FINAL TRANSCRIPT

Cenovus Energy Inc.

Second Quarter 2021 Results

Event Date/Time: July 29, 2021 — 11:00 a.m. E.T.

Length: 46 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommage ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

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

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

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

Jonathan McKenzie
Cenovus Energy Inc. — Executive Vice President and Chief Operating Officer

Kam Sandhar
Cenovus Energy Inc — Executive Vice President, Strategy and Corporate Development

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

CONFERENCE CALL PARTICIPANTS

Greg Pardy
RBC Capital Markets — Analyst

Phil Gresh
J.P. Morgan — Analyst

Manav Gupta
Credit Suisse — Analyst

Neil Mehta
Goldman Sachs — Analyst

Menno Hulshof
TD Securities — Analyst

Harry Mateer
Barclays — Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to Cenovus Energy's Second Quarter Results.

As a reminder, today's call is being recorded. 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 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' 2021 Second Quarter Results Conference Call.

I'll refer you 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 and outline the risk factors and assumptions relevant to this discussion. Additional information is available in Cenovus' annual MD&A and our most recent annual information form and Form 40-F. All figures are presented in Canadian dollars and before royalties unless otherwise stated.

You'll find our updated guidance posted on Cenovus.com under Investors. Alex Pourbaix, our President and Chief Executive Officer, will provide brief comments, and then we will take your questions. We ask that you please hold off on any detailed modeling questions and instead follow up on those directly with our Investor Relations team after the call. And if you could please 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.

First off, let me say how great it is to see vaccination rates continue to rise in Alberta and across Canada. However, we know that COVID-19 hasn't gone away and I assure you at Cenovus we're not letting our guard down. With restrictions easing I know I'm looking forward to life getting back closer to normal. And the health and well-being of our workforce and our communities remains the Company's priority.

As we modify protocols at our operations, we'll continue to follow public health guidance and to work closely with governments, health authorities, and industry to protect our people. Safety is foundational to how we operate. We're working diligently to finish integrating our safety systems after closing the Husky transaction at the beginning of this year. Our goal is for Cenovus to be a top tier safety performer and to achieve this we prioritize safety above all else.

Turning to the second quarter, we continued to build on our first quarter results with strong operations, delivering even better financial performance. If you've heard our last conference call, we communicated that if you added back the transaction related costs that impacted adjusted funds flow in the first quarter, our adjusted funds flow would have been nearly $1.5 billion and free funds flow nearly $1 billion.

Now, in the second quarter, that performance has more than played out, with our adjusted funds flow hitting $1.8 billion and free funds flow of $1.3 billion. Establishing this cash generating power of the combined company and only our second combined reporting period, I think reinforces the strength of the combined portfolio and we expect this to continue in the second half of the year, assuming forward curves hold.

Looking at net debt and deleveraging, we reduced net debt by almost $1 billion in the quarter. And we expect an accelerated pace of deleveraging in the third quarter and through the back half of the year. Again, assuming commodity prices and foreign exchange rates continue to hold. The $1.3 billion in free funds flow went towards the balance sheet and we also had the benefit of an unrealized foreign exchange gain on U.S. denominated debt. However, this was partially offset by a change in working capital of about $389 million.

The working capital build was driven mainly by the impact of higher commodity and refined product prices on inventory and accounts receivable as well as increased inventory volumes. The accounts receivable at the end of June will benefit July cash flow, which would help accelerate deleveraging in Q3.

Speaking to the inventory build now, as U.S. refinery utilization ramped up in the second quarter based on higher refined product demand in the third quarter, downstream inventory volumes increased. We also utilized our midstream storage capacity in the quarter to capture higher prices in the third quarter rather than take discounted pricing resulting from apportionment on the Enbridge mainline in June. We've ramped up our rail program in Q3 to capture more attractive pricing in the U.S. Gulf Coast.

Asset sales will also accelerate reaching $10 billion in net debt. During the second quarter, we closed our sale of the Marten Hills GORR for $100 million. In June and July, we reached two other agreements to sell asset packages in conventional for additional proceeds of $110 million which will appear in the third quarter. We also have a number of other potential asset sales we're working in earnest. We continue to expect cumulative asset sales proceeds in the many hundreds of millions of dollars in 2021.

Assuming the forward curves play out, we have our net debt target of $10 billion or under $10 billion well within sight in 2021. And once we're in range of that $10 billion mark, there will be room to consider other forms of capital allocation, including increasing shareholder returns. I just want to make the point that we very much recognize that our share price is in a range that would represent compelling value for potential share repurchases.

I'll turn now to the operating results this quarter. In the upstream segment, we continued the production strength established in the first quarter. Overall production was about 766,000 BOE per day, nearly in line with Q1. That's even with turnarounds at Foster Creek, Sunrise, eight of the 11 Lloydminster thermal projects and three of our conventional natural gas processing plants in the quarter.

Foster Creek production was down in Q2 due to the turnaround already mentioned and unplanned operational events as a result of some treating issues at the plants. This impacted production into July. However, the team's quickly incorporated learnings to adjust and Foster Creek has been back to running at full rates since mid-July. I think it's really worth pointing out that this production includes four new well pads with some of the highest production rates we've ever seen at Foster Creek and basically, if you think about that treating issue we had, we basically had to adjust for bringing in larger volumes than we've ever had before at Foster Creek, which I think is actually a pretty nice issue to have.

Christina Lake exceeded its own solid and steady operating performance delivering over 230,000 barrels per day of production. That's almost 3.5 percent higher than its already strong first quarter production with the increase reflecting new wells coming online in the quarter.

Turning to the Lloydminster thermal projects. Not only were the turnarounds there well executed, we also beat the record quarterly average production rate we achieved in the first quarter, averaging overall almost 98,000 barrels per day. I would just make the point that overall coming out of the turnarounds, we're seeing upstream production now consistently exceeding 800,000 barrels of oil equivalent per day. And I think that's a pretty good testament to how the assets are operating.

Driving the Company's $2.1 billion total operating margin for the quarter was a $1.4 billion contribution from oil sands, reflecting strong realized pricing. Oil Sands operating costs increased somewhat relative to the first quarter mainly due to the turnarounds I mentioned and increases in AECO pricing and other commodity linked costs.

Looking at conventional. Production was also up about 3.5 percent relative to the first quarter. This reflected the addition of new wells coming online in the second quarter and included production impacts of the three turnarounds mentioned earlier.

Our offshore operations were a really strong contributor to free funds flow delivering operating margins of $340 million in the quarter with operating margin totaling almost $700 million so far this year. That roughly translates to about $600 million in free funds flow from the offshore business so far this year, a really significant contributor to our deleveraging efforts from that high net back production.

Moving to downstream segments, in Canadian manufacturing, the Lloydminster upgrader and asphalt refinery continued to deliver reliable operating performance with an average utilization of 94 percent. Canadian manufacturing operating margin of $189 million in the quarter was more than twice the segment's operating margin in the first quarter. This reflected a much stronger average refining margin of nearly $30 per barrel in the second quarter, with asphalt refinery sales increasing alongside the start of paving season. The increased operating margin also included $55 million in revenue for a settlement of a customer contract at the Bruderheim crude by rail terminal.

In U.S. manufacturing, demand for refined products continued to rebound and so too utilization, averaging 87 percent in the quarter, recovering another 15 percent from the first quarter. This increased utilization included turnarounds and other outages at a few of our U.S. refineries during the quarter. While throughputs were stronger and market crack spreads were higher, operating margin of $96 million in the second quarter was only slightly higher than the first quarter of this year. This was mainly due to the average cost of RINs, increasing about 45 percent to over $8 per barrel quarter-over-quarter hindering net crack capture and higher feedstock costs due to the increased WTI benchmark price. We expect stronger results from U.S. manufacturing in the second half of the year as demand recovery for refined products continues and utilizations continue to increase.

Building on the strength of upstream production in the first half of the year, we've updated our 2021 guidance, increasing total production guidance by about 2 percent at the midpoint while holding our total capital budget to the $2.3 billion to $2.7 billion range announced in January. Since coming out of the turnarounds at the oil sands assets, as I said earlier, we've seen many days where companywide production has been over 800,000 BOE per day. We expect production performance for the second half of the year to be stronger than the first half and this is reflected in our updated guidance range of 750,000 to 790,000 barrels per day. Reflecting our confidence in the value we've been able to add at the Lloydminster thermal project so far this year, we have included an additional 10,000 barrels per day of expected production from the Lloydminster thermals for the year.

Our updated capital guidance includes an additional 100 million of capital allocated to the oil sands, primarily for accelerating some of the work we've been doing at the Lloydminster thermals, including capital allocated towards the completion of Spruce Lake north, as well as carrying out some redevelopment wells at Christina lake. We've made an offsetting capital reduction in the downstream segment which reflects efficiencies identified across the portfolio. We've slightly increased our guidance ranges for operating costs at oil sands assets this year, including Foster Creek and Christina lake. These changes reflect increases in AECO pricing, and other commodity-linked costs with our non-fuel OPEX remaining on track to our original guidance.

While operating costs for the Lloyd thermal projects will have these same impacts, they have been more than offset by the efficiencies we've achieved there through application of Cenovus's operating strategies and related SOR reductions. As a result, we've brought operating cost guidance down for the Lloydminster thermals. We've also reduced our operating cost range for conventional reflecting some efficiencies we've been able to achieve there and asset sales. I will take the opportunity to note today that we have a major turnaround planned at the Lima Refinery this fall. This is a once in every five years event that we've planned for and was always included in our full year guidance. But something to keep in mind is it will impact Lima in late Q3 and into Q4.

Returning to the guidance updates, we've also reduced our integration cost guidance by $100 million for 2021. While we still expect total integration costs related to the Husky transaction, in the range of $500 million to $550 million over 2021 and 2022, we've adjusted timing such that the remainder is now expected to be spent in early 2022. This doesn't impact our forecast pace of synergies capture. We remain on track to realize at least $1 billion of synergies in 2021 and to reach the annual run rate target of $1.2 billion by the end of 2021. The only change is that we're just spending a little less than we expected this year to do it.

On the ESG front, we're continuing to take bold action to address emissions. Last week, we announced we'll be buying solar power produced electricity and the associated emissions offsets from a partnership between the Cold Lake First Nations and Elemental Energy. This power purchase agreement will put 150 megawatts into Alberta's electricity grid in Southern Alberta and help mitigate our Scope 2 emissions. It also reinforces our long-standing business relationship with the Cold Lake First Nations. And last month, we were one of five oil sands companies that launched the oil sands pathways to net zero initiative. Our goal is achieving net zero emissions from our operations by 2050, while supporting Canada's efforts to meet its Paris Agreement commitments, and net zero aspirations. We continue to work with the Federal and Provincial governments to advance the funding and policy support needed to implement the emerging technologies that will enable zero emission oil sands production.

As a company, we're committed to global climate leadership. Later this year, we'll be releasing the new targets for our combined companies, focus areas, climate and GHG emissions, water stewardship, biodiversity, Indigenous reconciliation, and inclusion and diversity. I look forward to sharing those with you.

In closing, I think this quarter has again demonstrated the operating strength of the combined portfolio, and the free funds flow capacity of this business moving through the year at current strip, as these results reinforce, we have the benefit of best in class assets and we're building on our track record of asset reliability and low cost structure. With the first half of 2021 behind us, we're even more confident that we will deliver at least $1 billion in synergies this year and reach our target of $1.2 billion in annual run rate synergies by the end of this year. We're running a lot more balanced business since the Husky transaction, along with expanded market access. We have greater stability of cash flows through the cycle, lower breakevens, and less risk on our deleveraging track and on the path to enhance shareholder returns.

We're within range of our interim net debt target within 2021. We expect to increase our pace of deleveraging in the third quarter and we believe there are clear opportunities to do so.

With that, I'm happy to take your questions.

Q & A

Operator

Your first question comes from Neil Mehta from Goldman Sachs. Neil, please go ahead.

Neil Mehta — Analyst, Goldman Sachs

Yes, good morning, team. Congrats here on a good quarter. Yes, I want to talk about the cadence of debt reduction. Alex, maybe you could talk about your confidence interval and achieving the $10 billion level by the end of the year based on what you can see in the business. Talk a little bit about the working capital side of the equation. It was a drag last quarter. A little bit of drag this quarter. How do you see that unwinding here? Can that help you get to that level?

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

Yes, Neil, happy to do so. When we think about net debt, and we talk about that $10 billion target being within range, what I would tell you is when we look at this business for the balance of the year, just on our base business, once again assuming that the strip remains more or less in place, we are highly confident that we should hit that $10 billion target within the end of the year.

I would say that completely ignores the impact of further asset sales. I've said it before on these calls and with investors, we are really laser focused on those non-core divestitures and I expect that they will continue to accelerate that pace. Our confidence on the $10 billion is really strong.

With respect to the working capital, maybe I'll hand that over to Jeff and he can give a little bit of colour. Jon, you may want to jump in too.

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

Yes. no. Morning, Neil. I think the confidence here, and if you look at the working capital build for the Q which is about $400 million and you think primarily that's largely price related, as we saw the price impacts here and oil rise, WTI kind of permit month average March, to month average June by about $10 a barrel. So we saw an investment in inventory. We also built volumes in and around the U.S. refining which gets to the utilization increases that Alex was talking about, as well as building in and around upstream, given the apportionment that we could build inventories and optimize commercially throughout our infrastructure.

I think that reinforces our confidence to get into under $10 billion and sets up and reinforces the utilizations running up in the refineries, the integration benefits and you can start to see it really in the realizations coming through next quarter. We're quite confident. I think the inventory build and working capital build reinforces that confidence.

Neil Mehta — Analyst, Goldman Sachs

All right, thanks, Jeff. Alex, the follow up is just on asset monetization. Two comments there, one, how do you think about Liwan and the context of it? Obviously, that is the biggest nut there, but it's been a really profitable asset and we would argue that LNG balances was pretty tight in Asia (phon) so there is a lot of value in that asset. Then the couple of hundred, a million dollars of smaller singles and doubles. Talk a little bit about what are the logical assets around that and how should we think about the timing there?

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

Sure. When you talk about Asia-Pac, Neil, I think you're quite right to draw attention to the free cash flow generating capability of that asset. It's been performing very well for us. I think it's also fair to say as we get to know that business better, we are seeing some opportunities to actually continue to add value. Yes, as I've said in the past, I don't think when you think about asset divestitures, my guidance to the market is, as I said, we are really focused on this, but I think people should think about divestitures largely though not entirely coming out of the conventional business and being North American focused. The Asia-Pac business for us is something that we really want to spend a good amount of time with, really get to know our partners and the situation there.

I don't see it as something where we would be considering in the short term. With respect to the singles and doubles, maybe Kam might want to give a little bit of colour on them.

Kam Sandhar — *Executive Vice President, Strategy and Corporate Development, Cenovus Energy Inc.*

Thanks, Alex. Neil, I think Alex touched on this already. But we are largely focusing most of our efforts in the conventional space. I would say it's really about assets that aren't competing for capital inside of our portfolio. Assets that have slightly higher operating costs, and assets just really aren't going to receive the funding. I think as you go through that portfolio, I think that's probably the way to think about pieces that don't fit. Alex did allude to this, but we are looking at other parts of the portfolio, too, not necessarily solely focused on the conventional business. Just for good reasons, we won't be giving details around what those specifics are, but you shouldn't be surprised to see other areas that we're also focused on and looking at asset divestitures going through 2021.

Neil Mehta — Analyst, Goldman Sachs

Thanks, team.

Operator

Your next question comes from Greg Pardy from RBC Capital Markets. Greg, please go ahead.

Greg Pardy — Analyst, RBC Capital Markets

Yes. Thanks. Good morning. Could you frame maybe the role that you see the Lloyd thermals playing in the years ahead? I'm also interested in just other areas of either the upstream and the downstream portfolio where there's low hanging fruit that would benefit from just operational improvement.

Jonathan McKenzie — *Executive Vice President and Chief Operating Officer, Cenovus Energy Inc.*

Good morning, Greg, it's Jon. Your question is a really good one and it's something that we've been actively working on prior to the merger and then in real earnest thereafter. I think one of the things that we think with Lloydminster thermals is there is still opportunity there for future growth and there's still opportunity there to improve the operating metrics in that area.

What you'll notice, I think, through the rest of the year is we'll spend, a couple of hundred million dollars there. But in the background, we've been working on mapping those assets, making sure we fully understand the reservoir, and then coming into next year you'll see a fully baked capital plan together with a production forecast that goes with it. But we think that those are very economic and highly prospective assets. They were one of the things that we had our eye on. We think that long term those assets will produce over 100,000 barrels a day and generate significant free cash flow.

The other areas that we have been working on in the background would include Sunrise, Tucker, Cold/EOR on the thermal SAGD side, as well as Cold/EOR. Then those assets we haven't put any capital into them this year. I think the cumulative capital would be about $5 million between the three assets but we've kept production flat to growing there. But again, in the background, we've been working on mapping those reservoirs and building out our development plans and asset plans around that. I think what you'll see going into 2022 is those assets as well are very economic assets at the bottom of the cycle and very prospective in terms of production and operating metrics. We're really, really pleased with the suite of assets that we've got from Husky and on the SAGD side.

Similarly, on the conventional side, we've been working in areas like Ansell. We think there are opportunities there to improve the operating metrics as well as future prospectivity. You'll see that again going into 2022, with the budget that we put forward.

The other area that I think is interesting for us we haven't talked a lot about, Alex has tweaked on it, is Asia-Pacific. We see lots of opportunity there to increase gas supply going into Mainland China, in our China Sea assets there. We are actively building out the Madura Strait in Indonesia as well. We think those are very profitable assets going forward as well.

When we look at the suite of assets that we acquired from Husky, we think that a lot of these assets, we would say, are tier one assets, and a lot of these assets are going to be core part of the assets of this Company going forward. All cash flow positive at the bottom of the cycle.

Greg Pardy — Analyst, RBC Capital Markets

Okay, that's good rundown. Maybe just as a follow up, your downstream is more fractionalized. You've got bits and pieces all over the place. How are you thinking about maybe streamlining and consolidating some of those areas?

Jonathan McKenzie — *Executive Vice President and Chief Operating Officer, Cenovus Energy Inc*

Yes. Similar to what I said before, some of the assets that we acquired from Husky, like the Lloydminster upgrade or Lloydminster refiner, are absolutely gem assets. Then we think that there's a lot of opportunity in the other assets that we've got in the U.S. like Lima. One of the things we've been really clear about is that we think that this acquisition of Husky probably gives us the opportunity to rethink some of our non-operated joint ventures and rethink how we want to consolidate or hold our refining portfolio. We like the assets that we've got. Sometimes you just question whether or not they're held within the right vehicle. But I think all of this activity and this acquisition really gives us the ability to rethink that and address it in the near and medium term.

Greg Pardy — Analyst, RBC Capital Markets

All right, thanks very much.

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

Thanks, Greg.

Operator

Your next question comes from Phil Gresh from JPMorgan. Phil, please go ahead.

Phil Gresh — Analyst, J.P. Morgan

Yes, Hey, good morning. As we look ahead, just a little further out, given the oil price environment and the path from the $10 billion of debt to the $8 billion of debt in 2022, how do you think about that balance between quickly getting to $8 billion versus, the potential to buy back shares to offset some of the effects of ConocoPhillips (inaudible) to sell down and/or some of these CAPEX opportunities?

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

Yes. No. It's a good question, Phil. I think we've said it a million times that on our path down to $10 billion, 100 percent of free cash flow is going to the balance sheet. But once we hit $10 billion, and with the pace of deleveraging that we see possible over the coming quarters, I suspect you're going to see the majority of that cash go to the balance sheet. But as I said in my opening statement, we are very alive to the value proposition that share buybacks represent for the Company and our shareholders at our present valuation. I don't think anybody should be surprised to see us be looking very actively at that as we approach the $10 billion level.

Phil Gresh — Analyst, J.P. Morgan

Got it. Then anything on the CAPEX side?

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

We've talked about this before. One of the great things about doing this Husky deal and Jon alluded to it is, we continue to turn over rocks and find diamonds and I really think that what people should expect—I don't see any large scale phase expansions anytime in our near future because we have this really incredible portfolio of what I would describe as brownfield opportunities, organic opportunities just around the edges to add production at very, very attractive returns and at relatively modest capital. I think that's really where you can expect to see a lot of our capital around those kinds of things that Jon was referring to. The opportunity around getting FCCL connected to the Lloyd complex, I would put that in the category once again of a really, really attractive opportunity with quite modest capital. But those are the kinds of things that I think people should be thinking about.

Jonathan McKenzie — *Executive Vice President and Chief Operating Officer, Cenovus Energy Inc.*

Yes. Maybe I'd add to that, Phil, I think we've been pretty clear through this acquisition of what is required to keep production flat and keep our fixed plants in safe and stable condition and then that number that we've floated quite publicly is around $2.4 billion. What I would suggest is you shouldn't expect a right hand turn from what we've done in the past in terms of capital budgeting going forward. It'll be something that probably looks very similar to what we've done this year when you see the budget for 2022. I think, as Alex said, when you get to $10 billion clearly, we still want to delever and we want to address shareholder returns and I think it's a more modest investment in the assets than you might be thinking.

Phil Gresh — Analyst, J.P. Morgan

Okay, great, that's very helpful. One one-off question. Can you just remind me, with respect to Superior, the pace of spending versus how the insurance proceeds come in? Is there any kind of timing variables to think about there? I'll leave it there. Thank you.

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

Yes. It's Jeff here, Phil. Yes, obviously the CAPEX—and we've got around half a billion in the guidance this year. The insurance, we expect it to largely cover the CAPEX. There is not a simple rule of thumb on cash receipt. I think we sit down and work through basically our invoices with them and go through all that review. The receipt will be a little bit more lumpy, but no change to where we're at with that and we still expect it to be largely covered. It's just the timing will be a little bit lumpy. It's not perfectly even flow with the CAPEX.

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

Phil, it's Alex, I might just add, my team around this table are regularly subjected to my endeavors to accelerate that recovery on the insurance side. I think it is an obvious, obvious opportunity for us to really accelerate the balance sheet recovery. We are really focused as a team on seeing those proceeds coming in.

Phil Gresh — Analyst, J.P. Morgan

Is it fair to say you haven't gotten any of the $500 million yet?

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

No. If you think about the CAPEX and what we've received, we've received an order of magnitude, let's say, a few hundred million on the property damage and then obviously, business interruption is separate and well on our way on that over time. It's not perfectly weighted to year by year or anything, Phil, but we're well on our way on collecting those.

Phil Gresh — Analyst, J.P. Morgan

Yes. Okay. Okay. Thank you.

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

Thanks, Phil.

Operator

Your next question comes from Manav Gupta from Credit Suisse. Please go ahead.

Manav Gupta — Analyst Credit Suisse

Hi, I just wanted to focus a little bit on Canadian manufacturing. The results were stronger than expectations. If you could help us understand what drove that so we can model the segment more accurately going ahead?

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

Sure. Keith, why don't…

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

Yes, Manav. Obviously, we saw really strong operating margins at our upstream—sorry, at our manufacturing facilities in the Lloydminster area. That was also—included in that was a receipt of a payment from a contract for a customer that wanted to buy out of their contract at our Bruderheim Rail facility. That's more of a one-off event and that was about $55 million. That might have been a bit of the lumpiness that you weren't able to model in the quarter.

Manav Gupta — Analyst Credit Suisse

Okay. But even then, the earnings are pretty strong. In terms of margins, are you seeing those margins continue into the third quarter even if you take out the lumpiness of that one time contract?

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

Yes. Manav, we had really strong operating performance out of both of those assets. Throughput at the assets was high and margins were strong, we're really well connected. Alex and Jon alluded to how that industrial complex is very close on the value chain to our upstream production. We're really happy with the assets. Actually we're now heading into the paving season. Things are lining up well for the third quarter.

Manav Gupta — Analyst Credit Suisse

Okay. A quick follow up on the Superior refinery. What you're seeing here is your upstream assets are doing really well. But the U.S. refining margins have generally struggled a little. There is a little bit of RINs exposure. Just wanted to understand if Cenovus is still fully committed to the Superior refinery rebuild, and if you could remind us what's the value proposition of Superior please?

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

Well, we are very much committed to Superior. Maybe I'll let—the first thing I would say is in terms of the project itself, we're very pleased with how the project is doing it. It is a challenging project on a constrained site and everything—we are well advanced in the construction and everything is looking very good. I'm really pleased with the progress today. But maybe I'll let Jon talk about—a little bit about where it fits in our strategy.

Jonathan McKenzie — *Executive Vice President and Chief Operating Officer, Cenovus Energy Inc.*

Manav, this won't surprise you, but ever since Alex and I got here and Keith took over the downstream one of the things we've been talking about is market access and needing to get a global price for our heavy oil resource. More recently we would translate that into the industrial logic of buying Husky where we've actually bolted on a downstream business that consumes the molecules that we produce and protects us from location and heavy oil differentials.

The value proposition of Superior is really quite clear. This is a refinery that's going to consume about 47,000 barrels a day, 35,000 barrels of that is heavy. This is a refinery that's going to eat the barrels that we consume. On the back end, it produces a full slate of transportation products, as well as asphalt and as you know, we are major asphalt producer in Western Canada. This gives us exposure into the Minnesota and Wisconsin market.

There is strong connectivity in terms of the industrial and company logic and strategy. The other thing I would say is this refinery is the first stop off Enbridge and because of that it allows us to nominate barrels onto the Enbridge system which gives us more takeaway capacity. We think this is not only going to be a highly profitable refinery but it's absolutely on strategy with us and it's got a really nice marketplace to deposit the products that it produces into—and as I mentioned before is molecularly integrated to our feed slate.

Manav Gupta — Analyst Credit Suisse

Great. My last question is can you comment a little bit on market egress? When do you think Enbridge realistically could be in a position to start the Line 3 and do you still see the line coming on somewhere late '21, early 2022? I'll leave it there. Thank you.

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

Yes, thanks, Manav. Yes. Everything that we're seeing is lining up pretty constructively for the WCS differential pricing. Line 3 is forecasted and we agree with this that we'll see that happen in the fourth quarter, later in the fourth quarter. Coupled with that, we actually think there will be a DRU startup in the imminent future which is another 50,000 barrels a day that will get consumed. Those two things and current status of where inventory levels are in Western Canada all is constructive for relatively positive differentials through the back half of this year.

Manav Gupta — Analyst Credit Suisse

Thank you.

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

Thanks, Manav.

Operator

Your next question comes from Menno Hulshof from TD Securities. Please go ahead.

Menno Hulshof — Analyst, TD Securities

Thanks and good morning, everyone. Alex, you just mentioned getting Foster Creek, Christina Lake connected to the Lloyd complex is a relatively attractive future opportunity and this is something that you've talked about on a number of occasions in the past. My question is, are you in a position to elaborate on what that's going to look like in terms of scope of work, cost and capital efficiencies, and if not when do you think you will be?

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

I think we're pretty—we've done a huge amount of work on it, Menno, and we actually—there are a series of capital projects and I would really put it in the category of very modest capital probably in the $200 million-ish range over a few years, and really, we think those projects are going to vary, that high return projects connecting FCCL production volumes to the complex. I'm probably a little early to go into too much detail but it's in that magnitude.

Maybe one thing—Keith, maybe you can talk a little bit about what we hope to achieve by those projects.

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

Yes, Menno, when we think about this, we have a world-class upstream resources sitting within a 50-mile radius of a very large industrial complex and historically those assets have consumed LLB which typically fetch a higher price in the global markets. By converting both the upgrader and the refinery to other feed slates from Foster Creek or Christina Lake we think we will get margin expansion on the upstream barrels. We also think that we'll be able to recycle more condensate back into the province and we're a very large consumer of condensate.

Those two things coming together. We also are partners in the HMGP midstream business. The connectivity is there. As Alex alluded to, we think for a modest amount of capital, over the next few years we can integrate those oil sands assets into those two industrial conversion assets and really generate more margin and recycle a lot more condensate in the province, eliminating the need to import it from the Gulf Coast.

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

Yes. Think about that, as Keith said, over the next one to three-year period.

Menno Hulshof — Analyst, TD Securities

Perfect. That's all I had. Thank you.

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

Thanks.

Operator

Your next question comes from Harry Mateer from Barclays. Harry, please go ahead.

Harry Mateer — Analyst, *Barclays*

Hi good morning. First question is you've been very clear about the $10 billion net debt target and then a little bit more open-ended about the timing of $8 billion but there is also an 'or lower' that's been attached to the $8 billion target. Can you just talk about what you mean there and then what might drive you to delever even further?

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

Yes. No, I think I would say—and it's probably best to think of that almost from a philosophical perspective and I think the events over the four or so years I've been at Cenovus have really hammered home to me the benefits in this industry of operating with an under levered balance sheet. We very much want to have a debt level that puts us in the mid triple B range in terms of credit rating and I think that over time that probably would have us tending towards lower debt, all things being considered, than $8 billion. But at this time we think $8 billion is a pretty ambitious target that we think we can get to quite quickly and over time we'll certainly be thinking hard about taking it lower. But for now the public target is $8 billion.

Harry Mateer — Analyst, *Barclays*

Okay. Thanks for that. Then credit markets and I suspect equity markets tend to reward gross debt reduction a bit more than net debt reduction. Can you just remind us how you're thinking about the balance between those and then whether liability management, which I know something Cenovus did in the past, might that again be part of the toolkit to help crystallize some gross debt reduction rather than just running with some extra cash on the balance sheet?

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

Yes. It's Jeff here. Absolutely we'll look at gross deleveraging. I think we have historically and I think we'll balance that and make sure that we'll probably hold a little bit more cash and it's not lost on us that I think there's credit markets are attractive. But we'll look and balance everything out and make sure that we've got the balance in tenor (phon) that we balance our liquidity and look to manage down over time the gross debt but we'll be balanced through all of that.

Harry Mateer — Analyst, *Barclays*

Okay. Thank you.

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

Thanks, Harry.

Operator

There are no further questions at this time. I'll now turn it back to Mr. Pourbaix for closing remarks.

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

Well, everybody, I know we're looking at the start of a long weekend in the middle of summer and we very much appreciate your interest in the Company and taking the time this morning.

With that, we'll sign off and thank everybody for participating. Take care.

Operator

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