FINAL TRANSCRIPT

Cenovus Energy Inc.

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CORPORATE PARTICIPANTS

Sherry Wendt
Cenovus Energy Inc. — Vice-President, Investor Relations

Alex Pourbaix
Cenovus Energy Inc. — President and Chief Executive Officer

Jon McKenzie
Cenovus Energy Inc. — Executive Vice-President & Chief Operating Officer

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Greg Pardy
RBC Capital Markets — Analyst

Nicolette Slusser
Goldman Sachs — Analyst

Menno Hulshof
TD Securities — Analyst

John Royall
JP Morgan — Analyst

Dennis Fong
CIBC Capital Markets — Analyst

Chris Varcoe
Calgary Herald — Journalist

Rod Nickel
Reuters — Journalist

Robert Tuttle
Bloomberg News — Journalist

PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to Cenovus Energy's third quarter results.

As a reminder, today's call is being recorded.

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

Please be advised, 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 Ms. Sherry Wendt, Vice-President, Investor Relations. Please go ahead, Ms. Wendt.

Sherry Wendt — Vice-President, Investor Relations, Cenovus Energy Inc.

Thank you, Operator, and welcome, everyone, to Cenovus' 2022 Third Quarter Results Conference Call.

Please refer to the advisories located at the end of today's news release. These describe the forward-looking information, non-GAAP measures, and oil and gas terms referred to today. They also outline the risk factors and assumptions relevant to 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.

Alex Pourbaix, our President and Chief Executive Officer, will provide brief comments, and then we'll take your questions. We ask that you please hold off on any detailed modeling questions. Please follow up on these directly with our investor relations team after the call.

And please also keep to one question, with a maximum of one follow-up. You can rejoin the queue for any other questions.

Alex, please go ahead.

Alex Pourbaix — President and Chief Executive Officer, Cenovus Energy Inc.

Thanks, Sherry, and good morning, everyone.

As I do every quarter, I'm going to start this morning's call with our top priority, which is health and safety. In late September, there was a tragic fire at our non-operated joint venture refinery in Toledo. We were devastated to learn about the fatalities of two workers there, and our hearts go out to their families and colleagues.

This is a heartbreaking reminder that safety must be absolutely fundamental in our business. It is our responsibility as an industry to ensure all our workers who start a shift get home safe every day.

Our focus on the Toledo refinery remains twofold. We'll continue to support our joint venture partner, as well as the staff and everyone at site, in every way that we can. We'll also continue to work closely with our partner to assess the damage and gain a better understanding of the path forward.

Investigations into the cause of the fire are ongoing. But early indications from aerial and drone footage suggest the damage is localized to a small area of the refinery. Restricted access to the site has limited the operator's ability to fully assess the damage. But the refinery will remain shut down in a safe state, and we'll provide further updates when we can.

Turning now to the third quarter, we continued to deliver solid operating and financial results, even with increased volatility in commodity prices.

The Oil Sands segment led the way with Christina Lake back up from its Q2 turnaround and producing over 250,000 barrels a day. We safely deferred our turnaround at Foster Creek to Q2 2023. However, there is still some necessary planned maintenance that impacted production in the quarter. There was also an issue with a water tank that lowered production in August, but production was back up to normal rates in September and continues at that level.

In the Lloydminster thermals, Spruce Lake North produced first oil in early August and has since hit daily rates well above its nameplate of 10,000 barrels per day. Recall that when we took over the Lloyd thermals, those combined assets were producing around 80,000 barrels a day. By adding Spruce Lake North, as well as continuing to apply Cenovus' SAGD expertise, we now see the Lloyd thermals run closer to 110,000 barrels a day.

We also closed the Sunrise deal in the quarter, where we acquired the remaining 50 percent working interest in that SAGD facility. We are reporting 100 percent of Sunrise volumes from August 31st onwards. We have seen strong performance from the re-drill and redevelopment program at Sunrise and just drilled two of the longest wells to date at that site, with 1,600-metre laterals.

In the Conventional segment, we successfully executed a major turnaround at our Elmworth plant without incident and restarted our development rigs coming out of breakup. Conventional production was running between 125,000 to 130,000 BOE per day coming into October. The team has also been reactivating some base well production at a very low cost.

In the Offshore, our partners recently brought the MDA/MBH fields online in Indonesia. We expect them to ramp up over the fourth quarter. Additional new fields will follow to bring total net volumes closer to 20,000 BOE per day in 2023, doubling the previous run rate.

In the US Downstream, the throughput was up with a utilization rate of 87 percent, compared to 75 percent in Q2, as we had most of the Q2 turnarounds behind us.

The Cenovus-operated Lima refinery continues to run well after its major turnaround last year, with utilization in Q3 coming in at 94 percent. However, there were outages at the non-operated refineries in the quarter with turnaround activity at Wood River and Toledo. In addition, Toledo was taken back offline on September 20, following the incident I mentioned earlier.

Lima operations have shown significant improvement through the year, and our goal is to continue to demonstrate this level of operating capability across our US refining operations as we restart the Superior refinery and take on operatorship of Toledo.

Our priority for the US refining business is establishing a solid track record of safe and reliable performance. This is one of the company's greatest opportunities in the near term.

Turning to our financial results, the quarter's adjusted funds flow was nearly $3 billion, while free funds flow was about $2.1 billion. Excess free funds flow was about $1.8 billion, and this included a cash payment of about $400 million on closing the Sunrise acquisition, which was fully offset by net proceeds recorded on closing the retail fuels network sale.

The volatility in commodity prices in Q3 manifested in two primary ways. First, in Oil Sands operating margin. And here, the lag on condensate pricing was seen in realized pricing in the Oil Sands assets, where higher price condensate purchased in earlier months was blended and included in sale volumes through the quarter.

Second, in US Manufacturing operating margin. Processing crude oil purchased in prior periods at higher prices, and manufactured later in the quarter when pricing decreased, had an impact of almost $420 million.

Throughput increase and unit costs came down relative to Q2. However, the volatility of commodity prices had a much larger impact on operating margins in the US Downstream.

We also began incurring increased expenses for the start-up of the Superior refinery which combined with the Toledo outages to add operating expense drag without throughput.

Taking out the inventory and FIFO gains in Q2, along with the FIFO losses in Q3, the US Manufacturing segment performed better this quarter compared to last.

We also experienced cash flow headwinds related to the cost of higher priced feedstock and condensate from earlier periods included in our products and sales volumes in the quarter or, in other words, FIFO impacts. These dynamics served as tailwinds on our results in a rising price environment but serve as a headwind in a falling price environment, like we've just experienced in Q3.

In accordance with our shareholder returns framework, we've allocated half of Q3 excess free funds flow to shareholder returns. This is over and above our base dividend.

We also continued our opportunistic and disciplined approach to share buybacks through the quarter. This resulted in a return of about $660 million to shareholders through the NCIB program.

In addition, the Board of Directors has approved a variable dividend of about $220 million, or roughly $0.114 per common share, with this variable component fulfilling our commitment for 50 percent of excess free funds flow going back to shareholders.

The current NCIB program will expire in early November. As we announced earlier this morning, our board has approved the application for another NCIB program. It will provide capacity to repurchase approximately 136 million additional common shares over the next year.

We also completed a tender transaction in the quarter, repurchasing about $2.8 billion of debt, bringing our total of repurchased notes this year to $4.3 billion. This exercise mitigated refinancing risk for the company until 2027. It also reduced our weighted average coupon rate, and we'll save about $200 million in annual interest expense going forward.

Our net debt reduction was accelerated this quarter by a working capital release and now sits at about $5.3 billion. And to put things in perspective, we started this year with $9.6 billion in net debt. So that is a reduction of $4.3 billion of net debt in just three quarters.

Q3 was another great example of how our financial and shareholder returns framework delivered. Up to and including Q3, we will have returned nearly $2.9 billion to our shareholders this year through our base dividend, share buybacks, and the variable dividend, while at the same time also deleveraging.

At the same time as paying down our debt and providing returns to our shareholders, we are also making significant contributions to government. When the oil and gas sector does well, Canada does well. Recent Peters & Co. analysis shows that oil and gas companies are expected to contribute about $50 billion in royalties and taxes to the Canadian federal and provincial governments in 2022. That's money that pays for health care, education, arts and culture, and much more across this country. To put this in perspective, our sector's anticipated government contributions this year are equivalent to more than two-thirds of the funding for all of Canada's hospitals last year. That's at a time of heavy demand under the strain of COVID.

And Cenovus and our peers are furthering bolstering the economy by investing our revenues back into our businesses, supporting jobs, and providing economic benefits for suppliers and manufacturers in every province. That same Peters & Co. analysis shows our sector making capital investments of about $40 billion this year alone, and it's much more when you add in our spend on annual operating costs.

These investments include money for environmental and GHG reduction initiatives. In fact, our sector is the largest spender on environmental services in Canada. The Pathways Alliance Cenovus jointly founded with five of our oil sands peers, to get to net zero emissions by 2050, recently announced that our decarbonization projects will require investments of more than $24 billion by 2030 alone. This includes the Alliance's foundational carbon capture and storage pipeline and hubs, as well as energy efficiency, cogeneration, and electrification projects.

We are ready to move forward with more advanced investment decisions about these significant decarbonization projects, once governments provide assurance that the necessary policy mechanisms and support are in place. Cenovus and our peers continue to work with government officials on these details so we can all continue to achieve the shared goal of emissions reductions.

We are committed to both investing in our business, including decarbonization projects, and providing strong returns to investors. These two things combined are what will support a strong oil and gas sector in this country and enable us to continue contributing in a significant way to the Canadian economy for a long time to come.

Recapping what we've achieved at Cenovus this quarter and where we're headed.

Our Upstream operations continue to build on momentum towards 800,000 barrels a day and above and delivering meaningful value in returns on investment.

Our Downstream performance has not yet fully shown what it can do in this environment, and that will be management's focus going into Q4 and 2023.

Overall, we've posted another solid quarter, highlighted by strong operational results and substantial further deleveraging towards our $4 billion net debt floor. At current strip, we expect to reach that level around the end of this year. We look forward to delivering 100 percent of excess free funds flow to our shareholders for periods when we're at that level.

And with that, we're happy to take your questions.

Q&A

Operator

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

We'll go to Greg Pardy with RBC Capital Markets.

Greg Pardy — RBC Capital Markets

Yeah. Thanks. Good morning. Thanks, Alex, for the rundown. Just a couple of questions for you guys. I guess the first one is you've talked about the Downstream improvements that you're focused on. If we just maybe talk about the Upstream for a minute, do you continue to see sort of a favourable rate of operational change occurring?

And then, if so, where is that happening?

Alex Pourbaix

Sure. No. I'm happy to talk about the Upstream. And I'll probably pass it on to Jon and Keith and Norrie at some point.

But I think, Greg, how I look at it, since we've been able to get the Husky deal done, we've had a really good run of finding a lot of what I would call kind of brownfield opportunities to continue to grow production, drive our operating costs down, drive our SORs down.

And we've picked a bit of the low-hanging fruit, but I think, from my perspective, we see that opportunity continuing. I think Sunrise, you're going to see significant things from Sunrise going forward. But maybe I'll pass it on to Jon, and he can give some thoughts.

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

Yeah. Thanks, Alex. So, Greg, one of the things this industry and this company hasn't really done over the last five or six years, through the commodity cycle downturn, is put a lot of money or put any money into growing production and harvesting some of the low-hanging fruit that Alex has mentioned. And that goes for Cenovus, but it also goes for the assets that we acquired through the Husky acquisition.

So when we look at our portfolio, we see lots of opportunity for kind of incremental growth that starts to re-rate your cost base and starts to recalibrate not just production, but the cost base that goes with it. So Alex mentioned Sunrise. That's a great example. Hasn't had a new well pad since 2017. And we acquired the other half of that this quarter, and we see lots of potential growth there for marginal capital. And similar in our Conventional business, we see the same thing happening there.

So I think what you can expect from us is, similar to what we just did at Spruce Lake North, and what we've done in Indonesia, and what we're about to do with Terra Nova, is kind of add incremental production through time that comes with relatively modest capital requirements but does kind of provide that 5 percent rate of growth through time.

Greg Pardy

Okay. Terrific. Thanks for that. And I'll switch gears, then. So a small special dividend—actually, we think about maybe special dividends versus base dividend growth because, clearly, you've got the financial wherewithal to go and raise the base dividend now.

Alex Pourbaix

Yeah. No. Greg, it's a good question. And I think I would say to you that over the long term, I would view that one of the primary ways that companies like Cenovus add value is growing their base dividend. And to do that, ultimately, you need to grow both your top line and your bottom line. And you heard Jon.

We think we can continue to grow at a pretty reasonable pace, as described by Jon, just by kind of keeping to our knitting with those sort of organic and brownfield opportunities. But I think we do see—we opportunity over time to grow both the base dividend and, obviously, there'll be opportunities for variable dividend. But from my perspective, to the extent we can afford it at the bottom of the commodity cycle, it would certainly be management's goal to continue to grow the base dividend also.

Jon McKenzie

Yeah. Maybe I'll just add on to that, Greg. I mean, the two things are kind of synergistic. You invest in the business and generate returns at $45, which just gives you more capacity to grow your dividend through time. So the incremental investment that you make in the business just supports that growth that Alex talked about of the base dividend through time, which is kind of at the core of this company in terms of returning cash to shareholders.

Greg Pardy

Understood. Thanks very much.

Alex Pourbaix

Yeah. No worries. Thanks, Greg.

Operator

Thank you. We'll take our next question from Neil Mehta with Goldman Sachs.

Nicolette Slusser — Goldman Sachs

Hey. This is Nicolette Slusser on for Neil Mehta. Thanks for taking the time. So just kind of a follow-up on the capital allocation side. Can you provide any insight around the timing in reaching the CAD $4 billion net debt target at the curve?

And then any sort of carry-forward implications we should be thinking about after the announced variable?

Alex Pourbaix

I mean, I think I mentioned it in my call notes, but we see us hitting the $4 billion, all things being equal, probably right around the end of the year. And if there's one thing we strive to demonstrate, it's discipline. We've committed that once we hit that $4 billion, we're moving to a 100 percent payout. And that is still our intention, no changes there.

Nicolette Slusser

Great. Thank you. And then as a follow-up, just curious how you're thinking about next year's spend outlook.

And also, if we should be thinking about any sort of updated maintenance capital range on the back of elevated costs.

Alex Pourbaix

You want to talk about that, Jon?

Jon McKenzie

Yeah. I think we've been pretty clear—and we'll come out with the more formal budget set of guidance later next month—but I think we've been pretty clear that the strategy is pretty much set. And we are in a world where you may see some incremental dollars go towards growth, but it will be exactly that. It'll be marginal and incremental.

So don't think about next year's budget as being much different than this year's. I think there will be some monies to get after, some of that low-hanging fruit that we talked about, that allows us to maintain sort of that 5 percent growth rate right across the business, Upstream, Downstream, and Conventional. So I think we'll flesh that out more so in the next month.

And sorry, I forgot the second part of your question.

Nicolette Slusser

Just on the maintenance capital range, if there's any—

Jon McKenzie

Yeah.

Nicolette Slusser

—sort of update we should be thinking there.

Jon McKenzie

Yeah. Okay. On the maintenance capital, you'll remember that when we acquired Husky, we came out with a number of C$2.4 billion as being the number that's required to keep production flat and keep our fixed plants in a safe and stable condition.

What we have done, over the course of this year, if you think about the assets that we've acquired, the other half of Sunrise, our anticipated acquisition of Toledo, and then some allowance for inflation, we kind of expect that number to move up in sort of the $2.7 billion to $2.9 billion range. But I think that's a good number moving forward, but we'll provide even more colour on that once we get through the budget. But that's kind of a run rate number that you should be thinking about for the next five years.

Nicolette Slusser

Okay. Great. Thanks for the clarification there.

Operator

Thank you. We'll take our next question from Menno Hulshof with TD Securities.

Menno Hulshof — TD Securities

Thanks, everybody, and good morning. Just maybe I'll start with Pathways. In the release, you talked about Canada facing intense pressure on CCS from the US, Norway, and the Netherlands. So maybe you could just give us a refresh on how Canada currently stacks up?

And I think everybody on the call has a good sense of what that looks like for the US, but where do we stand relative to Europe?

And then you also mentioned—

Alex Pourbaix

Mm-hmm.

Menno Hulshof

—that government discussions are ongoing. But just in terms of the track to resolution, is it possible that we see something before the end of the year? Or is 2023 more realistic?

Alex Pourbaix

Yeah. No. It's a good question, Menno. I'll give you my thoughts, and Rhona may jump in with some colour on it.

But look, I mean, where we are now, we've had ongoing discussions with the federal government and the provincial government now for many, many months, earlier this year, that kind of—one of the initial outcomes of that was the investment tax credit that the federal government put forward for CCUS. And I think we really viewed that as a strong commitment from the federal government. And that was something that was more reasonably equivalent to the US 45Q support that they were giving to carbon capture.

Since that time, the US government has come out with the Inflation Reduction Act, which added significant support for industrial decarbonization, including CCUS. And right now, in the US, they're getting—producers in the US are getting support both for capital investment and for operating costs.

And I think our perspective, this goal of decarbonizing not just the oil and gas industry, but every major heavy industrial industry in Canada, is a massive task. It is a huge lift. Industry is going to spend many billions of dollars on it ourselves. But pretty much every jurisdiction in the world that is proceeding on carbon capture and storage is really doing that with significant involvement of multiple levels of government. And you've heard me talk about the US. Norway is in a similar position.

So I mean, I think Canada needs to be focused on competitiveness. This is an incredibly important business for the Canadian economy and Canadians. And as I said, we're going to do our part, and we are doing our part, but there's more discussions needed with both levels of government.

I don't know, Rhona, if you have anything to add on that?

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

Yeah. And I think that the importance of what you said, Alex, is that the focus has to be on both the capital costs and the operating costs. And that's what we've seen in examples around the world, where significantly large CCS projects have gone forward. There's been anywhere from two-thirds to getting to close to full support from governments across the project. These are multi-decade projects. And so the capital is great. That's the first thing that you talk about. But you also have to look at balancing the operating costs over the life of these projects because that's the most significant part of them.

But CCS is the focus right now because that's a proven technology. And anywhere in the world right now, there's CCS everywhere. Our companies have experience with CCS when it's linked to enhanced oil recovery because then, it makes sense to go ahead without having to partner with governments.

But this, truly, we're looking at the CCS projects that we're talking about, where they are not, in the oil sands, partnered up with enhanced oil recovery. These are joint projects that we want to do with the government. This is infrastructure that's for the Canadian good, and it's infrastructure that is going to result in tens of thousands of jobs that will be a real next construction boom in Alberta. So there are so many levels of benefit to these projects going ahead.

Alex Pourbaix

Just—and thanks, Rhona. And, Menno, just one last—just to be responsive to your last question about timing, my kind of guess on this is there's a lot of discussion that is ongoing with government. And just given the complexity of this issue and the need to make sure it is done right, and we deliver what is needed, I would suspect that this will ultimately extend into the new year.

Menno Hulshof

Okay. Thanks to you both. That's very helpful. I'm just going to flip over to the Superior rebuild project. You're still targeting a Q1 restart. Where do you see the risk in the ramp-up process, if at all? And what should we be modelling for utilization for the first half of 2023?

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

Hey, Menno. It's Keith Chiasson. Yeah. We're really happy with the progress on the project. We've always been forecasting ramping up through Q1 2023, and we're still on that track. We're actually in the process of transitioning from construction into commissioning.

We brought our first set of crude into the tanks at Superior and have floated the rooves out at those tanks and filled up our inventory. So we're imminently getting ready to commission the crude unit and start that up and so, really, still on track to ramp up through Q1 2023, as we've been saying for the past several quarters.

Menno Hulshof

Thanks, Keith.

Operator

Thank you. As a reminder, *, 1 if you would like to ask a question.

We'll go next to John Royall with JP Morgan.

John Royall — JP Morgan

Hey. Good morning, guys. Thanks for taking my question. So on Downstream, if I heard this right, I think you mentioned the results were better than 2Q, and 3Q when you strip out FIFO and inventory impacts. Can you talk about the drivers there?

And I know you had less downtime and better throughputs overall, but anything you're seeing on the cost or the margin side that improved in 3Q?

Keith Chiasson

Yeah. Hi, John. It's Keith Chiasson. We saw really strong throughput at our Lima refinery. We actually set a throughput record in the quarter at Lima. Obviously, the cracks are very supportive in the quarter as well.

As we think about kind of what the forward view looks like, we're really excited about this set of assets because, right now, we're still incurring a lot of costs without any throughput at Superior. And as you know, with the tragic fire at Toledo, we were down for most of the quarter at that joint venture-operated asset.

So as those assets come onstream, we're even more encouraged about what the US structure can perform at. As you know, with WCS differentials kind of where they are, these refineries are well set up to consume Canadian heavy, both Superior, Toledo, our joint venture at WRB, as well as Lima, so really constructive, heading into this, as well as kind of the very constructive crack. So pretty exciting time for the US Manufacturing as those assets come back onstream and continue to perform.

John Royall

Right. Thank you. That's helpful. And then just flipping to Upstream, when I look at royalties for Foster, Christina, and Sunrise, it looks like all three went up in terms of the rate in 3Q versus 2Q, despite price going down, assuming I'm doing my calculation right. Anything you would point to that's driving those rates higher in 3Q versus 2Q?

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

No. It's Jeff here. No. There's nothing structural and just remind you of the framework. Foster Creek and Christina Lake are post-payout, so they'll range from 25 percent to 40 percent of a payout there so, basically, a revenue less your op costs, less your CapEx. They've been running in and around 30 percent, but there's nothing structural. It's just a factor in it. And when we're in post-payout, it's an annual calculation, so there's always just true-ups and different pieces. But that's how you should be thinking about it.

John Royall

Understood. Thank you.

Alex Pourbaix

Thanks, John.

Operator

We'll take our next question from Dennis Fong with CIBC World (sic) [Capital] Markets.

Dennis Fong — CIBC Capital Markets

Hi. Good morning and thanks for taking my questions. The first one for me is just really around the share repurchase program. I know, previously, you've discussed focusing on intrinsic value at a mid-cycle pricing. And I was just curious, just given what we've seen most recently from macro in general, has that maybe driven you to revise or update your view on what "mid-cycle" is? And how you guys would like to think about repurchasing shares?

Alex Pourbaix

Once again, I kind of just go back to this concept of remaining disciplined and conservative of how we think about things. We still think about mid-cycle as kind of in or around $60 WTI. And I mean, I think at this point, I'm not convinced that the world is not going to go back to where it's been over the last 50 years. So we're going to stick with the $60 as kind of representative of mid-cycle commodity prices.

And I'd remind everybody that, from our perspective, we do prefer buybacks, all things being equal, over variable dividends, when we're trading below intrinsic value. And I think if, as people think about even like until we hit $4 billion and after we hit $4 billion, it really—like, think about the share price. If that share price is looking like $30, people should expect a lot of variable dividends. And conversely, if that share price is trending below $20, they should expect share buybacks. That's really, directionally, how we think about it.

Dennis Fong

Great. Great. Thanks. And my follow-up here is maybe just tailing on Greg's questions earlier. I know you've made pretty good progress on some of the optimization of your existing assets, both the historical Cenovus and Husky. Just curious as to whether or not you can provide us a bit of an update on further-down-the-line projects, like say connecting Narrows Lake and Christina Lake? Where that potentially happens to be at? Or where the next leg of upstream optimization could stem from, ex-Sunrise? Thanks.

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

Yep. Hi there, Dennis. It's Norrie Ramsay here. Yeah. We're progressing at Christina Lake, the pipeline that connects up—over the next three years, will connect up Narrows Lake down to our Christina Lake. So you should expect to see production come from that north area there.

Similarly, in Sunrise, Jon kind of mentioned earlier, now that we're 100 percent owner, we've a lot of flexibility. And there haven't been pads drilled there since 2017. So we're making really good progress on the next three. Lots of well pads there, and you'd expect those over the next 24 months to kind of show up.

And at the same time, we're doing a lot of redrill, re-dev, in areas in Sunrise where we haven't done it for a number of years. So we have that. I mean, the other side of it, we have Terra Nova out in Atlantic, coming back from an asset life extension, which we're looking forward to at the end of the year. That'll be another 10,000 barrels a day.

And I think—I mean, over to Drew's area in Indonesia, we have—don't know, Drew, if you want to mention it?

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

Yeah. Sure. Yeah. So, Dennis, we've got the MDA-MBH project that's just coming on now. We've got the MAC field that'll come into that same flotation production unit here, or midyear next year. So you're going to see Indonesia production double. Very low capital for those types of investments, as the FP (phon) was leased, so. We've gotten lots of good—to Jon's points earlier around brownfield—very efficient use of capital to have continued growth here for the next little while, where we know it makes sense that … Even in the conventional world, like don't be surprised if you see us probably add an incremental $100 million or so into next year to keep kind of driving the performance of that business where, as we fill more and utilize a lot of our infrastructure that has not been invested in over the last five, six years, it's not only just your unit OpEx that really improves. It's your capital efficiencies that improve, and.

So your underlying netbacks and affordability to keep some—with small growth but basically keep the underlying ability of these assets to generate future free cash flow is just really good business. And then we've got lots of those opportunities across just about every aspect of our Upstream.

Dennis Fong

Great. Great. Thanks. I'll turn it back.

Alex Pourbaix

Thanks, Dennis.

Operator

Thank you. That will conclude the analyst portion of the Q&A portion. If you—we will now take questions from members of the media. Once again, *, 1 for questions from media callers.

We'll take our first question from Chris Varcoe with Calgary Herald.

Chris Varcoe — Calgary Herald

Hi. This is a question for Alex. Alex, in the past week, we've seen the federal Environment Minister Guilbeault call out the Canadian oil industry to start spending more money on clean energy instead of share buybacks. Those are his words. Meanwhile, down in the United States, we've seen President Biden call for more production from the industry and hinting at a windfall tax, potentially, if they don't do so.

How do you view these kind of comments and the criticism of the sector?

Alex Pourbaix

Well, I think, Chris, you probably heard my opening comments, where I talked about the contribution that the Canadian oil and gas industry is already making. As I said in those initial remarks, we are—Peters & Co. estimates that the Canadian upstream industry is going to contribute $50 billion in royalties and taxes at all levels of government in Canada.

So I think we have a very progressive system in Canada, which is quite a bit different than the US, where as the cash flow in the industry goes up, the contribution to government coffers goes up. So I think any characterization that the Canadian industry is not contributing is just fundamentally inaccurate.

That being said, I think our industry has shown that we're very serious about decarbonization. We support the federal government's effort for our country to make significant emission reductions on a path to net zero by 2050. We have that same goal as Cenovus, and with our Pathways Alliance peers. But I think, really, getting there requires a practical and realistic approach to emissions reduction in order to protect jobs, investment in Canada, and help provide global energy security. So I just—I would just have you look at those things. Yeah. I think I'll turn it back to you.

Chris Varcoe

Sure. Just to follow up on that, then, the federal government is expected to release their fall fiscal update soon, I think later this week. What are you expecting, or what are you hoping to see from Ottawa as it relates to their investment tax credit on CCUS?

Alex Pourbaix

Chris, we are still very much in the discussion-and-consultation phase with the federal government. And I think there's more work to be done on the investment tax credit. And I think we've seen our own federal government acknowledge that, with the moves that the US government has done in their Inflation Reduction Act, that that's something that Canada's going to have to look at, in terms of having a program that is competitive with the US program. But I'm not expecting anything earth-shattering coming out of the fall statement here tomorrow.

Chris Varcoe

If you can just, too, I guess, answer one last question as it relates to that front. Do you need to see changes from the federal government and the provincial government for the Pathways group to give the green light to those projects? Are we sort of at a stalemate here right now?

Alex Pourbaix

No. I don't think we're at a stalemate at all. I think, as I said, we're having quite productive discussions. I mean, as I said, you've heard me talk about I think it's important than the contribution of government has equivalence with what is going on in the US. And at the same time, we are absolutely committed that we are moving down this path of decarbonization. We just require some certainty in all of the—in terms of the various government programs.

And when I say that, I mean—I'm not just referring to the federal government, and I'll give you an example, would be pore space. In order to proceed on our CCUS foundational project for Pathways, we actually have to have absolute certainty that we have that pore space. We need to understand that—this would be a joint federal-provincial issue. But we need to understand, for example, the environmental permits that are required. Are we going down a federal path? Or a provincial path? These are decisions that need to be made before the industry—we're not in a position to execute on those projects until we have more certainty on those kind of issues.

But I think the discussions are going very well. I think everybody, ultimately, shares the goal of emissions reduction, coming out of the industry. And I think we're having—I think, so far, it's been going productively. And I ultimately see a path that I think—if everybody is reasonable, I think there's a path to a resolution that works both for governments and for the industry and for the province.

Chris Varcoe

Thank you.

Alex Pourbaix

Thanks, Chris.

Operator

We'll take our next question from Rod Nickel with Reuters.

Rod Nickel — Reuters

Hi, Alex. Just wondering if you can elaborate a bit on you keeping $60 as kind of a mid-cycle price. Futures price strip would seem to indicate that the Street doesn't expect a price like that for several years at least. Can you explain, maybe, why you're taking a more cautious view of prices down the road?

Alex Pourbaix

Rod, like four years ago, the forward strip wasn't expecting a price over $60. So I—you know, it's interesting to me, what the futures market is speculating about where price is going. But if there's one thing that we have been focused on, beyond anything other than safety at this company, it is on discipline, and that is investment discipline, financial discipline, and delivering what the company has promised to deliver for its stakeholders.

And if you look back—I haven't run the numbers recently—but if you look at the average price over the past 10 years, I'm sure it is well below $60 a barrel. So we can hope for the best, but we got to plan for reality. And I think, at this point, it is the right thing to do for our company at this time, to still think about $60 as sort of a mid-market price.

Rod Nickel

Okay. And I assume that's the reason that you would be looking at just a very similar, modest increase, if anything, to your capital budget next year, that you're keeping sort of a cautious approach to where prices might go in the next 12 months?

Alex Pourbaix

Well, yeah. We're probably—if anything, we're a little more disciplined on our investment decisions. And when we look at all major investment decisions, those investments have to return their cost of capital at what we would call a bottom of the price cycle or a resiliency price deck. And that's more of a $45 WTI.

And I would tell you the good news is, is that all of those projects that you heard Jon and Norrie talk about on this call, everything that we have been continuing to invest in, meets that hurdle. And so we are blessed with a great deal of continued opportunities to grow production that have high returns and are resilient even at the lowest commodity prices.

Rod Nickel

Thanks, Alex.

Alex Pourbaix

Thanks, Rod.

Operator

We'll take our next question from Robert Tuttle with Bloomberg News.

Robert Tuttle — Bloomberg News

Yeah. Hi. Good morning. I'm kind of wondering, the price of Canadian heavy oil, I mean, we got all the pipelines in now—pipeline spaces—been very little apportionment. And yet here we are near $30-a-barrel differentials. Do you see this—and it's been very weak for a long time now, I mean, more than $20, at least through the summer. Do you see this continuing? And what factors would bring the price down to a more normal—or the differential down to a more normal level?

Alex Pourbaix

Yeah. No. I'm happy to give some thoughts on that, Robert. I mean, I think the first thing I would say—and this is kind of different from our historical experience. But right now, my observation would be that these really relatively wide, light/heavy differentials are being driven more by global issues, which is a lot different than previous years in Alberta, where a lot of those wide differentials were actually being driven by pipeline constraints out of Alberta.

And just to kind of—I'll give you just a couple of thoughts on what is kind of creating a supply imbalance in the heavy market. But if you look globally, right now, the high cost of refining heavy sour grades in Asia and Europe, that is due to spiking natural gas prices in those markets, obviously, gas being a significant input in the processing of heavy. On top of that, you do have some limited heavy processing capacity, driven by a number of both planned and unplanned maintenance at refineries, both globally, but in North America.

And then, I guess, the final point I would focus on would be the Strategic Petroleum Reserve. And I think everybody is aware that the US government has been significantly bringing those volumes, to the tune of a million barrels a day, coming out of the Strategic Petroleum Reserve. And those are—the majority, I think about two-thirds of those crudes that are coming out of the SPR are medium-heavy sours. And so that's putting more temporary pressure.

So I don't think this is a—I think this is ultimately something that is resolved. I would view it as a temporary issue that could persist into 2023. But I think, ultimately, it gets resolved as those issues I referred to get resolved.

Robert Tuttle

Okay. Great. Just one more thing. You guys have all these CCUS projects planned, and they're all going to be around at the same time, these major construction projects. How are you going to manage that with everything, labour, resources? I mean, how is that going to happen when you have all of this stuff being built at the same time? I mean, it looks like $24 billion or something is the investment, in a very short period—

Alex Pourbaix

Yeah. Yeah. I mean, it's a good question. And the one thing I would tell you, Robert, is this industry has learned a lot over the past 20 years of constructing projects and managing construction projects in overheated environments. And I think one of the—it is very much one of the reasons why we give advice to the government that everybody understands the ambitions to reduce emissions coming out of the upstream sector.

But we also have to think of other issues, that you may exacerbate other issues if you move too quick on that. And one of them would be if there was a mad rush to the gate on CCUS projects, you could very significantly see both capital cost escalation, but also project delays. There's only a finite amount of craft labour and trades and, frankly, procurement, and other issues.

So I mean, I think we are very acutely aware of this challenge historically. I think one of the great things about the Pathways partners coming together is it gives us a forum where we can actually work together, for example, on that foundational CCUS and capture project in the Cold Lake area. It gives us the ability to do some coordination, hopefully, and make sure we minimize that.

But the key is that we have a reasonable timeline in which to decarbonize.

Robert Tuttle

Thank you.

Alex Pourbaix

Yeah. No worries. Thanks, Robert.

Operator

As it appears there are no further questions, I'd like to turn the conference back over to Mr. Pourbaix for closing comments.

Alex Pourbaix

Well, I think I would just, as I always do, thank the investment community and our shareholders for their continued interest in the company and your time today to listen to us talk about the quarter and our plans. So with that, I'll wish everybody a good morning, and we'll sign off.

Operator

Once again, that does conclude today's conference. We thank you for your participation. You may now disconnect.