenovus Energy Inc.

Hey, Greg, it's Kam. So, I think you're looking for a hard date on the debt target. To be honest, it's pretty hard—

Greg Pardy — Analyst, RBC Capital Markets

A soft date will be fine. Kam, a soft date will be fine.

Kam Sandhar — Executive Vice-President & Chief Financial Officer, Cenovus Energy Inc.

It would be hard to give that. So a couple of things I would highlight. Look, we're continuing to see a lot of volatility in commodity prices, so obviously, even with differentials widening out in Q4 and then now starting to see a bit of a narrowing into the first quarter and going into the back half of the year, and then obviously cracks have improved, so I would say the pricing environment we're in is quite constructive. I think we're really focused on the things that are in our control and, as you heard Keith and Jon talk about, operationally I think things are going really well.

So I think the goal is to get there as quickly as we can. I think it's the number-one priority for us as an organization. So I think when you look at the actions we're taking around the business, whether it's controlling our cost to working capital and then obviously running the assets, I think the goal is to try to get there in a reasonable time frame. So the focus of the whole organization is to get to that debt target. I would say in this price environment, I'm optimistic we can get there in a reasonable time frame. Whether that's in Q2 or Q4, it's really going to depend on commodity prices.

Greg Pardy — Analyst, RBC Capital Markets

Okay. No, I think it's a good answer. Thanks very much.

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

Thanks, Greg.

Operator

Thank you. The next question comes from John Royall from J.P. Morgan. Please go ahead.

John Royall — Analyst, J.P. Morgan

Hi. Good morning. Thanks for taking my question. I had another one on downstream. I was just hoping for some details on… I think you had mentioned in the release an unplanned, ah, some unplanned downtime at Lima and how impactful that was the 4Q results. And then you also mentioned in the release what sounded like maybe some economic downtime you took in downstream. Could you just give a little detail around that and did that continue into the early part of 1Q before cracks improved?

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

Yeah, I'll speak to Lima and then Keith can answer your question more broadly. But the only unplanned downtime that we had in Lima was a short outage that we had on the isocracker. And as you know, John, the isocracker is your biggest diesel-making unit, and when diesel is really your only product that's making money in the crack environment that we saw in late November/early December, or all through December really, it does impact your financial results. Now that all being said, that was dealt with quickly and the Lima refinery today is at full rates, operating very, very well.

Keith, maybe you can just touch on any other aspects you wanted to mention.

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

Thanks for the question, John. So, you will recall, cracks really collapsed in the December time period, so we did reduce rate on kind of our lighter oil refinery, which is Lima, a little bit into December as well as some of our non-operated refineries took some economic run cuts. That did persist in the January, but you also probably are well aware on February 1 we saw cracks really improve and we quickly ramped up all of our assets to get the full rates to capture money in that market. I think it was about a $15 to $20 move on the crack, which incented us to go to full rates, where we continue to operate. And looking forward, we're anticipating, you know, we're starting to get into driving season and I believe there's some forecasted outages in the pad as well that should help sustain those cracks for the foreseeable future.

John Royall — Analyst, J.P. Morgan

That's helpful. And then just sticking with the downstream, when I look at this year's guidance, is the 30 to 35 KBD of maintenance, is that kind of a good level to think about going forward or is there some extra maintenance in there given you had some restarts last year? Just trying to think about sort of how to model kind of the earnings now we're in refining and just the maintenance impacts there.

Keith Chiasson — Executive Vice-President & Chief Operating Officer, Cenovus Energy Inc.

Yeah, they're sometimes a little bit lumpy with major turnarounds, but I think, in general, John, that's a pretty good number to model. But you can probably follow up with our IR folks off the call and they can give a little bit more detail.

John Royall — Analyst, J.P. Morgan

Thank you.

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

Great. Thanks, John.

Operator

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

Nicolette Slusser — Analyst, Goldman Sachs

Hey. This is Nicolette Slusser. Sorry about that. Lots of earnings calls going on today. But on for Neil and thank you for taking our question. I guess the first question will be on downstream. I know there's been a lot, but ours is a bit longer term in nature, which is, assuming we get kind of all the assets up and running and maybe it's 2024 and beyond, is there any sort of initiatives we should be on the lookout for either on the cost side that you see as low-hanging fruit in the downstream in US in particular or on the capture rate side that you see could be improved upon over time?

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

Yeah, there's nothing that we have that we need to address that relates to vessel retirement, that relates to regulatory obligation of any kind of consequence, so our focus today is continuing to run these assets well, integrate them with the upstream, and drive the value from this integrated value chain that we've put together. So don't think, going forward, that there's big lumps of capital that are coming in your direction to address those kind of big two issues that I talked about. Where we do have some capital that we've allocated to the downstream is more for projects that are economic in nature and allow us to expand margins and increase our heavy oil capacity throughput, but they're relatively modest. So what you can expect from us as a company over the next couple of years is we're going to continue on the investments that we have in the upstream, and we've talked about those at Superior, Foster Creek, Christina Lake, and our West White Rose project, with modest capital investment in the downstream to capture some incremental margin, but really looking to run our refineries well and integrate them with our upstream on a more sustained basis.

Nicolette Slusser — Analyst, Goldman Sachs

All right. Thank you. Very helpful. And then, not to get ahead of ourselves, but just curious, are there any themes we should be on the lookout for? I know it's going to be a longer-term view at the upcoming March investor day, but any updates we should be looking out for, whether it's on Pathways, low carbon? I know you're going to talk a lot about these upstream projects that you've been investing in, but also if there's anything on the capital return side of things we should be looking out for. Any early thoughts would be very helpful.

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

Well, one of the things, I think, is we've been pretty consistent on what our strategy is since Alex and I arrived here in 2018, so please don't believe that investor day is going to mark any kind of a left-hand turn from what's been really important to this company for the last five, six years, which is steady operations, driving to an under-levered balance sheet, getting to 100% shareholder returns, and investing profitably in this business at the margin. So what we're really going to do at investor day is reinforce the strategy and the trajectory that we've been on, but give you a lot more detail as to what the next five years is going to look like.

Nicolette Slusser — Analyst, Goldman Sachs

That's very helpful. Thank you so much.

Operator

Thank you. The next question comes from Jason Bouvier at Scotiabank. Please go ahead.

Jason Bouvier — Analyst, Scotiabank

Thanks and good morning, everyone. A quick question on the preferreds. My understanding is they become redeemable later this year and in the first half of next year. Assuming you guys hit your net debt target in the back half this year, are those next on the plate or would you look for your shareholder returns to come through like share buybacks or dividends?

Kam Sandhar — Executive Vice-President & Chief Financial Officer, Cenovus Energy Inc.

Hey, Jason, it's Kam. So you're right, we do have some of our pref shares coming due, ones at the end of this year and some in 2024. Sorry, 2025. So we'll look at all of those things, as we do, whether it's our debt portfolio, our buyback program, and the prefs. So I think we're evaluating always what the right economical decision is for the Company and what the capital structure looks like. So, no different than any of those other decisions, we'll look at those as they come to maturity.

Jason Bouvier — Analyst, Scotiabank

Great. Thank you.

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

Thanks, Jason.

Operator

Thank you. As a final reminder for analysts, should you have any questions, please press star one now.

Next question comes from Manav Gupta at UBS. Please go ahead.

Manav Gupta — Analyst, UBS

Good morning, guys. I have a quick macro question first. Every now and then we hear that TMX has cleared the last hurdle and the line is all set to come on and then there is another hurdle. Like is there any update you guys have? You're much closer to it. When do you think line hits the mechanical completion line fill and when do those [inaudible] start actually coming in?

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

Manav, what you hear is what we hear as well. So we've heard all of the starts and stops and starts again. But Drew, you're very close to this; why don't you answer where we are on TMX and our latest thinking there?

Drew Zieglgansberger — Executive Vice-President & Chief Commercial Officer, Cenovus Energy Inc.

Sure. Thanks, Manav. To Jon's point, it's sometimes daily and weekly here as I think we're getting so close to being at the point where we can utilize a very important piece of infrastructure for the Western Canadian basin, so we're all very, very excited to see that come on. Maybe just to back up, when we looked at our 2024 budget and when we planned when we would see this and what we would take into account, we always kind of anticipated midyear, and so I still think that's very reasonable. And I think we talked about this on the last call, even when it does come on and we get it full and it starts to operate, it's going to be a little bumpy probably out of the gate. So we've taken a lot of that into account in our guidance when we've looked at it, but we still see and believe that it will come on here sometime in mid to late Q2. We expect the line fill call for the remaining volumes to come here in the next number of weeks and early Q2. But again, we also expect it to be a little bumpy as it kind of comes off start-up. So we're still planning for midyear and we're looking forward to it like everyone else.

Manav Gupta — Analyst, UBS

Perfect. A quick follow up here is you're pursuing growth at Foster, you're pursuing growth at Christina and some other projects you talked about; when we look at, you know, it's like 2026 and 2027, what would be a good way of thinking about the oil sands production level? Just trying to understand, ballpark, how should we model 2026 and 2027 for the oil sands volumes.

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

Sure. So the way you should think about our growth projects is we've been investing since 2023 in our growth projects and that investment cycle kind of ends in 2025, so the money that we're spending last year, this year, and next year really facilitates the growth that you're going to see in 2025 and beyond. As I mentioned in my call notes, the first project to come on will be the Christina Lake Narrows tieback, and that'll add kind of 20,000 to 30,000 barrels a day starting in 2025 but more maturing in 2026. You'll see the Foster expansion come on in the 2026 time frame with full rates in 2027. You should see a continued growth in Sunrise production as we continue to bring on four well packages over the next two, three years. And we believe, again, that we can take that asset beyond the nameplate capacity of 65,000 barrels a day. Today we're kind of in the 45% to 50% range. So in those kind of time frames, that's where you'll see the growth in our oil sands production, and it's really facilitated by having extra and incremental egress that we get from our refineries as well as TMX and having that under-levered balance sheet that we've been coveting for so long. The other project, Manav, and I think you're aware of this, is our West White Rose project, and we expect to see first oil there in 2026.

Manav Gupta — Analyst, UBS

Perfect. Thank you so much for all this and look forward to meeting you in person in about three weeks.

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

We look forward to it as well. Take care.

Operator

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

The next question comes from Lloyd Byrne at Jefferies. Please go ahead.

Lloyd Byrne — Analyst, Jefferies

Thanks, guys, for doing this. I have a bit of a philosophical question, and maybe you want to address it on the analyst day coming up, but the market has kind of gotten stuck on the $4 billion number at $45 oil and your debt is already below a lot of your peers, depending on how you want to look at it, and then the second is your cost of equity is really high relative versus, obviously, your cost of debt. And so, given the fact you have a lot of projects coming on Sunrise, Narrows, Foster Creek, West White Rose, it looks like your EBITDA is going to be $5 billion out in 2026 at $45 anyway. So I guess my question is would you ever consider accelerating the buyback at this point?

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

I'll take a crack at this and then I'm going to turn it over to Kam. But I think we've been really clear on what our financial framework is and how we think about capital structure, capital allocation, shareholder returns and the like. And we are absolutely of the view that companies like us that produce heavy oil in the Mid-Continent need to run under-levered balance sheets and we need to have a balance sheet that's sustainable at the bottom of the cycle, which we define as $45. We believe that's the price where growth in hydrocarbons stop. So for us, achieving that $4 billion is kind of job one, and getting to

100% shareholder returns beyond that is something that we're absolutely looking forward to and something that we've been coveting for a long period of time. As we go forward through time, we're always evaluating the right level of debt for the Company to have. We believe that 1x EBITDA at $45 is that right level of debt. But don't look for us to stray from our financial framework and try and be overly opportunistic by buying back stock in today's market at the expense of getting the balance sheet to that level of net debt.

Kam Sandhar — Executive Vice-President & Chief Financial Officer, Cenovus Energy Inc.

And Lloyd, it's Kam. I would just add a couple of things. I think number one is, look, this debt target is not a short-term target. This is something we wanted to strive for to get to for a period of time. We've been on this deleveraging journey now for the better part of five years I would say, even going back to 2018, and I think the goal is we want a capital structure that allows us to have a resilient balance sheet, gives us optionality to be opportunistic in times when others may not be able to. And I think I would also highlight we are in a period of time right now where our capital is a little bit elevated, just given that we've got some big projects and commitments that we have ongoing, whether it's West White Rose or the oil sands growth, so I think that debt target is really important to us. We're not going to deviate from it. And to Jon's point, we'll reassess it as the growth kind of comes through the business as we get into 2025 and 2026.

Lloyd Byrne — Analyst, Jefferies

Great. Makes sense. And your sustainable EBITDA is going up, though, too, so… I have one more question. How about exports out of PADD II going forward? I mean last time I think I saw you guys you were talking about potentially looking into different options going forward. Do you think there's an opportunity to get more product out so this doesn't happen, the kind of margins you saw this year don't happen again in the future?

Drew Zieglgansberger — Executive Vice-President & Chief Commercial Officer, Cenovus Energy Inc.

Hi, Lloyd, it's Drew. Yeah, you are correct that that is, you know, going into PADD I is a nice market and we've got about 20,000 barrels a day of takeaway capacity there to get into the premium market. We're also using some storage and sell our products in later months right now, if we just think about summer versus winter gas spreads, and we are doing that right now because of the arb that's there. It is on our radar. There are some things we are looking at to be able to access our refined products into better markets that are a little more structured and probably have a little bit more global consistency to being a little more stable. We're seeing that volatility in PADD II right now and we've talked about it today and we're seeing it in our results. So it is part of some of our strategy and our thinking and it's something that we're working on.

Lloyd Byrne — Analyst, Jefferies

Awesome. Great. Nice job, guys.

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

Thanks, Lloyd.

Operator

Thank you. The next question comes from Chris Varcoe at The Calgary Herald. Please go ahead.

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

Good morning, Chris.

Chris Varcoe — Media, The Calgary Herald

Good morning, Jon. In November, the Alberta government announced its carbon capture incentive program, which I believe is a 12% grant for CCUS projects, and that obviously comes after Ottawa announced its investment tax credit for CCUS projects. Now that those pieces are in place, what does Cenovus need to see in order to progress the CCUS foundational project? Or maybe looking at it another way, what is still lacking?

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

Hey, Chris. It's Rhona. So we're still, I mean there's still a lot of details that have to be ironed out with both the investment tax credit federally and the ACCIP and the province. These are really good steps towards what needs to happen for decarbonization to progress. But I mean the ITC was announced a long time ago and it's still not finalized. Things like the carbon credits for difference that have been announced by the federal government a long time ago, still don't have any details there. And so all along we've been saying that we continue to work with both governments and those discussions are ongoing and have been for a long time, but this is a really, this is very complex and it can't just be figured out overnight. And so it just takes a little bit longer than I think a lot of people would like it to, but I think you have to look at that as being somewhat a positive thing that this needs to be right, because multibillion-dollar decarbonization projects, for our sector but for other sectors as well, and they take a lot of thoughtful discussion in order for them to progress. The thing that's really positive is that the industry and the Alberta government and the federal government all have a shared goal of decarbonizing, because it's good for the province, it's good for Canada, it's good for our sector, but we need to make sure that we have the right fiscal support in place, because around the world these decarbonization projects do not go ahead without significant investment from governments. And so that's what we continue to have discussions with.

In the meantime, with the Pathways CCS project, there's a ton of work that's been ongoing and we're getting ready, over the next few months here, to submit the regulatory application for the pipeline and for the pore space, so that's really, really positive. Lots of engineering work has gone into that, lots of consultation with communities. And we're continuing to work on a whole bunch of other projects. So feasibility studies for the capture. As has been announced, Cenovus is working on a feasibility study for small modular reactors. There is solvents work going ahead. Other companies are looking at fuel switching. So tons of work is going forward and we're still working with governments on the details of what the funding support will be.

Chris Varcoe — Media, The Calgary Herald

Okay. And just to follow up, in December, the federal government announced its framework for the emissions cap for the industry, which looks at, I think, I believe it's a 35% to 38% reduction by 2030.

Do you think this is a doable target? And I'm wondering, just separately, does the emission cap impact the desire of Pathways to invest in CCUS do you think?

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

One of the things we've seen, Chris, is a real increase in the complexity and density and velocity of proposed regulation coming out of Ottawa and our view on all of this is it's largely unnecessary and that the right incentives already exist, assuming that we can get a framework together for financial support that incentivizes investment in this basin, not just for decarbonization but for the business as a whole. So our view on these things is that they are unnecessarily complex and they cloud the issue of trying to get to a place where we have some certainty as to what the financial incentive framework is going to look like that allows us to invest not just in the business but in the decarbonization of this business as well.

Chris Varcoe — Media, The Calgary Herald

Thank you.

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

Thanks, Chris.

Operator

Thank you. The last question comes from Robert Tuttle at Bloomberg News. Please go ahead.

Robert Tuttle — Media, Bloomberg News

Hi. Good morning. Just following up on that, you guys have your own target for 2030 on emissions cuts. My understanding is you need to start ordering the pipe for the pipeline, various components like right now. Are you going to reach your own target, do you think, or is that threatened?

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

So our internal target, Robert, is the 2035 target. I think what you're referring to is the 2030 target that was put out by the federal government as well as the Pathways group. There's no doubt that, to reach the 2030 targets of what's doable, we need to move on that today. But we can't move on those targets until we get the certainty from the levels of government that we're currently negotiating with that allow for certainty and investment in these kind of projects.

As Rhona mentioned, these are multibillion-dollar projects, multi-year projects, and they can't happen if they leave the industry uncompetitive with the peer group. So, once that certainty is established, and we're working with the federal and provincial governments right now to try and get there, we'll move forward. But there's no doubt, to kind of achieve the 2030 targets that have been floated, this needs to happen sooner rather than later.

Robert Tuttle — Media, Bloomberg News

Have you been given a time line or anything by the government on when they'll be able to give you certainty on like the credits for difference and the other supports you need? I mean have they indicated anything?

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

Hey, it's Rhona again, Robert. I mean everybody, there's commitment from the government to move this forward as well, because everybody, again, as I mentioned, everybody has the same shared outcome we're trying to achieve, but I think it's hard to guess, when you're having discussions that are complex like this, it's hard to put an exact date on it. But I think everybody wants to get this going, because we want to see these decarbonization projects underway and that's what the governments want and that's what our sector wants.

Robert Tuttle — Media, Bloomberg News

Okay. Thank you.

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

Thanks, Robert.

Operator

Thank you. This concludes today's question-and-answer session. I will now turn the call back over to Mr. McKenzie for closing comments.

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

Great. Well, I'd just like to thank everybody for their interest in the Company and attending the call and wish everybody a great rest of your day and we look forward to seeing you on March 5th. Thank you very much.

Operator

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