FINAL TRANSCRIPT

Cenovus Energy Inc.

Cenovus Energy Inc Q4 Results Conference Call

Event Date/Time: February 16, 2023 — 11:00 a.m. E.T.

Length: 55 minutes

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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 2022 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 1. Members of the investment community will have the opportunity to ask questions first. At the conclusion of that session, members of the media may then ask questions. Please be advised that this conference call may not be recorded or rebroadcast without the expressed 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

Thank you, Operator. Welcome, everyone, to Cenovus' 2022 Year End and Fourth 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 and follow-up on those directly with our Investor Relations team after the call. 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

Thanks, Sherry, and good morning, everybody.

Before we talk about our fourth quarter and annual results, I thought I'd take just a minute to discuss our other news that we announced this morning. After our AGM at the end of April, I will be shifting to the role of Executive Chair, Jon will become our next President and CEO. This is something that I've been working with the Board on for quite some time. Ensuring a robust plan for executive succession, including developing strong internal candidates, has been a key focus of mine and the rest of the Cenovus Board. I am very proud to say, in my entire career, I have never worked with as capable a leadership team as I am lucky to have here at Cenovus today.

When I joined Cenovus, the feedback we received from shareholders was that the Company had historically lacked a strong succession plan. One of my very early acts as president and CEO was to bring on Jon as CFO to help achieve three key priorities we'd set for Cenovus. Optimize our cost structure, expand our market access, and strengthen our balance sheet. As many of you know, when Jon joined the Company, he and I weren't strangers. In fact, we've known each other for the better part of our careers. I knew that Jon's towering strengths of discipline, accountability, work ethic, and deep knowledge of the energy business would be a huge help to me as we embarked on delivering on those priorities.

The entire leadership team and all the people in this Company came together to deliver on those priorities, culminating with the Husky transaction and Jon's move to COO. I won't say it's all been a walk in the park, the reality is that we've worked through some incredible challenges along the way. I can say with complete honesty that Jon and I have never been misaligned on what we believe is best for the Company. I think it's fair to say we come at problems from differing perspectives, and I think this diversity has actually made us a really successful team. Since the Husky acquisition, we've achieved many milestones together.

I'll take a moment to revisit just a few. We delivered above and beyond our targeted synergies from the Husky deal. We continue to aggressively reduce debt and we implemented and are executing on our shareholder returns framework. We've also evolved the asset portfolio with opportunistic A&D transactions, these have better positioned the Company to maximize the heavy oil value chain, which will support further growth in cash flow and shareholder returns.

Most importantly, we've been able to create a low-cost, resilient integrated energy Company that is profitable at all parts of the commodity cycle. Jon has been instrumental in these efforts and our vision for Cenovus. With his breadth of experience, strategic thinking, and incredible commercial acumen, there is no better person to be the next president and CEO of this Company. While I could have stayed on in the role for another year or two, Cenovus is in really great shape and I think Jon has earned the right to lead Cenovus, and I don't think there could be a better time for this leadership transition. Thanks, Jon.

Jonathan McKenzie - Executive Vice-President, Chief Financial Officer

Thanks Alex, and maybe I'll chime in and thank you for those kind words.

You're right, this Company's accomplished a great deal over the past five years under your leadership. You've really built a much more resilient Cenovus. Something that I'm really proud of is we have a reputation for delivering our commitments under your stewardship. In my view, you've left the CEO chair and the Company in a much better condition than you found it, which is really a great measure of success. I'm very much looking forward to the next phase of Cenovus and continuing on the path that you've set us on.

As you said earlier, you and I have known each other for the better part of our careers, including working closely together on other projects prior to us getting together at Cenovus. Through that time, we've been good friends. I'm thrilled that you're staying on as Executive Chair and continuing your ongoing support and advocacy for Cenovus, and more broadly the Canadian energy industry. I'm grateful to continue working closely with you over the coming years. Thank you, very much.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Thanks, Jon.

As many of you are aware, an increasingly significant proportion of my time is being spent on external efforts, including actively partnering with governments to help support Canada in achieving its climate goals, while also remaining a competitive economy in which Canadians can thrive. Next to safety, there is nothing more important to Cenovus and our industry than reaching a durable solution between government and industry to achieve our emission aspirations.

Once I move to the Executive Chair position, I intend to dedicate even more time to this pivotal external issue for both Cenovus and our industry. Beside my board governance responsibilities, I will also continue to work closely with Jon to progress the strategic direction we've established for Cenovus. I really can't tell you guys how happy I am for Jon and his new role and how excited I am about my continuing role with this great Company and our people.

With that, I'll turn to the year-end and quarterly results. As I do every quarter, I'm going to start with our top priority, health and safety. I would like to recognize our well delivery group, which reduced its recordable injury frequency from 0.91 in Q1 2022 down to 0.53 over the full year. This performance improvement comes with focus and dedication, and I am really proud of what this group has been able to accomplish as we continue to ramp up our drilling activity.

Similarly, our recordable injury frequency at our Lima Refinery fell to 0.1 from 0.5 in 2021. This is an absolutely outstanding result and we are all proud of our team in Lima for this achievement. That being said, some of the recent incidents at our non-operated refineries are an important reminder to us that we must never become complacent or take our safety performance for granted.

We will be unrelenting in our efforts to ensure that Cenovus's strong safety culture is embedded at every site where we operate. This includes Toledo, where we expect to close the acquisition of the refinery at the end of this month and at Superior as we commence startup.

Turning to our operating results, I'll begin with the upstream. Looking back on the year, there was a lot of A&D activity that helped to streamline our upstream business. By acquiring the remaining 50 percent of Sunrise, we now have full control to deploy Cenovus's operating model and take that asset from about 45,000 barrels per day today, back up to its nameplate production of 60,000 barrels a day and beyond. This is an excellent opportunity for Cenovus to show our SAGD expertise and the benefits of our operating model. We also sold the Tucker oil sands asset and the Wembley conventional asset this year for total proceeds of $950 million combined. These sales helped accelerate our deleveraging efforts through the year. It also allows us to focus our capital spend on higher return projects.

Looking at the Q4 operating results, total production averaged over 806,000 BOE per day up about 30,000 BOE per day from the third quarter. This is a significant achievement of our operating teams who did an exceptional job of managing through extreme winter weather in December.

The conventional business contributed about $250 million of operating margin in the fourth quarter while keeping production rates relatively flat. This winter, the team was focused on adding new wells, some pre-purchasing of materials that were slated for 2023, and advancing some infrastructure projects to support multi-year development in this segment. The Asia-Pac region also contributed to the quarter-over-quarter production increase. In China, we saw our partners draw gas above daily contract rates and additional production came online in Indonesia from new wells recently completed.

In the Atlantic segment, production remained relatively flat, however, with the Terra Nova FPSO asset life extension now complete, we are expecting the Terra Nova field back online in the second quarter of 2023. Turning to the Downstream, I will start by highlighting some of the successes we achieved at our operated assets over the year.

The Lima Refinery continues to run reliably and achieved record throughput in 2022. It generated about $1.1 billion in operating margin this year and also delivered its best ever safety performance. These results reinforce our philosophy that strong safety performance drives strong reliability, which in turn, drives strong financial results. The Lloydminster Upgrader and Refinery continued to demonstrate strong utilization through the year, even with turnarounds at each asset. The upgrader was able to take advantage of a wide synthetic to heavy oil diff, while the refinery continued to capture strong asphalt margins. Together, these two assets delivered almost $700 million in operating margin in the year.

We also made significant progress on the Superior rebuild, with startup underway. The refinery began circulating hydrocarbons in mid-February with throughput expected to start mid-March. The refinery remains on schedule to ramp up to full operations in the second quarter of 2023. At Toledo, the acquisition of the remaining 50 percent of the refinery remains on track to close by the end of February. The repair estimate stemming from the September fire is not significant and the refinery is expected to get up to full rates by around mid-Q2 this year.

Turning back to our Q4 results, as we announced in early January, our downstream operations were affected by some extremely cold weather, unplanned operational events, and a third-party pipeline outage back in December. This morning, we provided a detailed update in our news release, highlighting that almost all of our downstream assets were back up and running at normal rates. The exception is the Wood River Refinery where an incident in December reduced throughput modestly. The refinery's utilization has steadily increased since the first week of January and is currently running at a very substantial proportion of its normal throughput rates. We expect the refinery to return to normal rates during the second quarter.

Turning to our Q4 operating margins. Oil prices were lower in Q4, which impacted oil sands pricing and margins. Sales volumes were less than production as we look to avoid wider differentials in December, driven by the third-party pipeline outage. This also impacted oil sands operating margin in the quarter, however, those inventory volumes should serve as a future tailwind when sold.

In U.S. manufacturing, the fallen commodity prices through the quarter resulted in a negative FIFO impact of roughly $180 million in Q4. The U.S. manufacturing operating margin includes operating costs of about $40 million to $50 million a month for Toledo and Superior. This is really important for everyone to keep in mind, given that those operating costs have been coming without any throughput to offset them. As these two refineries come back online and start generating revenues, the per barrel metrics of the U.S. manufacturing segment will significantly improve.

Turning to our annual financial results, I want to highlight some of the achievements we hit in 2022. I'll start with earnings, which increased tenfold from 2021. Annual adjusted funds flow was $11 billion, which we put to good use, reducing debt by more than half, and investing about $3.7 billion in the business. That capital investment supports other businesses and directly generates jobs and economic benefits in the areas where we operate. The financial discipline and continued focusing on deleveraging also led to ratings upgrades by two of the credit rating agencies in the fourth quarter. We also tripled our base dividend in Q1 2022, and rolled out our shareholder returns framework.

Overall, we delivered more than $3.4 billion to our shareholders this year through a combination of share buybacks and dividends. At the same time, we will contribute over $6 billion in taxes and royalties to Canada and $100 million of taxes in the U.S.

Moving now to our fourth quarter financial results. Adjusted funds flow was about $2.4 billion and free funds flow was $1.1 billion. Net debt came down another billion over the quarter and landed at just over $4.3 billion as of year-end.

Under our shareholder returns framework, we've allocated half of Q4 excess free funds flow to shareholder returns, which has been delivered in the form of share buybacks during the quarter. Looking ahead, there's a couple of factors that will increase net debt in the first quarter. The first is a cash tax liability payment in Q1 of about $1.2 billion for taxes that were accrued over 2022. Secondly, we expect to close the Toledo Refinery purchase for another US$300 million plus closing adjustments, including working capital at the end of this month.

Now that we are cash taxable in all jurisdictions, taxes will be paid on a quarterly basis going forward. We had become increasingly confident we might get under our net debt floor of $4 billion around the end of the fourth quarter, however, the extreme winter weather, third party pipeline outages, and operational challenges in December were unanticipated and ultimately prevented us from getting all the way there.

Net debt has been forecast to increase in Q1 2023, above the net debt floor based on the 2022 cash tax payment alone. The issues we experienced in December delayed our forecast timing of reestablishing the net debt floor in 2023 by about two months. Given where net debt sits today, and assuming commodity prices remain around current levels, we now expect net debt to be above the $4 billion floor until around the end of the third quarter. While some impacts from weather and unplanned outages continued into early 2023, we remain confident in our key operating targets. Our 2023 corporate guidance remains unchanged.

Turning to our plans to reduce emissions, Cenovus and its peers at Pathways Alliance reached an important milestone in Q4. We've entered into an agreement with the government of Alberta that allows us to start a detailed evaluation of the proposed storage hub for our Carbon Capture Project. This work is necessary to get us to the next stage in the regulatory process. A significant amount of work is underway with the Pathways Alliance as we progress feasibility studies, environmental assessments, and early engineering work for the carbon capture and storage project, and also advance other technologies.

Conversations with the provincial and federal governments about their role in partnering with us to advance these decarbonization efforts also continue to go well. Within Cenovus, we continue to advance our own emissions reduction strategy, including progress on carbon capture and storage project plans for several facilities.

Cenovus is also focused on helping support economic self-sufficiency in Indigenous communities. Last year we spent the equivalent of about $1 million a day on goods and services from Indigenousowned businesses and we are already halfway to our target of spending at least $1.2 billion with these businesses between 2019 and the end of 2025.

I'll do a quick recap of the year before we move to Q&A. 2022 was a really successful year for Cenovus. We improved our safety performance across the business year-over-year. We generated adjusted funds flow 53 percent higher than the year before. We reduced net debt by more than half, while also increasing cash returns to shareholders to 6.5 times the prior year. That's almost $3 billion in incremental shareholder returns year-over-year. Our balance sheet is in great shape entering 2023, and we look forward to delivering even greater returns as we grow cash flow and pursue our net debt floor. With that, we're happy to take questions.

Q&A

Operator

Thank you. Ladies and gentlemen as a reminder you can join the queue to ask a question by pressing star 1. We will now begin the question and answer session and go to our first caller. We'll go to Greg Pardy, with RBC Capital Markets.

Greg Pardy - Global Energy Research Head, RBC Capital Markets

Yes, thanks, good morning. Thanks for the rundown.

First is to Alex and Jon, congratulations to you both. Fantastic job and great to see Alex, that you're going to continue to be involved on a go-forward basis. I'll pose a question that I'm getting, which has been a little surprising, but that is mainly related to acquisitions as it relates to Cenovus and then specifically in the upstream, and to get even more granular, it's been suggested that you may be looking at the deep basin. Opposed to just addressing the acquisition question, I'm interested in what aspects of the business do you want to reshape? I'm assuming the downstream is probably predominant in that equation, but just any colour would be great on that front.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Sure, Greg, happy to talk about that.

I can simplify this for people and I'll really talk about what do I view as key priorities for the Company in 2023. Right off the bat, I'll say this 'till I'm long gone, but safety is number one for this Company. You heard me talk about the work that we've done and what we've been able to accomplish, and it is everybody's focus on getting the new assets in the Company to the same level of safety that we've enjoyed in this Company for all these years. On top of that, I have two real focuses. The first is getting to $4 billion as soon as we possibly can.

I think Jon made this comment in his remarks, we really pride ourselves when we say something, we really mean it and we intend to deliver on it. That $4 billion target that is sacrosanct to us and we're not going to sacrifice anything to get to that target. The next priority for me beyond that is really getting this new portfolio we have in the downstream, getting it operating once again at the same level of operational efficiency and safety and quality as we experience in our upstream business.

As you heard me talk about, we're bringing Superior back, we're already starting to bring it back. The Toledo deal is going to close very shortly. Everybody in this Company, and particularly Jon and Keith, are just laser focused on bringing those assets in and showing and demonstrating to our investors that this downstream business can perform as well as we know it can. Those are the priorities, we're not going to sacrifice anything for those priorities. We always look at M&A transactions. I've always said we're opportunistic about that, but we would not ever do anything from that perspective that would materially move us from that $4 billion target, I've said, that is our focus.

Greg Pardy - Global Energy Research Head, RBC Capital Markets

Very good, thank you.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

No worries.

Operator

We'll take our next question from Dennis Fong, with CIBC World Markets.

Dennis Fong - Director, Product Strategy & Research, CIBC World Markets

Hi, good morning and thanks for taking my questions. I'd also like to reiterate what Greg said, and just congratulate the two of you on the next stops of your career.

My first question here is just related to the combination of both the balance of integration, but also more specifically the refining operations. Given what you've seen more recently with respect to some of the downtime on pipelines as well as outages via various refineries, how are you guys thinking about the flexibility of your marketing assets going forward as well as were there any albeit near-term learnings from some of the downtime experienced with Q4 that you'd like to implement on the various assets going forward?

Keith Chiasson - Executive Vice-President, Downstream, Cenovus Energy

Hey, Dennis, it's Keith. Thanks for the question. You know it was a pretty interesting time in December, obviously with the weather impacts, but that also coupled with a third-party pipeline going down. I think the teams responded pretty aggressively and pretty well. We were able to ramp up our rail program in the matter of a couple of weeks and start shipping crude by rail to alleviate some of the concerns that we were starting to see in Alberta. We were able to store some barrels, that's why you saw some of the inventory growth in the fourth quarter, and resell those later on at a higher market.

I think from a marketing commercial capability standpoint, really happy with what the team was able to do. When I think about the future and think about Superior and think about Toledo coming online, they're served by the mainline system, which is going to be really interesting for us to get our crude out of Alberta and into an integrated refinery set of assets that consume the molecules that we produce. We see that integration as being beneficial for a heavy oil producer and we're also pretty excited about what we're seeing even at our Lloyd Refinery and Lloyd Upgrader and being able to integrate our oil sands production into those two assets. That integrated value chain is pretty valuable for us and we'll utilize both the conversion assets, but also our marketing activities to maximize that value.

Dennis Fong - Director, Product Strategy & Research, CIBC World Markets

Yes.

Jonathan McKenzie - Executive Vice-President, Chief Financial Officer, Cenovus Energy

Dennis, it’s Jon. I'll just add a couple things to what Keith said, and I'd completely agree with Keith that those downstream assets really give us the flexibility and optionality to perform differently in times like we saw in December when the Keystone pipeline went down and more broadly with the wider differentials. Those assets, particularly our operated assets, have performed really well. One of the reinforcing thoughts that we would have going through December, and we've talked about this before, is that we still have a strong desire to own and operate those assets that we're participating in. We see the U.S. downstream as absolutely core to our strategy and we really look forward to putting Superior and Toledo into our stable of refineries and bringing those up over the next few weeks.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Hey, Dennis, it's Alex. I'm going to sound like I'm really gilding the lily here by being the third person to comment on your question, but the one other observation I would make is, I think the ability that Keith talked about to mitigate the impacts of those challenges, if we had not done the Husky transaction, we would not be remotely in the position to manage these kind of circumstances. Cenovus just did not have all of those storage resources, the other pipeline takeaway opportunities. When we did that deal, the goal was creating a much more resilient Company. I think the response to the Company, during what was really a pretty significant incident, was really good.

Dennis Fong - Director, Product Strategy & Research, CIBC World Markets

Great. I appreciate that colour and context from all three of you. My second question falls along the lines a little bit of what Greg was asking as well. I think I kind of know the answer to this in terms of your current portfolio. Given as we look forward, there is over the next few years, a ramp up of potentially volumes out of the variety of your oil sands assets really from low-cost optimization, Narrows Lake tieback and debottlenecking. How should we think about, or how are you guys thinking about the balance of upstream exposure versus downstream exposure on an ongoing basis, especially given the multiple shifting macro environment throughout North America?

Jonathan McKenzie - Executive Vice-President, Chief Financial Officer, Cenovus Energy

Hey, Dennis, I don't think anything has really changed. As Alex mentioned, we're kind of in a world right now where we look at our downstream exposure as well as our takeaway capacity from Alberta as putting us in a relatively beneficial spot. I don't think that we would be of the view that we need to materially increase our takeaway capacity or materially increase our refining capacity. We're quite happy with the balances that we've got.

I just reiterate something that Alex was talking about is—and I know people are thinking about growth, but what we are really focused on over the coming months, and particularly Q1 and Q2, is getting our net debt back to $4 billion and getting these two refineries online and producing positive free cash flow. The growth part of the agenda that seems to be coming up as a theme is something that we can probably talk about in future quarters. Right now, we are focused on getting our debt down and getting our hundred percent shareholder returns intact together with getting our downstream operating well.

Dennis Fong - Director, Product Strategy & Research, CIBC World Markets

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

Jonathan McKenzie - Executive Vice-President, Chief Financial Officer, Cenovus Energy

Thanks, Dennis.

Operator

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

Neil Mehta - Managing Director, Goldman Sachs

Yes, congrats, Alex and Jon, it's awesome to have you in the role.

I just wanted to start off on capital returns. Alex, you've been pretty clear that you want to take a countercyclical approach to buying back stock and didn't want to buy back stocks at the local highs. Stock shares have pulled back here a little bit. Just your perspective on the preferred return of capital mechanism versus buying back versus a more variable component as the business inflects closer to that sub $4 billion mark.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Yes. We've said this many times, our preferred method of returning cash to shareholders is through share buybacks and I think at the kind of valuations that we're seeing right now, we're obviously in that range where I think there's compelling value to buy back shares. At the end of the day, we're committed to get those returns back to shareholders. If we are trading at significantly above our NAV, we will always be thoughtful about whether we're creating value by those share buybacks, and if we're at the view that we're not, then we're still going to return that money through variable dividends. The priority has been and remains share buybacks.

Neil Mehta - Managing Director, Goldman Sachs

That's helpful. The follow up is just on the macro. We've seen a lot of volatility in the WCS differential, I recognize that you guys are much more protected than you were when you first came in, Alex, into that spread. Curious on how you see that playing out and the moving pieces and maybe you can also comment on TMX because that's going to move the needle potentially a year out.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Why don't I pass it over to Keith, because he can just repeat to you what he says to me every morning when I walk in his office.

Keith Chiasson – Executive Vice-President, Downstream, Cenovus Energy

Hey, Neil. Thanks. Yes. Obviously, we saw the differential widen out there for a period of time and tighten back up more recently. We kind of look at it as two parts. We look at it as the transportation or location spread between Alberta and the Gulf Coast, and then we look at the light heavy differential in the Gulf Coast. The good news is obviously, with the third-party pipelines back up and running, us heading into the summer turnaround seasons and heading into a lower condensate requirement, egress out of Canada is looking pretty good right now. We're seeing that component of the differential titan, down in the Gulf Coast, we're also seeing the differential titan with Chinese demand coming back, some of the SPR release is slowing down, and the other one would be just natural gas prices coming off, which enables more processing in complex refineries and better value from processing heavy barrels.

All those things are constructive to an improving differential and we're starting to see that and expect that to continue through 2023. TMX coming on the back-end of 2023 is obviously going to be another help for narrowing that differential. We're really encouraged with seeing that pipeline come up. We're a large shipper on the pipeline, really looking forward to getting barrels into a new market and actually being able to access the world with those barrels. Pretty exciting times.

Neil Mehta - Managing Director, Goldman Sachs

Thank you, Keith.

Operator

We'll go next to Menno Hulshof, with TD Securities.

Menno Hulshof - Managing Director, Institutional Equity Research, TD Securities

Good morning, everyone. I'll follow up with a question to Dennis's on the five-year plan for thermal growth and Sunrise optimization and the Narrows Lake tieback in particular, I'm just looking at the slide deck. It looks like the lag 35,000 to 50,000 barrels per day over the next call at two—two and a half years. What key deliverables should we be looking for over the next year-end? What would you need to see to get to the top end of that range at 50,000 barrels a day?

Norrie Ramsay - Executive Vice-President, Upstream, Thermal Major Project & Offshore, Cenovus Energy

Hi there, it's Norrie Ramsay, here. We've laid out our plan to grow notionally 3 percent to 5 percent per year. We're seeing great success actually as we move our pipeline at Christina Lake up to the Narrows Lake area. Our plan is in place to actually start drilling up in the Narrows Lake area within the next 12 months. In optimization at Sunrise, we've seen actually great success in applying our historical Cenovus methodologies at the site. We're pleased actually to have a hundred percent of the equity, which allows us a lot more flexibility. We have four pads, for example, drilling just now, this is setting us up to fill the process plant over the next 18 months or so.

Along with that, as we apply our Cenovus subsurface methodologies, examples are things like, we've just drilled two wells that are 1,600 meters in the reservoir rather than historically, they've only been able to maximize 800. That really cuts the costs, it gives us bigger wells and more flexibility. It's a very steady built plan, we have a lot of flexibility as we go forward. As you say, Christina Lake's going to grow, we're also going to grow at Foster Creek just through our increased number of pads that we have and Sunrise is there. Lloyd thermal, again, we’ve been applying our subsurface methodologies looking to tie back greater distances than originally they had planned. Again, steady growth across the whole portfolio.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Menno, it's Alex. Just from the way where you went with the question, I just wanted to make one thing clear. That extension into Narrows Lake, nobody should think of that as a high-risk, high capital sort of phased expansion of the oil sands. Norrie’s guys, they've already built—the road has been built in there, they're building the pipelines, the pad work is something we've done dozens if not hundreds of times. We just see this as a relatively low-risk natural extension of Christina Lake. Just want to make sure people aren't thinking of this as some new or relatively high-risk capital project that we've embarked on.

Menno Hulshof - Managing Director, Institutional Equity Research, TD Securities

Thanks, Alex. I'll just move on to Asia-Pac. Could we get an update on regional pricing dynamics given the recent volatility? On the contracting side of things, and with the understanding that your largely fixed price across your Asia-Pac portfolio, is there anything that we should be aware of in terms of ongoing contracting activity or price resets? I think the answer is nothing material, but maybe you can confirm that.

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

Sure. Hey, Menno, it's Drew. You're correct. On the contracting side around price, it's fairly set from a range-bound standpoint that'll still play out for a number of years. Interesting load, you're kind of getting to the point that I think we are seeing that just before Christmas, even in December actually, we started to see buyers and the demand really start to increase. We've actually been over selling even on our contract volumes since December.

That's carried through here into the first quarter and it is really around what you're alluding to here is we're seeing demand really pick up over there. We're in a really nice circumstance at the moment, actually, that we are in conversations about potentially some more supplemental agreements like we've had in the past. Those conversations are happening literally as we speak, but in a true day-to-day, week-to-week reality, we've been actually producing and selling above contract volume. From the pricing perspective, it is price bound as per the longer-term contracts.

Jonathan McKenzie - Executive Vice-President, Chief Financial Officer, Cenovus Energy

Menno, it's Jon. We actually give you a fairly good snapshot of the net backs that we get from our Asia-Pacific business in some of the supplementary information that we send out. To Drew's point, the gas in Asia and Indonesia, is relatively fixed, but we do float on the NGL side. You will see some variance from quarter-to-quarter, depending on how much of the NGLs we sell and what price we get for them. They're usually kind of a Brent-plus basis for the liquids.

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

Yes. Just to finish with that, Menno, the netbacks are north of $70 per BOE equivalent.

Menno Hulshof - Managing Director, Institutional Equity Research, TD Securities

Okay. Yes, those are phenomenal numbers. Appreciate the colour guys, I'll turn it back.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

No worries. Thanks Menno.

Operator

Thank you. As a reminder, star 1 if you would like to ask a question. We'll take our next question from John Royall, with J.P. Morgan.

John Royall - Executive Director, J.P. Morgan

Hey guys. Good morning. Thanks for taking my question and congratulations to Jon and Alex on the new roles.

If you could maybe speak to the overall impact of the Keystone outage on upstream. It sounds like you built some inventories. Is it necessary or is there a plan to draw those inventories back down from here? I think reports we've seen that only spot volumes are currently impacted on Keystone, maybe you could just confirm if you're back shipping on that pipe to the levels you were prior to this spill.

Keith Chiasson - Executive Vice-President, Downstream, Cenovus Energy

Hey, John, it's Keith. Yes. Obviously, the impact of Keystone through the month of December impacted both our upstream and our downstream assets. We did choose to—if there was (inaudible) on the mainline driven by some of that as well, we had a few decisions to take in the December period and a couple of those were to ramp up our rail program, so we're able to ship on nine unit trains through the

December-January time period, and now we're ramping that program back down. Keystone's back flowing, egress out of Canada, we're seeing the differential come back in because of sufficient egress out of Canada.

I would say all of our downstream assets are being fed and the inventory that we built, we will sell off into the market at higher values than if we had to tried to sell it in a distressed market in December.

Jonathan McKenzie - Executive Vice-President, Chief Financial Officer, Cenovus Energy

Yes. Just to put a finer point on it, John, and sorry, it's Jon McKenzie speaking. The assets worked as designed in terms of what we've built in our midstream and downstream business, as we talked about earlier. Because of the outage that we had on Keystone, we inventoried about 18,000 barrels a day of heavy oil, we expect to relieve our inventory of that in Q1. The other impact that we would've seen with Keystone is they did have to cut rate on the WRB refineries, which are fed off the Keystone pipeline, which would be a secondary impact from that outage as well.

John Royall - Executive Director, J.P. Morgan

Great. Thank you. Then just thinking about the downstream side, and a little bit more near-term on the throughput guide. I understand you guys give only annual guidance, just hoping maybe for some high-level colour, it sounds like you're getting Superior at least partially at some point mid-quarter and maybe a little later for Toledo. You also have lower rates you mentioned at Wood River and I think some maintenance. Realizing you don't get quarterly guidance, is there any high-level way of helping us think through where you might be on throughputs or utilization for 1Q maybe relative to 4Q or any other way we can think about it?

Keith Chiasson - Executive Vice-President, Downstream, Cenovus Energy

Yes, John, it's Keith. I think the way I'd be thinking about it is, we had some challenges both due to the Keystone outage as well as the weather impacts. All of our operated assets came back up by mid-January and have been running well since then. On our non-operated assets, Borger was back up and running at good rates by mid-January. With regards to Wood River, the rate cut due to the incident in early December, you should think of that as ramping up through the first quarter, substantially getting back to normal throughput. Then you have to remember that there are some turnaround activities happening across our assets in the second quarter.

With regards to Superior, we're happy with the progress. This asset's been down since 2018, we've been doing the rebuild since the Husky merger. We're now at a point where we're introduced hydrocarbons and we're working to bring in crude in the mid-part of March. That'll take a little time to line out and we'll work on ramping up the refinery through the second quarter.

Toledo, we're ready to take the ball on March 1, and we don't think we'll lose any progress on the repair and rebuild of that asset. Those repairs are looking like that'll happen by the end of April, and then we'll start working on restarting that asset through the May-June timeframe. All of it’s coming together, a lot of it at the same time, but that's how it's looking over the next several months.

John Royall - Executive Director, J.P. Morgan

Very helpful, thank you.

Operator

Thank you. At this time, we would like to invite members of the media to ask questions. As a reminder you may signal by pressing star 1 on your keypad. We'll pause for just a moment. We'll go first to Chris Varcoe, with Calgary Herald.

Chris Varcoe - Senior Editor, Calgary Herald

Hi. This is a question for Alex. Alex, why did you make the decision now to step down as CEO and move into the executive chair role? As you said, you could have stayed on for maybe another year or longer, but why now?

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Chris, that's a good question. I would tell you, I said it at the start, but I think that a thoughtful and measured succession plan is a hallmark of a well-managed company and I know my board thinks of that. When I joined the Company, I've remembered telling the board that they could count on me for five to seven years, and I'm probably a little more than halfway through that. I'm heading towards six years in the Company. I think all companies benefit by a thoughtful succession plan, and in this case, Jon has been such an instrumental part of the strategy and the execution of the things you heard me talk about today in my comments.

I think he has amply earned the right to have a shot at leading this Company, and it's not lost on me, Jon and I are not too far apart in age. If I were to decide to stick around for another two or three years, I could really put Jon in a situation where he might time-out and not be able to have a good run at leading the Company. I don't think that would be fair to Jon, I don't think it would be fair to the shareholders, because I think they're all going to be great beneficiaries of his leadership over the coming years. At the end of the day, I think what's best for the Company and what's best for the shareholders needs to take a little bit of precedence over what might be best for me.

Chris Varcoe - Senior Editor, Calgary Herald

Just to follow up on that, I want to ask you about your new role. You've talked about the fact that you're going to focus on advancing the industry and policy. What do you see as those key issues that you're expecting to tackle in that role as chairman? Why do you feel it's necessary to speak out or advocate at this time?

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Chris, those priorities are those things you and I talk about so regularly. As I think a lot of people appreciate, over the last two or three years, an increasing amount of my time has really been spent on working on Pathways on a larger scale for the industry, but particularly, focused on Cenovus's GHG reduction plan. I am a very meaningful part of Pathways discussions with the various levels of government in this country about that and I've actually been very lucky to have a leadership team like I have that they've been able to pick up the slack while I spent an increasing amount of time on that issue.

I think it is absolutely vital that industry, the federal government, the provincial government, come to some type of durable agreement as to what our emission reduction ambitions are and that we put in place a structure to make sure that industry can do that while maintaining this incredibly important industry for the country, for Canada, for Alberta. I suspect this industry is probably going to represent somewhere around 10 percent of the country's GDP this year, and I think it's just incredibly important for Canadians that we find a way for this industry to be able to continue to thrive. The way we're going to do that is by constantly improving our environmental leadership.

Chris Varcoe - Senior Editor, Calgary Herald

Finally, just had a question for Jon. Jon, what will be the key issues for you going forward? I'm particularly curious in what significant changes or differences in focus will we see, if any, under your leadership? Whether it's in terms of production, downstream expansion or anything else?

Jonathan McKenzie - Executive Vice-President, Chief Financial Officer, Cenovus Energy

Yes. As Alex mentioned in his opening notes, he and I have worked very closely together over the last five years, and what I've really focused on is running the day-to-day of the Company where Alex has been more outwardly focused, particularly over the last period of time with his involvement in Pathways. I would tell you, Chris, that both Alex and I have our fingerprints all over the corporate strategy and that we developed this in a partnership together with the rest of our leadership team. I don't think you're going to see much of a change, I think it's going to be very similar to what you've seen before as we continue on the trajectory that we've been on for the last five years.

Chris Varcoe - Senior Editor, Calgary Herald

Thank you.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Thanks, Chris.

Operator

We'll take our next question from Ashok Dutta, with S&P Global Platts.

Ashok Dutta - Reporter, S&P Global Platts

Hi. Thank you. I had a question for Keith, if I may please. Keith, do you want to take a guess or share what would be Cenovus's views on WCS and TI differentials average for 2023?

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Tell me too, Keith.

Keith Chiasson - Executive Vice-President, Downstream, Cenovus Energy

If I could guess that I may not be sitting here, but I think it was in my previous answer to the differential question. The structure of the differential is improving both from egress out of Canada. We head into the summer months, upstream production comes offline for turnaround activity. The barrel gets a little lighter with less condensate, there's actually less barrels that move out of the province. That differential's narrowing, and then I think just from U.S. Gulf Coast fundamentals, if natural gas prices coming off and SPR release is slowing down and Chinese demand coming back, we're seeing a firm bid on WCS out of the Gulf Coast. Those two things coupled together, I think we're more likely to see the differential narrow than widen through 2023.

Ashok Dutta - Reporter, S&P Global Platts

Okay. Understandable. A quick follow-up. You talked about nine unit trains. How easy or difficult was it? Or was it a challenge to get rail cars back on track?

Keith Chiasson - Executive Vice-President, Downstream, Cenovus Energy

Yes. It's an interesting question. We built a lot of flexibility into our rail program when we laid it up back in the 2020 time period. It's a testament to the marketing commercial folks on quickly being able to set up agreements and restart the rail program. When Keystone went down and we started seeing inventories build in Alberta, we quickly turned on our rail program and we were able to load nine unit trains and offload them down in the Gulf Coast, and then were quickly able to turn that program back off. It's just a testament to the flexibility that the Company has built over the past few years.

Ashok Dutta - Reporter, S&P Global Platts

One last question. When was the last time crude on rail?

Keith Chiasson - Executive Vice-President, Downstream, Cenovus Energy

We're continuously moving some crude by rail. There’re some refiners that are not pipeline connected. It's an ongoing program, but the ramp up was a little bit different.

Ashok Dutta - Reporter, S&P Global Platts

Okay. Thank you very much.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Thank you.

Operator

That will conclude our question-and-answer session. At this time, I'd like to turn the call back over to Mr. Pourbaix for any additional or closing remarks.

Alex Pourbaix - President and Chief Executive Officer, Cenovus Energy

Thanks very much, Operator. With all of the excitement about Jon and I, a number of our shareholders and other followers might have missed a very important thing that we also did this quarter, and that was we promoted Rhona DelFrari to Executive VP, she was already Chief Sustainability Officer. From my own perspective, she literally demonstrates the top decile of professionals in this field and we're very happy to do that and happy to give her that promotion. With that, I'll pass it back to you Operator, and thank everybody for your time in listening to us today.

Operator

Thank you. That will conclude today's call, we appreciate your participation.