FINAL TRANSCRIPT

Cenovus Energy, Inc.

Cenovus Energy, Inc. Q1 Results Conference Call

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PRESENTATION

Operator

Welcome to Cenovus Energy's First Quarter Results.

As a reminder, today's call is being recorded. (Operator Instructions) 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

Thank you, Operator. Good morning, everyone, and welcome to Cenovus' 2024 first quarter results conference call.

On the call this morning, our CEO, Jon McKenzie, will take you through our results. Then we'll open the line for Jon and members of the Cenovus management team to take your questions.

Before getting started, 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' 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 our results on our website at cenovus.com.

I'd ask that you keep the one question with a maximum of one follow-up. You're welcome to rejoin the queue for any other follow-up questions you may have.

Jon, please go ahead.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Great and thank you very much, Jason, and good morning, everybody.

Safety is at the forefront of everything we do at Cenovus, and I'd like to take a moment to acknowledge an important accomplishment in the first quarter. In our Atlantic region, we safely and successfully took the SeaRose FPSO off station, which is a once in 10 year or more activity, a job well done by everybody involved.

Now, at our Investor Day, we outlined our strategic objectives, the low-cost organic growth opportunities with our high-quality assets and how we'll leverage our integrated value chain. We also talked about our disciplined financial framework, which includes growing shareholder returns.

Our first quarter results are a reflection of our disciplined approach to managing this business. We continue to be pleased with the performance of our Upstream business while driving focused improvement in Downstream operations and increasing margin capture with the quarter achieving the highest throughput to-date.

Our Upstream business delivered strong operating results in line with the prior quarter with production of around 800,000 barrels equivalent per day. This was slightly lower than Q4 with planned maintenance having started at the SeaRose FPSO.

I'd like to highlight that the Lloydminster thermals produced over 114,000 barrels per day, the highest quarterly average in the history of the asset, reflecting higher operating efficiency and improved downhole pump reliability.

Our oil sands and thermal assets continue to produce exceptional results. We remain on track to deliver future production growth from Narrows Lake tieback to Christina Lake. The pipeline is now 67 percent constructed with hydro testing in line and plan to be completed by the end of the year. At Foster Creek optimization project, this is on schedule for our targeted 2026 startup.

We'll also be starting up two additional well pads at Sunrise later this year, supporting the base production and the start of production growth in 2025. We also continue to optimize our turnaround schedule. As such, we have advanced some of the work out of our planned Q3 turnaround at Christina Lake into Q2. The impact of our planned outages can be found in the maintenance table in the news release.

We're also looking forward to the important milestone for our industry with the imminent startup of the TMX pipeline. With this critical piece of infrastructure now complete, we anticipate light-heavy differentials will remain narrow for years, while excess egress capacity exists.

In our conventional gas business, production volumes remained relatively consistent around 121,000 BOE per day. As a reminder, we test all opportunities at the bottom of the pricing cycle, and we continue to progress our capital program with a focus on safe execution and cost reductions.

First quarter production in our offshore business segments remained steady at approximately 65,000 BOE per day. The Asia-Pacific assets continued to operate reliably generating about CAD 263 million of operating margin.

In the Atlantic region, turnover returned to production and contributed about 7,200 barrels per day in the first quarter. The SeaRose FPSO is at dry dock with regulatory maintenance work progressing as planned in preparation for the startup of the West White Rose project in 2026.

Now, as we previously communicated, we anticipate the SeaRose will return to production late in the third quarter of 2024. The progression of the White Rose project continues as planned and is now approximately 80 percent complete. Overall, our capital spend remains on track for this project.

In the first quarter, the Company spent just over CAD 1 billion in capital, and we expect to be well within our guidance range for total capital spend this year. It was another strong quarter for Upstream business, and we look forward to continuing to execute our plans as the year progresses.

Now, moving to our Downstream segment. In our Canadian Refining business, average utilization for the first quarter was about 94 percent. Our Refining and upgrading assets continued to perform very well with high reliability. That said, the refining margin contribution from the Canadian Refining segment was impacted by the decline in synthetic crude prices over the quarter and narrow heavy oil differentials in March.

In the next few weeks, we'll be executing a large-scale turnaround at the Lloydminster upgrader that is expected to reduce Q2 throughput by about 45,000 barrels per day for the quarter. This has already been reflected in our corporate guidance for the year.

In the U.S. Refining segment, combined crude utilization across the assets was 87 percent, an increase from the prior quarter. This was primarily driven by lower levels of planned maintenance at our non-operated refineries and improved operating performance across the Refining portfolio.

The weak Chicago crack environment in the fourth quarter of 2023 was a challenge for our U.S. business that carried into January of 2024. With product inventories rebalancing in the PADD II market, we've seen a strong rebound in the Chicago crack spread, which we were able to take advantage with all of our refineries operationally available and running well. This resulted in a meaningful improvement to our U.S. refining margins exiting the first quarter.

We anticipate the Chicago crack environment to remain relatively strong with heavy industry turnaround schedule underway and seasonal demand strengthening. Overall, we had the highest quarterly throughput for our Downstream business since the acquisition of our operated refining assets in 2021, demonstrating the continued progress of our plans to improve the reliability, profitability and utilization of the business.

Now to our corporate and financial performance. Cenovus generated CAD 3.2 billion of operating margin in the first quarter, approximately CAD 2.2 billion of adjusted funds flow, and CAD 1.2 billion of free funds flow which reflects higher refining benchmark prices and about CAD 195 million FIFO gain in the U.S. Refining segment. That was offset by about CAD 250 million for share-based compensation paid in the first quarter.

Through our base dividend, we returned CAD 262 million to shareholders and the Board of Directors also approved an increase to the quarterly base dividend of 29 percent to CAD 0.72 per share annually, consistent with the Company's commitment to grow shareholder returns.

In alignment with our shareholder returns framework, we returned CAD 165 million to shareholders through our share buyback program in Q1, and the Board of Directors declared a variable dividend of CAD 251 million, fulfilling our commitment of 50 percent of excess free funds flow returned to shareholders.

Now, subsequent to the end of the quarter, from April 1 to April 26, the Company repurchased approximately CAD 250 million worth of shares through our NCIB or about 8.6 million shares.

The Company's net debt was approximately CAD 4.8 billion at the end of the first quarter, a reduction of CAD 233 million from year-end and included a CAD 370 million build in non-cash working capital. This was largely a function of benchmark pricing improvements and steady operations across the value chains.

Since we set our 2024 budget in December, commodity prices have exceeded our expectations and based on the current commodity price complex and our operating plan, we expect to achieve our net debt target at some point in the summer of 2024. As we described in the first quarter news release, we're also introducing some minor changes to our shareholder returns framework. Once we achieve our net debt threshold, we will target allocating 100 percent of each subsequent quarter's excess free funds flow to shareholder returns. This remains unchanged from our current approach.

In the event that net debt exceeds CAD 4 billion at a given quarter's end, we will reduce the 100 percent target allocation of excess refunds flow by the amount that net debt exceeded CAD 4 billion.

In order to efficiently manage working capital and cash, the allocation of excess free funds flow to shareholder returns may be accelerated, deferred, or reallocated between quarters, while maintaining our target to allocate 100 percent of excess free funds flow over time to shareholder returns and sustained net debt at CAD 4 billion.

This new framework will become effective once we reach CAD 4 billion net debt target and until then, there will be no change to the current target allocation of 50 percent of excess free funds flow to shareholder returns and 50 percent of excess refunds flow to deleveraging the balance sheet. Ultimately, the goal of the revised framework is to improve flexibility while continuing to strive towards paying 100 percent shareholder returns over time and sustain net debt of CAD 4 billion.

Now before closing, I'm pleased to share that during the first quarter of 2024, the Company received a credit rating upgraded from S&P Global to BBB with a stable outlook. With this target achieved, we have received mid-BBB ratings from all rating agencies.

As we said at our Investor Day, we're focused on achieving our CAD 4 billion net debt target, progressing our high-return growth projects in the Upstream and continuing to run the Downstream business reliably, profitably and safely showing improvements quarter-over-quarter.

With that, I think we're all ready to answer your questions.

Q & A

Operator

Thank you. (Operator Instructions)

Your first question comes from the line of Greg Pardy from RBC Capital Markets. Please go ahead.

Greg Pardy – Analyst, RBC Capital Markets

Yes, thanks. Good morning. Jon and team, thanks very much for the run down.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Thanks, Greg.

Greg Pardy – Analyst, RBC Capital Markets

Yes, well, hey that’s a compliment. It’s a good way to start a call off. Let's start maybe just with the share price range you guys have talked about in the past. I believe the upper bound was around 30 dollars, where variables became more attractive, and buybacks were less attractive. Could you revisit that? I'm just curious maybe what that range looks like? Then presumably, that upper bound number is going to rise with time.

Kam Sandhar – Executive Vice-President and Chief Financial Officer, Cenovus Energy

Morning, Greg. It's Kam. First off, I'm just going to say that the number that you're referencing, I would say, was purely used as an illustrative measure to describe what our framework is. It is not a ceiling. In fact, I would say, as Jon pointed out on the call, we bought back 250 million shares here over the last month. We still see a lot of attractive return to continue to buy back shares, and you'll continue to see us active in the market as I mentioned in April.

The principles around that framework has not changed. I would say we still have lots of room to continue the plan that we have. The variable payment that we made through Q1 is really a reflection of the very formulaic approach that we took to our framework that we've outlined previously in that if we under allocate that we would pay out the remainder through a variable. It is not a reflection of any ceiling on the share price. I would say it's a reflection of us sticking to the commitment that we made on the framework.

As Jon described, going forward, we are going to give ourselves some flexibility if we do end up over under-allocating that we will look at either buying shares or looking at a variable dividend. But today, still lots of opportunity to continue to repurchase shares.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Yes, Greg, and I would just add on to that, please don't read into the fact that we've got a variable dividend as any view that we take internally on the intrinsic value of the stock. One of the things that we have to do on a quarter-over-quarter basis is allocate excess free cash flow as it arrives to shareholder returns. You'll note in the quarter that cracks in Chicago were actually quite depressed. In fact, gasoline cracks were negative in January. All of that changed in February and March, and you're in a window where you have to make some estimates about how much excess free cash flow, you're going to have in a very volatile commodity market.

In Q4 of 2023, we underestimated, or we overestimated the amount of excess free cash flow we were going to have. In this quarter, we are probably on the other end of it. But that shouldn't be—or nobody should take that as a reflection about how we feel what the intrinsic value of the shares.

Greg Pardy – Analyst, RBC Capital Markets

Okay, that's actually really helpful to clarify. I'm going to completely shift gears maybe on the TMX. Just curious, could you bring us up to speed maybe with where you stand in the marketing process. Have you fulfilled your line fill? Have you got tankers set to go? Do you expect to make sales or record sales in the second quarter? That's it from me. Thanks.

Drew Zieglgansberger – Executive Vice-President and Chief Commercial Officer, Cenovus Energy

Yes, good morning, Greg. It's Drew. Simple answer is yes to all your questions. This is a really good day for Canada. TMX came out this morning and they are officially on commencement. This has been a long-awaited day for everybody. We're pretty excited on behalf of the industry and Canada to have another great asset available to us.

To your question, we have been preparing for this for quite some time. Our last component of the very small volume of final line fill is going there now this month, and it's about 1.3 million barrels our share. Over the last quarter and then finishing this quarter, that full fill from our share is going to be in place. Our teams have been working with buyers. There's a pretty vast market out there, which is exciting. Yes, we are preparing to start to ship, and we expect the operation to commence here in May.

As we've talked about the last few quarters, we are expecting it to be a bit bumpy as things get up to good stable state, so we are anticipating a little bit of bumpiness, but the teams are taking that into account. But it's a great day to start using the asset.

Greg Pardy – Analyst, RBC Capital Markets

Terrific. Thanks very much.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Well, thanks, Greg.

Operator

Thank you. Your next question comes from the line of Dennis Fong from CIBC. Please go ahead.

Dennis Fong – Analyst, CIBC Capital Markets

Hi, good morning and thanks for taking my questions. Maybe the first one here is just related to Superior. Can we get maybe an update in terms of the ramp-up of the facility as well as how you guys are thinking about the cadence of the de-inventory event at Superior as well?

Keith Chiasson – Executive Vice-President and Chief Operating Officer, Cenovus Energy

Hey, Dennis. Keith here. Things are progressing as per our plan. We talked about last quarter, taking the first six months to de-inventory from up and down starts in 2023 and the inventory that we built up. All the cadence running well, and we're progressing on that the inventory plan. Around midyear, we will then—the only last remaining item to restart is the HF alky at Superior, which will start in early Q3. That will have all of the asset running. But even before that, we should see our crude rate through that asset increase to near full capacity.

Things are progressing as per plan. The market is constructive to de-inventory and mechanically, the refinery is running all the units with the exception of the HF alky at this point.

Dennis Fong – Analyst, CIBC Capital Markets

Great. I appreciate that colour and context. Maybe staying with the Downstream and maybe a little bit of a follow-on to the entire TMX situation. Obviously, as this narrow, some of the feedstock costs do increase with respect to the Refining operations. Can you talk towards some of the initiatives that you touched on a little bit at the Investor Day and maybe where that could go looking forward in terms of improving realizations on refined product and strengthening margin just again, now that you're operating all three of those refineries?

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Sure. Maybe I'll start there, Dennis. There are three real levers to Refining economics and the first and the biggest is getting the best and the right and the cheapest feedstock into your refineries. As you know, the refineries that we own and operate are typically heavy oil refineries. Those heavy oil differentials narrowing will be a negative for the refineries by and large.

The offset obviously comes in our Upstream where we realize the value of that. That was always part of the integrated model. For example, when we take the upgrader down for turnaround this quarter, we're doing that at a time of very low differentials. The economic impact of that is actually quite muted as we take most of that diluted bitumen to market.

The other big area that we continue to work on is the placement of products, and we continue to push farther and farther into the eastern block of PADD II. We see that as a highly prospective area. Then ultimately, as we've talked about getting product into PADD I and its Canada is just something that we are actively looking to explore and do through time.

Third area that we're looking at is our cost control and making sure that we have minimized our capital and operating costs in the refineries. Reliability today takes precedent over really trying to grind out the last nickel of our operating cost, but it's something that we continue to look at on a day-to-day basis. As we go forward, what you should see from us are increasingly better levels of reliability across our refining fleet through time and better profitability that comes with that as we optimize the commercial part of the operation over the top of that.

The key for us really is the reliability that allows that commercial optimization to happen through time. Q1 is probably the start of something that we see a strong continuing trend going forward.

Dennis Fong – Analyst, CIBC Capital Markets

Great. Appreciate the colour there. I can turn it back. Thanks.

Operator

Thank you. (Operator Instructions)

Your next question comes from the line of Menno Hulshof from TD Cowen. Please go ahead.

Menno Hulshof – Analyst, TD Cowen

Thanks, and good morning, everyone. I'll start with a follow-up question to Greg's question on TMX. Where do things stand in terms of ongoing toll discussions? What is your best guess in terms of when all of this gets resolved and potential outcomes? Thank you.

Drew Zieglgansberger – Executive Vice-President and Chief Commercial Officer, Cenovus Energy

Hey Menno, its Drew. Thanks for that question. Yes, it's an ongoing conversation. I think it's going to carry through the balance of this year, probably into Q1 from a timing perspective. It's going to still takes some time. Coming back to—everybody is pleased to see the asset come available for everyone, that work to ultimately get to the final commercial construct. I would expect that to carry out the remainder of this year and potentially drift into the first quarter, even to the first half of next year probably before we finally get to closure on that.

Menno Hulshof – Analyst, TD Cowen

Terrific. Thanks, Drew. Then the follow-up is on the—I think I know the answer to this, I'm just looking for confirmation. Just on the comp position of the current asset portfolio, my understanding is that the portfolio is fairly cored up. But is there any potential for smaller divestitures over the coming quarters? Or is that still not a priority for the moment?

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Yes, Menno, we've been really clear that we are really focused on our base business over the next while. You're quite right. We quite like the asset base that we've got. We are focused on the improvements we're making in the Downstream together with the growth in the Upstream with the projects that we laid out at Investor Day. We've got our plates full over the next few months, and we're just looking forward to executing on what we think is a pretty robust suite of activities.

Menno Hulshof – Analyst, TD Cowen

Thanks, Jon. I'll turn it back.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Thanks, Menno.

Operator

Thank you. Your next question comes from the line of John Royall from J.P. Morgan. Please go ahead.

John Royall – Analyst, J.P. Morgan

Hi, good morning. Thanks for taking my question. You gave some colour on Superior. But in terms of your other two operated refineries, can you talk about utilization. You're a bit below your target ranges for the year at both Toledo and Lima. I know there's a little maintenance in the quarter, but anything to call out there in general, just in terms of getting to those targets near-term?

Keith Chiasson – Executive Vice-President and Chief Operating Officer, Cenovus Energy

Hey John. Keith here. It was a really interesting quarter as Jon talked about in his opening remarks, the low crack spread persisted into January. We actually reduced run rates at the start of the quarter. Then obviously, as the market balanced in February 1, we were really happy with the performance of the refineries as they ramped up to max capacity and capture that crack spread. I wouldn't read too much into it in the first quarter. We do have some maintenance coming in the back end of the year at Lima. But overall, we're pretty happy with the performance in the assets.

As Jon indicated on a previous question, our sole focus is on continuing the reliability and the margin capture and the profitability of these assets and running them safely and reliably. We're seeing quarter-over-quarter improvement there, manifesting itself in the best throughput the Company has had since the merger back in 2021 and Q1, 2024. Pretty happy with the progress, starting to see the progress and we should expect that, that will just continue quarter-over-quarter.

John Royall – Analyst, J.P. Morgan

Great. Thanks, Keith. Then on the base dividend, this is a pretty chunky hike you took today and well ahead of the pace that you would need to hit that high 20s per quarter level that you show in your slides by 2028. Was the idea to front-load the bigger increases and slow it to a low double-digit annual rate from here? Just trying to think about how you're thinking about the base dividend from here?

Kam Sandhar – Executive Vice-President and Chief Financial Officer, Cenovus Energy

Hey John, it's Kam. The principles around what we discussed at Investor Day haven't changed. We've got, obviously, high confidence in achieving our debt target in the foreseeable future. We laid out our five-year business plan at Investor Day that has a substantial amount of growth starting in 2025 in earnest and moving up towards 2028.

The way you should think about the base dividend is, number one, it is absolutely anchored to low commodity prices in that CAD 45 WTI range. It's a level of dividend we view as a commitment and I'd say we've left ourselves lots of room to continue to grow that dividend, I'd say, comfortably in double digits going into the future here. The increase this year is I think it's a reflection of the confidence in our plan. It's a reflection of where the balance sheet is and continue to anchor to bottom of the cycle.

John Royall – Analyst, J.P. Morgan

Thank you.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Thanks, John.

Operator

Thank you. Your next question comes from the line of Patrick O'Rourke from ATB Capital Markets. Please go ahead.

Patrick O'Rourke – Analyst, ATB Capital Markets

Hey, good morning, guys, and thanks for taking my question. Just on the oil sands unit, you touched on shifting some of the maintenance into Q2 for Christina Lake there. When I look at the schedule, looks like a little shifted into Q4. Maybe if you could unpack the changes in the maintenance schedule for the oil sands, give us a little bit of colour on that here?

Keith Chiasson – Executive Vice-President and Chief Operating Officer, Cenovus Energy

Yes, Patrick. It's Keith here. No real overall change in the annual impact from the outage. We're just able to break up the outage into two different chunks. We're going to take a little bit of a slowdown here in Q2 at Christina Lake and then finish the turnaround in Q3. Some of that turnaround carries into the first part of Q4.

All you're seeing is a little bit different phasing than we originally thought, but overall impacts are the same as we originally put in our guidance. That's really it for the oil sands. We have some small outages in Lloyd Thermal, but in general, the rest of the oil sands are running full out for the rest of the year.

Patrick O'Rourke – Analyst, ATB Capital Markets

Okay. Thanks. I know you had a lot of questions on the return of capital framework thinking on the dividend, etc. here. You put the slide in the deck on the change that you've made here. In scenario two, where the net debt is below CAD 4 billion, you still return the CAD 900 million just using the scenario here. Just wondering what would drive this? Because working capital build and release equals zero over time, would there be a scenario where you would have to actually return excess free funds, the target return in excess of that to level set to CAD 4 billion?

Kam Sandhar – Executive Vice-President and Chief Financial Officer, Cenovus Energy

Yes, it's a good question, Patrick. Number one, what hasn't changed is we will do everything we need to do to protect the balance sheet at that CAD 4 billion level. You're right, the fluctuations you see quarter-by-quarter, around CAD 4 billion will largely be influenced by working capital to foreign exchange and other minor things. You're right, the way that we've outlined it is above CAD 4 billion, we'll hold back the portion that we're above and put it back on the balance sheet. Below CAD 4 billion we would pay out 100 percent.

But as we move forward, depending on what those fluctuations are in working capital, I would say we do have the discretion to adjust accordingly, and that could mean going slightly above 100 percent. It could be meaning being below. But I would say the key for us is—which is different than today is we've got a lot of rigidity in our structure today around returns. This gives us flexibility to manage both the debt. If we see opportunity to go slightly above 100 percent, I wouldn't rule it out. It's just I'd say the minimum level would be 100 percent unless we're below CAD 4 billion.

Patrick O'Rourke – Analyst, ATB Capital Markets

Okay, great. Thank you very much.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Thanks, Patrick.

Operator

Thank you. (Operator Instructions)

Your next question comes from the line of Manav Gupta from UBS. Please go ahead.

Manav Gupta – Analyst, UBS

Hi. If you look at last year, you were off to a slightly tougher start on their Upstream and that resulted in you coming slightly below the midpoint of the guidance in the Upstream segment. Knowing you guys, you always try for midpoint or above the midpoint, in fact, towards the top end. This year, you are off to a much stronger start. Should we assume that for 2024, at this point, things are looking where you could actually go and hit the top end of your guidance in Upstream?

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Yes, I'm not sure we're going to pinpoint where we are within the range that we've already given you for guidance. But we feel very comfortable in the guidance that we've given you, Manav. You're quite right, the Upstream has operated really, really well over the last three or four quarters. The downtick that you saw in Q1 of 2023 was really due to the pacing and staging of our capital program. But we won't see that gap this year.

Keith mentioned, we've got a turnaround of Christina that we've scheduled for the third quarter, and we need to do a good job of that, but we are very pleased with the production that we've seen from the Upstream. It's been very strong. As everybody knows, that's really the backbone of this Company. Having it perform at those levels is something that we're very pleased with. But I'm not sure we're ready to tighten that guidance quite yet. It's still pretty early days, but we're very pleased with where we are.

Manav Gupta – Analyst, UBS

Perfect. My quick follow-up on the Downstream is your per unit operating cost in the U.S. is now trending down. It's like almost CAD 12 and I'm trying to wonder, as you start pushing towards 90 percent plus utilization, how much lower can you bring this? Can you push this towards closer to CAD 10 or CAD 11 on a per unit basis operating cost?

Keith Chiasson – Executive Vice-President and Chief Operating Officer, Cenovus Energy

Hey, Manav. We talked a little bit about our focus on reliability. With improved reliability, you do see two things. Obviously, your denominator increases with higher throughput but also your unplanned, unscheduled and reactive maintenance goes down. Those two things we do think will help us start moving to the range that you've alluded to. We made big steps between 2023 and 2024 to get there.

We do have to do some of this maintenance activity in the turnaround cycles in order to drive that further improvement in reliability, but that is our focus, which coupled with improving margin capture and the commercial profitability of the asset. We are focused on that. We have plans and the plans are underway and starting to show fruition. Pretty excited.

Manav Gupta – Analyst, UBS

Thank you.

Operator

Thank you. (Operator Instructions)

Your next question comes from the line of Neil Mehta from Goldman Sachs. Please going ahead.

Nicolette Slusser – Analyst, Goldman Sachs

Hi, good morning, and thanks for taking the time. This is Nicolette Slusser on for Neil Mehta. Just the first question on the Upstream. I wanted to ask about some of the growth and optimization projects. in the business. Can you just talk about the factors underway this year for Christina Lake? Then as well the Foster Creek optimization and factors over the next few years, we should be on the lookout for ahead of that fully arranged production by the end of 2027.

Keith Chiasson – Executive Vice-President and Chief Operating Officer, Cenovus Energy

Yes, thanks for the question. Maybe I'll just step back to our Investor Day where we laid out plans for Upstream growth of about 150,000 barrels a day over the next three to four years. Narrowing in specifically on Christina Lake, the 20,000 to 25,000 barrels a day comes from tying in our Narrows Lake resource back into the Christina Lake asset. To do that, we're going to be putting in new pads, which are well underway and putting in a pipeline that ties that resource back. That pipeline is nearing mechanical completion. By end of this year, we should be hydro testing the line and putting it into service early next year, which will allow us to bring steam up to that resource and start steaming those pads for the production that will come on in the back end of 2025. Things are progressing as expected, on plan and on schedule.

With regards to Foster Creek, it's a little later in time in the fact that both projects, the Foster Creek debottleneck, which will add steam capacity to Foster is scheduled to come on in the mid-2026 timeframe. In addition, we're also adding a naming close unit to that asset, which will help drive down our unit OpEx almost CAD 0.75 a barrel. Those projects are progressing well. They're underway. A lot of activity will happen through this year in 2025 for startup in 2026.

Sunrise is another growth opportunity for us. We have our first new pad since 2020 online and producing. We have a couple of additional pads coming on stream at the back end of the year. That really sustains our production. Then we have new pads coming on in 2025 as well that allows us to start growing production.

The steam capacity is there. It's a matter of fully utilizing our capacity to generate that incremental 20,000 barrels a day of production. Then on the East Coast, we have our West White Rose project. The SeaRose is off station going through its asset life extension, expect that back in the July time period. And, West White Rose project, we finished our last pour on the gravity-based structure in the first quarter. That part of the project is complete. We're working towards mechanical completion and commissioning on the top side. All that gets made it up in 2025, and we commenced drilling and start seeing production in 2026, ramping to peak production, 45,000 barrels a day in 2028.

All those projects are progressing well. Then the last one I would talk about is our conventional heavy oil, where we've ramped up our rig activity and our drilling incremental wells and are starting to see the fruits of that labour with production growing from current base of around 20,000 barrels a day up to 40,000 barrels a day over the next two to three years.

Nicolette Slusser – Analyst, Goldman Sachs

Okay, great. Very helpful context. Thank you. Then a quick follow-up is just on offshore. I understand from the release that production from White Rose and the Terra Nova fields is stored at a terminal prior to shipment which can then result in a timing difference between production and sales. Just wondering if there's any additional commentary on this phenomenon and how we should expect the phasing of the sales timing impacts as White Rose and Terra Nova production in flex?

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Yes, I don't know that there's anything magical in that what we—what can happen when you have relatively low levels of production like we did in the first quarter with the SeaRose being off-station and production at Terra Nova averaging about 7,000 barrels a day is the difference between the timing the oil is produced and moved to if and had before, it's ultimately sold. You do need to put yourself in a position where you built enough volume for a cargo and once you sell that cargo, you realize, obviously, the funds from it. It's just a timing difference. It's nothing that's unique.

But as we get more and more production on the East Coast with the West White Rose project coming on, that will become increasingly more ratable through time. But it's just a timing difference, and there's really nothing to see there.

Nicolette Slusser – Analyst, Goldman Sachs

Okay, very clear. Thanks so much.

Operator

Thank you. Your next question comes from the line of Dennis Fong from CIBC. Please go ahead.

Dennis Fong – Analyst, CIBC Capital Markets

Sorry, apologies for greedily getting back in the question queue. Keep us answering the previous question there at Sunrise. I was just hoping for a little bit more clarification there. With the 2025 well, is that enough to fully utilize like the 50,000 to 60,000 barrels a day of excess steam capacity at the facility?

Or are there other optimizations that you can do to improve production potentially beyond the 20,000 barrels a day?

Keith Chiasson – Executive Vice-President and Chief Operating Officer, Cenovus Energy

Hey Dennis, yes, thanks for the question. Right now, we're focused on fully utilizing the steam capacity and installed capacity is around 210,000 barrels a day of steam capacity, and we're currently using 160,000. That's where that incremental production comes from. But we are actually using the new Cenovus techniques as we put in these wells, and we will evaluate the SOR performance on utilizing that technique over time. There is a potential that we could start seeing even more improved SOR relative to historical performance. If that happens, then there might be some upside potential. But at this point, what's built into our numbers is really just fully utilizing the installed capacity and using that on the new wells that we're putting into place.

Dennis Fong – Analyst, CIBC Capital Markets

Great. Thanks, Keith. Then on Lloyd, I appreciate the comments at the very beginning there, Jon, talking about stronger pump utilization and uptime there. I'm just curious as to how sustainable you view this current level of production. Obviously, there's a good uptick on a quarter-over-quarter basis. I know there's a focus on reaching further from central processing facilities, accessing new areas of reservoir. I just wanted to see what maybe the production level could be on a go-forward basis from Lloyd.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Yes, I'm not going to write a check on Keith's behalf. He's looking at—what I would tell you is this, is Lloyd is a different reservoir than what we have at Foster and Christina. Over the last three years, we've learned a lot about producing at Lloydminster. We continue to find opportunities to grow production at Lloyd. So, I think we've taken a relatively conservative view a P50 view if you will, as that where we think that production is going to be.

It's currently producing at a rate that would be higher than where we would have budgeted this year, but it's been there for some period of time. The subsurface people, together with the operating people just continue to find opportunities to debottleneck, to drill wells differently, to operate the reservoirs differently, and it continues just to surprise to the upside.

I wouldn't want to be in a position where I'd be telling you this is going to outperform the way it has over the course of the last few quarters. But what I would say is we just continue to find opportunities here that provide that upside for us.

Dennis Fong – Analyst, CIBC Capital Markets

Great. Appreciate the colour. I'll turn it back.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Great. Thanks, Dennis.

Operator

Thank you. Our last question comes from the line of Chris Varcoe from Calgary Herald. Please go ahead.

Chris Varcoe – Analyst, Calgary Herald

Hi. It's a question for Jon. Jon, just talking about Trans Mountain. Given that it took 13 years to get that project from its inception to completion, what does that tell you about Canada's ability to get major energy projects built like the Pathways development?

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

What I would say, Chris, first of all, is that I think Drew mentioned this, and I wouldn't want to taint today with a discussion about the difficulty of getting projects built because this is a great day for Canada to get this pipeline up and running, get it producing, and the people of Canada are going to see the benefit for a long period of time in terms of increased taxes and royalties and the like.

As a nation we suffer, and I don't think I'm saying anything that people don't already know from lower and decreasing productivity, and we need to find ways to get major projects built to get infrastructure built to the benefit of all Canadians. We would all realize that 13 years is far too long for a project of this national importance to get built, and I think that's something that everybody understands.

Chris Varcoe – Analyst, Calgary Herald

Given your own Company's expectations for growth and other growth estimates out of the Western Canadian Basin, do you think Western Canada is going to need more pipeline capacity? When do you think that might be? Or, given the challenges that you just talked about; do you think this is the last export pipeline of a major size that gets built?

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Yes, as an industry, we have a history of filling up excess egress, and that will happen through time. I've seen various estimates of when that's going to happen. Some suggest within two years, others within five. I think we would be closer to the upper range of that in terms of our thinking. It is increasingly difficult to build pipelines in this country, and it wouldn't surprise me if this was the last pipeline. But the reality is we have a tremendous resource here in Canada and we produce our oil in my view, more sustainably than probably anywhere else in the world. If we were in a position where, as a nation, we decided to take that to market, we should be building more pipelines.

Chris Varcoe – Analyst, Calgary Herald

Thank you.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Thanks, Chris.

Operator

Thank you. That concludes our question-and-answer session. I'd like to turn the conference back to Mr. Jon McKenzie for closing remarks.

Jon McKenzie – President and Chief Executive Officer, Cenovus Energy

Yes. Listen, thank you very much for your interest in the Company today. On behalf of the management team, the Board of Directors and the staff here at Cenovus, we really appreciate your interest and support in the Company. Have a terrific day and thank you again.

Operator

Thank you. That concludes our conference for today. Thank you all for participating. You may all disconnect.