Cenovus Energy(UPDATE)
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Corporate Speakers

- Patrick Read; Cenovus Energy Inc.; Vice President, Investor Relations and Internal Audit
- Jon McKenzie; Cenovus Energy Inc.; President and Chief Executive Officer
- Kam Sandhar; Cenovus Energy Inc.; Executive Vice-President and Chief Financial Officer

Participants

- Neil Mehta; Goldman Sachs; Analyst
- Travis Wood; NBC; Analyst

PRESENTATION

Operator^ Good morning, everyone. Thank you for standing by, and welcome to Cenovus Energy's Conference Call regarding the Acquisition of Athabasca Oil Corporation.

(Operator Instructions)

As a reminder this call is being recorded.

I would now like to turn the meeting over to Mr. Patrick Read, Vice President, Investor Relations and Internal Audit.

Please go ahead, Mr. Read.

Patrick Read^ Thank you, Operator. Good morning, everyone, and thank you for joining us to discuss Cenovus' proposed acquisition of Athabasca Oil Corporation announced earlier today.

On the call today are Cenovus CEO, Jon McKenzie; and CFO, Kam Sandhar.

In a moment, I will turn the call over to Jon and Kam to discuss the transaction. We will then open the line for questions.

Along with the news release issued this morning, we've posted a presentation with additional details in the Investor Relations section of our website.

Before we begin, I will refer you to our advisories located at the end of today's news release.

These describe the forward-looking information, non-GAAP measures and oil and gas terms referred to today. They also outline the risk factors and assumptions relevant to this discussion.

Unless otherwise indicated, all figures discussed today are in Canadian dollars. And for the question-and-answer portion of the call please keep the one question with a maximum of one follow-up.

I will now turn the call over to Jon.

Jon, please go ahead.

Jon McKenzie^ Great. Thank you, Patrick, and good morning, everybody.

Today, Cenovus announced that we have entered into a definitive agreement to acquire Athabasca Oil Corporation in a cash and stock transaction valued at about $5.7 billion or about $12 per share. This transaction builds on a strategy that has been at the core of Cenovus for decades.

We have spent more than 20 years developing, operating and growing SAGD assets at scale. Throughout that time our operating model has continued to evolve as we have advanced technology, refined our development practices and incorporated new learnings from across our portfolio. The result is an approach that consistently delivers industry-leading performance that has become one of Cenovus' clearest competitive strengths. That competitive advantage is what underpins our confidence in and excitement for this transaction.

The rationale for this transaction for Cenovus is clear and obvious. Athabasca brings a high-quality oil sands resource base with decades of development potential ahead of it. It adds approximately 1.3 billion barrels of 2P reserves and approximately 2.3 billion barrels of 2P plus contingent resource. That implies best-in-class reserve life index of approximately 75 years and a resource life of approximately 140 years. These are long-life assets located in an area where Cenovus already has a deep operating experience and strong understanding of the resource. They also represent one of the only remaining large-scale opportunities to add meaningful thermal reserves, resource and future development inventory within the core of the oil sands. That combination of quality, scale and long-term growth is particularly compelling.

Our confidence in this transaction is grounded in a track record that has been built over many years. We have consistently demonstrated our ability to improve performance and unlock additional value through the application of Cenovus' operating model and through a proven track record of profitably delivering over 30 phased expansions.

We have done that across the assets we have acquired and we have done that across the assets that have been part of Cenovus since the beginning. From Foster Creek and Christina Lake to Sunrise, Lloydminster and most recently, Christina Lake North, we have continued to improve the operating performance, enhanced capital efficiency and to grow production through disciplined execution.

We have also demonstrated the ability to advance major growth projects successfully integrate acquired businesses and deliver on the commitments we make.

Now let me spend a few minutes on how we think about creating value from these assets. Athabasca's thermal assets produce about 40,000 barrels a day. Through a combination of existing asset optimization, the Leismer expansion and future development to Corner, we see an opportunity to increase thermal production to approximately 115,000 barrels a day by 2032. That represents one of the most significant organic growth opportunities available in Canadian oil sands today.

In the near term, we see opportunities to increase production through an expanded redevelopment well program and targeted optimization initiatives at Leismer and Hangingstone. We also see an opportunity to increase production from Leismer to more than 60,000 barrels a day through debottleneck and facility expansion. By executing on this plan, we can reduce the steam oil ratio by about 20% and deliver brownfield growth and an attractive capital efficiency of $35,000 per flowing barrel.

Beyond Leismer, Corner represents a significant future growth opportunity that Athabasca has spent years advancing and derisking. This is where we have the ability to accelerate and execute that development plan. We bring leading SAGD operating expertise, a proven project execution capability and the experience required to advance multiple opportunities at the same time.

We also have a strong balance sheet that supports our ability to fund these opportunities through all points in the cycle.

By bringing forward and consolidating multiple phases of expansion, our development plan contemplates advancing Corner to approximately 40,000 barrels a day by 2032, three years earlier than the current development plan. When combined with the existing asset optimization opportunities, these projects support thermal production of approximately 115,000 barrels a day by 2032.

By looking at the combined set of opportunities in the thermal business, our fully accelerated development plan would involve approximately $700 million to $800 million of annual capital investment through 2030. That includes about $200 million per year of sustaining capital plus the growth capital that would be required to advance the expansion at Leismer and advancing and accelerating the Corner project.

Another unique aspect of these assets is approximately some of the existing undeveloped resource we have in our portfolio including Thornbury and May River which together hold an estimated 550 million barrels of recoverable resource.

Now when we develop Narrows Lake, we proved out our ability to move steam over long distances to more efficiently capture nearby resource. This transaction creates the possibility in time to access those resources without building a new greenfield processing facility opening the door for additional capital-efficient growth options in our portfolio.

We are encouraged by the pace at which the governments have recently moved to support major resource development in Canada both the federal and provincial governments have made positive changes and are working to finalize arrangements to making investing in Canada and the energy

business competitive again. Recent announcements around tax policy, royalties, new pipelines and regulatory efficiency are important steps in the right direction.

These steps will have a meaningful impact on our ability to advance growth projects like the ones we are contemplating at Leismer and Corner.

We remain committed to working constructively with governments to reach definitive arrangements later this year which support production growth by implementing competitive regulatory and policy reforms.

While the thermal assets are the primary driver of this transaction, Athabasca also brings the opportunity to consolidate ownership of the Duvernay Energy Corp., strengthening our position in a high-quality oil-weighted resource play. Duvernay Energy Corp. has assembled an attractive inventory within the Kaybob fairway and full ownership gives us more control over the pace of development going forward.

The Duvernay asset is currently self-funding and producing about 5,000 barrels a day with the potential to grow and sustain 20,000 BOE per day with additional investment. Together, this transaction adds high-quality reserves, significant growth potential and a development runway that extends for decades.

We've also identified about $85 million of annual corporate and commercial synergies which we expect to capture promptly following the close of the transaction. These are expected to come from reduced G&A and financing costs along with optimization of transportation and marketing arrangements.

We believe that Athabasca is a natural fit with our strategy and a strong addition to the Cenovus portfolio.

I'll now turn it over to Kam to walk through the financial aspects of the transaction.

Kam Sandhar^ Thanks, Jon, and good morning, everyone.

Before I walk through the details of the transaction, I want to briefly touch on our current financial position.

Cenovus' business performance remained stable and consistent through the third quarter with production and throughput continuing to perform well through to the end of September. This strong operational performance and favorable commodity price environment put the company in a position where net debt at September -- at the end of September ended at approximately $3 billion.

We continue to not only strengthen our balance sheet but also returned $1.9 billion to shareholders through dividends and share repurchases through the third quarter.

Our continued operational performance, coupled with strong commodity prices has resulted in significant debt reduction complemented with returning cash to shareholders while positioning us well to move forward with this transaction. Turning to the transaction itself.

We have structured the acquisition to balance three important priorities; first, maintaining a strong balance sheet and investment-grade credit ratings; second, minimizing dilution to our existing shareholders; and third, preserving flexibility to continue to return cash to shareholders and fund attractive growth opportunities across the combined portfolio. The transaction is valued at approximately $5.7 billion the consideration will be composed of up to maximum 75% in cash or a maximum of 35% in Cenovus shares with the final split determined by shareholder elections.

Assuming the 75% cash consideration, this equates to approximately $4.3 billion of cash and the issuance of 32 million shares.

The cash portion of the transaction will be funded through cash on hand and existing Cenovus credit facilities. Following completion of the transaction at current strip pricing, we would expect net debt to fall between $5 billion and $5.5 billion by the end of 2026. That equates to well under 0.5x net debt to adjusted funds flow at strip pricing. There is no change to our commitment to maintain strong liquidity in our mid-BBB investment-grade credit ratings. And with share buybacks totaling 34 million shares during the third quarter, we've already offset the shares we expect to be issued through the transaction.

We believe this structure appropriately utilizes the strength of our balance sheet while limiting dilution to existing shareholders. The transaction is expected to be accretive to adjusted funds flow per share in 2027 including the impact of synergies.

Importantly, this acquisition does not change our approach to capital allocation.

We remain committed to maintaining a strong balance sheet, investing in higher return opportunities and returning excess cash to shareholders.

I'll now turn the call back to Jon for some closing remarks.

Jon McKenzie^ Great. Thank you, Kam.

When I step back and look at this transaction, what stands out is the quality and the duration of the opportunity. Athabasca brings approximately 1.3 billion barrels of 2P reserves and a thermal asset base with a reserve life in excess of 75 years.

I'm confident that we can put our people and operating model to work across this asset base, accelerate development and maximize its potential over the coming years.

It adds meaningful opportunity to our long-term growth plans and expands the opportunity set available to Cenovus and our shareholders. Combined with our existing assets, it further strengthens our position as Canada's leading SAGD producer.

We believe it's a natural fit with our strategy and a strong addition to the Cenovus portfolio. And with that, we'll be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) The first question comes from Neil Mehta with Goldman Sachs.

Neil Mehta^ Congratulations on the transaction.

I guess, Jon, how much of this was about getting access to existing production in PDP versus the growth initiatives here. And to the extent part of what you're paying for is the growth optionality, can you spend a little time unpacking both the opportunity at Leismer in that quarter?

Jon McKenzie^ Sure. And you're right.

I think one of the things that I would note, not only is this a really high-quality set of assets with resource depth, but one of the things we like about both Leismer and Corner is just the quality of the asset in there.

We talked about rich pay in this company, and this is a set of assets that have deep quality resource potential going forward.

So it's not just about the magnitude of the resource.

Quality is a key differentiator. And one of the things that we find in this basin, Neil, is you sometimes end up with these scenarios where companies own significant resource and they've undercapitalized it over the years for a variety of reasons. And then we have the ability to come in and accelerate that growth. And when we apply our operating model, we can take advantage of some efficiencies as well.

So when we look at Leismer right now there is a debottleneck that is largely paid for and in place that will take that asset to 40,000 barrels a day, and we expect to get there.

And early to mid 2027. And then beyond that, we have an opportunity to take that to 60,000 barrels a day through brownfield debottlenecking of the existing plant as well as accelerating some future well pads. And one of the things that excites us about Leismer.

As we go forward, we kind of see the SOR in those well pads being somewhere around the 2.5 range which is kind of best in class.

So that is a tremendous resource.

We've identified 60,000 barrels of potential production over a reasonably short period of time. And again, that resource is something of the highest quality. Corner is probably, we think, one of the most prolific undeveloped resources in the basin.

We've identified a project to take it to 40,000 barrels a day, but on an accelerated timeframe. And what excites us about that, again, is it's going to have a low SOR and lots of room for us to optimize as we go forward.

So really, in our minds, this is about taking a piece of real estate that is strategic.

It is of the highest quality, and it gives us the ability to accelerate future growth as well as apply sort of optimization based on our operating model.

We've already kind of defined about 80 redevelopment well opportunities, both at Hangingstone and at Leismer.

So we're very confident that in the short term, you're going to see a production bump and then over the next five years or so, you're going to see a realization to the numbers that I talked about.

Neil Mehta^ Yes. And then just a follow-up. This might be for Kam, but you guys have the secured percentage of your excess free funds flow to shareholder returns.

If I remember, between $4 billion and $6 billion, your 75% back to shareholders and below $4 billion, you're 100%. So this will get you to around $5 billion, $5.5 billion by year-end.

So is it fair to say through this process and into next -- early next year, we should be thinking 75% still to shareholders and the other 25% of debt reduction.

Kam Sandhar^ Yes. Good question, Neil.

So I think first, what I'd start with is those that framework obviously has been in place for a number of years. And I think one of the things we've highlighted continuously is it is -- it's not formulaic.

It's principal-based. So any decision we make around shareholder returns, investing in the assets and buying back our stock as an example, it's going to be a value-based decision.

I would say we continue to see value in buying our shares. So we'll -- as I mentioned, we've paid back about $1.9 billion through the third quarter. I think that's the highest it's been through this year. So we'll continue to look at that as an opportunity.

What you should expect from us is a balanced approach. We're going to continue to invest in our assets along with these -- the growth options that we are adding into the portfolio, but we'll continue to be balanced around returning cash.

So use that 75% as a guideline. We will adjust accordingly where we see value opportunities.

Operator^ Our next question comes from Travis Wood with NBC.

Travis Wood^ Question would be kind of a bit of a follow-on to Neil's there.

But what would be the governors around the pace of growth? Like, obviously you're sitting with some pretty epic resource ahead of you.

So why is it 115 by 2032? And is this kind of building into the -- your egress outlook as we look at egress options kind of West and South?

Jon McKenzie^ Yes. We have -- one of the things that this does for us as well Travis is it just increases our ability to be opportunistic.

So we have a number of avenues with which we can add value for shareholders on a per share basis, whether that is deleveraging, whether that is buying back our stock, dividends or future resource growth.

So this just increases that sense of balance that exists across our portfolio, and we're excited about the opportunity to take advantage of that. Another piece in here that is important that is the fiscal framework with which we exist within.

And I mentioned in this that having the federal government come forward with accelerated capital cost allowance is not immaterial to this. And we also expect to see growth incentives for on the royalty side with the province of Alberta.

So all of that kind of fits together to kind of draw capital back into the resource in the Athabasca Basin and probably accelerate growth as well.

So we're looking at a number of different things, but what we really like about what we continue to do as we just create this balanced portfolio where we have a really healthy company in terms of the resource availability in front of us.

We have a bullet-proof balance sheet, and we have the ability to get value back to shareholders through multiple channels as we become more and more opportunistic.

Travis Wood^ Okay. And the follow-up kind of a follow-up, but a separate question. Just around -- you've done now consolidated MEG. You have kind of best-in-class thermal assets. across the basin now with this Athabasca purchase.

How are you guys thinking about, especially with the Suncor news overnight. How are you guys thinking about those East Coast Canada assets fitting into the portfolio kind of over the next five years?

Jon McKenzie^ Yes. We really like West White Rose. We're invested in that, and production there is imminent.

So I'm sure Suncor had their own reasons for doing what they did, and we continue to see that as profitable area of the world in which we exist. And we understand what our footprint is there.

We understand what our competitive advantage is within that footprint. So I don't think it's ever going to be something that is materially bigger than what we've got today, but we are excited about bringing on West White Rose and look forward to first production there.

Operator^ Thank you. At this time, we have no questions in the queue.

So we'll wait a minute to give you the chance to connect with us if you do have a question. (Operator Instructions)

Thank you. There are no further questions for us at this time.

I would now like to turn the meeting over to Mr. Jon McKenzie.

Jon McKenzie^ Great. And thank you, Operator.

So this concludes our conference call. I would like to thank everybody for participating.

And wish everybody a great day. Thank you.

Operator^ Thank you. This does conclude the program.

You may now disconnect.